

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Bonds of both series (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, as included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. See "TAX MATTERS" herein for a description of certain other provisions of law which may affect the federal tax treatment of interest on the Bonds. In addition, in the opinion of Bond Counsel, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

**NEW ISSUE
BOOK-ENTRY ONLY**

RATINGS:
Moody's.....Aaa
Standard & Poor's.....AAA
(See "THE ISSUE-Ratings" herein)

**\$15,995,000
CITY OF CHARLOTTESVILLE, VIRGINIA,
GENERAL OBLIGATION PUBLIC IMPROVEMENT AND REFUNDING BONDS,
SERIES 2014**

Dated: Date of Delivery

Due: July 15, As Shown On Inside Cover

The Bonds are general obligations of the City of Charlottesville, Virginia (the "City"), and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as they become due. In each year while the Bonds, or any of them, are outstanding and unpaid, the City Council of the City is authorized and required to levy and collect annually, at the same time and manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated to such purpose.

The Bonds are issuable only in fully registered form and, when issued, 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 of the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be payable on January 15, 2015 and semiannually on each January 15 and July 15 thereafter. Payments of principal and interest will be made by wire transfer to DTC Participants, for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein under "THE ISSUE-Book-Entry Only Bonds".

The Bonds maturing on and after July 15, 2025 are subject to redemption prior to their stated maturities at the option of the City on or after July 15, 2024, at prices determined as set forth herein

The Bonds are offered for delivery when, as and if issued, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. It is expected that delivery of the Bonds through the facilities of DTC will be made on or about May 27, 2014.

STIFEL

Dated: May 13, 2014

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

General Obligation Public Improvement and Refunding Bonds, Series 2014

Year (July 15)	Principal Amount	Interest Rate	Yield	CUSIP Numbers** (161069)
2015	\$ 1,180,000	5.000 %	0.200 %	H93
2016	1,165,000	2.000	0.350	J26
2017	1,160,000	5.000	0.630	J34
2018	1,145,000	2.000	0.960	J42
2019	1,135,000	5.000	1.230	J59
2020	740,000	2.000	1.500	J67
2021	740,000	2.125	1.750	J75
2022	740,000	2.500	2.000	J83
2023	735,000	2.500	2.140	J91
2024	735,000	5.000	2.280	K24
2025	655,000	3.000	2.500 *	K32
2026	655,000	3.000	2.650 *	K40
2027	655,000	3.000	2.800 *	K57
2028	655,000	3.000	2.900 *	K65
2029	655,000	3.000	3.000	K73
2030	655,000	3.000	3.000	K81
2031	655,000	3.000	3.019	K99
2032	650,000	3.125	3.125	L23
2033	645,000	3.250	3.250	L31
2034	640,000	3.250	3.250	L49

*Yield to par call date of July 15, 2024.

**CUSIP numbers have been assigned by an organization not affiliated with the City and are included solely for the convenience of the holders of the Series 2014 Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2014 Bonds or as indicated above.

CITY OF CHARLOTTESVILLE, VIRGINIA

CITY COUNCIL

Satyendra Singh Huja, Mayor

Dede Smith, Vice Mayor

Kristin Szakos

Kathy Galvin

Bob Fenwick

Maurice Jones

City Manager

Aubrey V. Watts, Jr.
Chief Operating Officer/
Chief Financial Officer

Leslie M. Beauregard
Director,
Budget and Performance Management

Bernard Wray
Director of Finance

S. Craig Brown
City Attorney

Jason A. Vandever
City Treasurer

Rosa Atkins
Superintendent of Schools

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200 South 10th Street, Suite 900
Richmond, Virginia 23219
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No dealer, broker, salesman or other person has been authorized by the City of Charlottesville to give any information or to make any representations, 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 any 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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SECTION ONE: THE ISSUE

The purpose of this Official Statement is to furnish information in connection with the sale by the City of Charlottesville, Virginia (the “City”), of \$15,995,000 principal amount of General Obligation Public Improvement and Refunding Bonds, Series 2014, (the “Bonds”).

The Bonds will be general obligations of the City, to the payment of which the full faith and credit and unlimited taxing power of the City are irrevocably pledged. This Preliminary Official Statement has been approved and authorized by the City for use in connection with the sale of the Bonds. Financial and other information contained in this Preliminary Official Statement have been prepared by the City from its records (except where other sources are noted). The information is not intended to indicate future or continuing trends in the financial or economic position of the City.

General Description of the Bonds

The Bonds and are being issued as general obligation bonds to which the full faith and credit and unlimited taxing power of the City are pledged for payment (see “Security for the Bonds” below). The Bonds are dated the date of their initial issuance, bear interest from their dated date payable on January 15, 2015 and semiannually on each January 15 and July 15 thereafter at the rates per annum set forth on the inside cover page of this Official Statement and are scheduled to mature on July 15 in each of the years 2015 through 2034 in the principal amounts as set forth on the inside cover page of this Official Statement.

The record dates for the payment of interest on the Bonds are December 31, 2014 and each June 30 and December 31 thereafter to and including June 30, 2034. The record dates for the payment of the principal of the Bonds are June 30, 2015 and each June 30 thereafter to and including June 30, 2034.

The Director of Finance of the City will serve as the Registrar and Paying Agent for the Bonds. A breakdown of the allocation of the new money portion of the net proceeds of sale of the Series 2014 Bonds among Capital Projects, Water Fund, Sewer Fund and Stormwater Fund is detailed below:

Year of Maturity (July 15)	Capital Projects	Water Fund	Sewer Fund	Stormwater Fund	Total
2015	\$ 330,000	\$ 145,000	\$ 255,000	\$ 10,000	\$ 740,000
2016	330,000	145,000	255,000	10,000	740,000
2017	330,000	145,000	255,000	10,000	740,000
2018	330,000	145,000	255,000	10,000	740,000
2019	330,000	145,000	255,000	10,000	740,000
2020	330,000	145,000	255,000	10,000	740,000
2021	330,000	145,000	255,000	10,000	740,000
2022	330,000	145,000	255,000	10,000	740,000
2023	325,000	145,000	255,000	10,000	735,000
2024	325,000	145,000	255,000	10,000	735,000
2025	245,000	145,000	255,000	10,000	655,000
2026	245,000	145,000	255,000	10,000	655,000
2027	245,000	145,000	255,000	10,000	655,000
2028	245,000	145,000	255,000	10,000	655,000
2029	245,000	145,000	255,000	10,000	655,000
2030	245,000	145,000	255,000	10,000	655,000
2031	245,000	145,000	255,000	10,000	655,000
2032	245,000	140,000	255,000	10,000	650,000
2033	245,000	140,000	255,000	5,000	645,000
2034	245,000	140,000	250,000	5,000	640,000
	<u>\$ 5,740,000</u>	<u>\$ 2,885,000</u>	<u>\$ 5,095,000</u>	<u>\$ 190,000</u>	<u>\$ 13,910,000</u>

Notwithstanding the allocation of the proceeds of the Bonds as set forth above, all of the Bonds are full faith and credit general obligations of the City. See “Security for the Bonds” below.

Authorization and Purpose of the Bonds

The Bonds are being issued under a resolution adopted by the City Council on April 21, 2014 (the "2014 Resolution"), pursuant to Article VII, Section 10 of the Constitution of Virginia and the Public Finance Act of 1991, Chapter 26, Title 15.2, of the Code of Virginia, 1950. The 2014 Resolution provides for the sale and issuance of not to exceed \$16,000,000 principal amount of General Obligation Public Improvement Bonds and not to exceed \$3,000,000 principal amount of General Obligation Public Improvement and Refunding Bonds. The proceeds of the new money portion of the Series 2014 Bonds are expected to finance the costs of the public improvement projects of and for the City set forth below:

<u>Projects</u>	<u>Amount</u>
Public Schools	\$ 900,000
Transportation and Access	3,089,000
Public Safety	850,000
Public Buildings	1,161,000
Water System Improvements	3,000,000
Wastewater System Improvements	5,300,000
Stormwater System Improvements	200,000
	<hr/>
	\$ 14,500,000

Plan of Refunding

A portion of the proceeds of sale of the Bonds, exclusive of the costs of issuance thereof, will be applied to refund on a current basis and defease \$2,215,000 outstanding principal amount of the City's General Obligation Public Improvement and Refunding Bonds, Series 2004, dated November 1, 2004 and maturing on July 15 in each of the years 2015 through 2019, which are subject to redemption and are to be redeemed on July 15, 2014 (the "Refunded Bonds").

Upon delivery and issuance of the Bonds by the City, proceeds thereof will be used to provide for the payment and redemption of the refunded bonds by depositing with Regions Bank, Columbia, South Carolina, as Escrow Agent, under an Escrow Deposit Agreement, dated May 27, 2014 (the "Escrow Deposit Agreement"), cash in an amount sufficient to pay all principal, applicable redemption premiums, and interest on the Refunded Bonds to their redemption date. The arithmetical computations of the sufficiency of the cash deposited with Regions Bank to pay the principal of and interest on the Refunded Bonds will be verified by The Arbitrage Group, Inc. The City is undertaking the refunding of such outstanding general obligation bonds described above in order to reduce its annual debt service expenditures.

The Refunded Bonds are more fully described below:

General Obligation Public Improvement and Refunding Bonds, Series 2004, Dated November 1, 2004

<u>Year of Maturity (July 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP Numbers</u>
2015	\$ 460,000	3.50%	July 15, 2014	100%	161069 UT4
2016	450,000	4.00	July 15, 2014	100	161069 UU1
2017	445,000	4.00	July 15, 2014	100	161069 UV9
2018	435,000	4.00	July 15, 2014	100	161069 UW7
2019	<u>425,000</u>	4.00	July 15, 2014	100	161069 UX5
	\$2,215,000				

Sources and Uses of Funds

The following table sets forth the estimated application of the proceeds of the Bonds:

Sources:

Principal Amount of Bonds	\$ 15,995,000
Premium/Discount	856,685
Total Sources	<u>\$ 16,851,685</u>

Uses:

Deposit to Capital Projects Fund	\$ 6,000,000
Deposit to Water Fund	3,000,000
Deposit to Sewer Fund	5,300,000
Deposit to Stormwater Fund	200,000
Deposit to Escrow Deposit Fund	2,258,150
Underwriting Compensation	88,327
Rounding	<u>5,208</u>
Total Uses	<u>\$ 16,851,685</u>

Other costs of issuance will be paid for from sources other than the proceeds of the Bonds.

Security for the Bonds

The Bonds are general obligations of the City, and the full faith and credit and unlimited taxing power of the City are irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as they become due. In each year while the Bonds, or any of them, are outstanding and unpaid, the City Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

Bondholder Remedies in the Event of Default

Section 15.2-2659 of the Code of Virginia, 1950, provides that, upon the affidavit of any owner or any paying agent of any general obligation bonds of a political subdivision of the Commonwealth of Virginia (including the City) in default as to payment of principal or interest, the Governor shall immediately make a summary investigation and if such default is established to the Governor's satisfaction, the Governor shall immediately make an order directing the State Comptroller to withhold any further payment to the political subdivision of all funds, or any part thereof, appropriated and payable by the Commonwealth to the political subdivision so in default for any and all purposes until such default is cured. The Governor shall, while such default continues, direct the payment of all such sums so withheld, or so much thereof as shall be necessary, to the owners of the bonds so in default, or the paying agent therefor so as to cure, or to cure insofar as possible, the default on such bonds and the interest thereon. The Governor shall, as soon as practicable, give notice of such default and of the availability of funds with the paying agent or with the State Comptroller by publication one time in a daily newspaper of general circulation in the City of Richmond and, in the case of registered bonds, by mail, to the registered owners of such bonds. The State Comptroller advises that to date no order to withhold funds pursuant to Section 15.2-2659 has ever been issued. Although the provisions of Section 15.2-2659 have never been tested in a Virginia court, the Attorney General of Virginia has ruled that appropriated funds may be withheld by the Commonwealth pursuant to that section. For the fiscal year ended June 30, 2013, the Commonwealth provided \$65,501,879 to the City, of which \$23,732,338 was deposited in the General Fund.

Neither the Bonds nor the proceedings with respect hereto specifically provide any remedies to Bondholders if the City defaults in the payment of principal of or interest on the Bonds, nor do they contain any provisions 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 the principal of or interest on a Bond, a Bondholder, could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the City Council of the City to assess, levy and collect a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds as the same shall come due and otherwise to observe the covenants contained in the Bonds and the proceedings with respect thereto. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on 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 of 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 Bondholders including (a) delay in the enforcement of their remedies, (b) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (c) 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.

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

Optional Redemption

The Bonds maturing on or before July 15, 2024 are not subject to redemption prior to their stated maturities. The Bonds maturing on and after July 15, 2025 (or portions thereof in installments of \$5,000) are subject to redemption at the option of the City prior to their stated maturities, on or after July 15, 2024, in whole or in part from time to time on any date, in such order as may be determined by the City (except that if at any time less than all of the Bonds of a given maturity are called for redemption, the particular Bonds or portions thereof in installments of \$5,000 of such maturity to be redeemed will be selected by lot), upon payment of a redemption price equal to the principal amount of the Bonds to be redeemed, together with the interest accrued thereon to the date fixed for the redemption thereof.

Notice of Redemption

If any Bond (or any portion of the principal amount thereof in installments of \$5,000) shall be called for redemption, notice of the redemption thereof, specifying the date, number and maturity of such Bond, the date and place or places fixed for its redemption and, if less than the entire principal amount of such Bond is to be redeemed, that such Bond must be surrendered in exchange for the principal amount thereof to be redeemed and a new Bond or Bonds issued equaling in principal amount that portion of the principal amount thereof not to be redeemed, shall be mailed not less than 30 days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of such Bond at the address of such registered owner as it appears on the books of registry kept by the Registrar for the Bonds as of the close of business on the 45th day next preceding the date fixed for redemption. If notice of the redemption of any Bond (or portion thereof in installments of \$5,000) 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 on such Bond shall cease to accrue from and after the date so specified for redemption thereof.

Any notice of the optional redemption of the Bonds may state that it is conditioned upon there being on deposit with the City, or with the Registrar and Paying Agent for the Bonds or other agent designated by the City, on the date fixed for the redemption thereof an amount of money sufficient to pay the redemption price of such Bonds, together with the interest accrued thereon to the date fixed for the redemption thereof, and any conditional notice so given may be rescinded at any time before the payment of the redemption price of such Bonds, together with the interest accrued thereon, is due and payable if any such condition so specified is not satisfied. If a redemption of any Bonds does not occur after a conditional notice is given due to there not being on deposit with the City, or with the Registrar and Paying Agent for the Bonds or other agent designated by the City, a sufficient amount of money to pay the redemption price of such Bonds, together with the interest accrued thereon to the date fixed for the redemption thereof, the corresponding notice of redemption shall be deemed to be revoked.

So long as the Bonds are in book-entry only form, any notice of redemption shall be given only to DTC or to its nominee, and any notice of redemption otherwise required to be given by first class mail, postage prepaid, may be given electronically in lieu of being given by first class mail, postage prepaid, if and to the extent delivery of notices of redemption electronically is acceptable to DTC. The City shall not be responsible for providing any beneficial owner of the Bonds any notice of redemption.

Approval of Legal Proceedings

Certain legal matters relating to the authorization and validity of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. The opinion of Bond Counsel will be furnished at the expense of the City upon delivery of such Bonds and will be printed on or appended to the Bonds. The proposed form of the opinion of Bond Counsel is set forth in Appendix B to this Official Statement. Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness or fairness. Accordingly, Bond Counsel will express no opinion of any kind as to the Official Statement, and the opinion of Bond Counsel will be limited to matters relating to the authorization and validity of the Bonds and to the exclusion of interest on the Bonds from gross income under present federal and Virginia income tax laws. Certain legal matters will be passed upon for the City by S. Craig Brown, Esquire, City Attorney.

Tax Matters

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the “Code”) and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

Bond Counsel expresses no opinion regarding any other federal or State tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under State and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, without regard to the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity as underwriters, placement agents or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (“Discount Bonds”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the State and local tax consequences of acquiring, holding and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that result in the lowest yield on such Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of premium for federal income tax purposes, including various special rules relating thereto, and State and local tax consequences, in connection with the acquisition, ownership, amortization of premium on, sale, exchange or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally may be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or State level, may adversely affect the tax-exempt status of interest on the Bonds under federal or State law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014, by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest". The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such tax-exempt bond. Similarly, on February 26, 2014, Representative David Camp, Chairman of the United States House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%) which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their "modified adjusted gross income", defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date.

Pending Litigation

During the normal course of business, the City and its employees have been named as defendants in claims for personal injuries or property damage. The City's potential liability is protected partially by indemnification agreements. It is the opinion of the City Attorney that any possible losses in connection with such litigation will not materially affect the City's financial condition.

No litigation is now pending or, to the knowledge of the City, threatened, seeking to restrain or enjoin the issuance and delivery of the Bonds, or the levy and collection of taxes to pay the principal of and interest on the Bonds.

Commitments and Contingencies

Sick time earned, but not taken by general City and School System employees at June 30, 2013, is \$27,380,465 based on the average wage rates of full-time employees at that date. If a general City or School System employee voluntarily terminates, is terminated for cause, or retires after any year of service, he is generally not entitled to any compensation for hours of unused sick time.

Ratings

The City has applied to Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York, for credit ratings on the Bonds. The initial credit ratings are set forth on the cover page of this Official Statement. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. 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 either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include without limitation, changes in or unavailability of information relating to the City. Any downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

Preliminary Official Statement

The Preliminary Official Statement, dated May 6, 2014, and the information contained therein, with the exception of certain pricing and other information provided to be omitted, were deemed final by the City, within the meaning of Rule 15c2-12 promulgated by the Securities Exchange Commission under the Securities Exchange Act of 1934 ("Rule 15c2-12").

Certificate Concerning Official Statement

The City will furnish to the successful bidder a certificate dated as of the date of delivery of the Bonds, signed by the City Manager and the Director of Finance, stating that the descriptions and statements contained in the Official Statement on the date of sale and on the date of delivery of the Bonds were and are, to the best of their knowledge, 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 a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. In such certificate, the City Manager and the Director of Finance may state that they did not independently verify the information indicated in the Official Statement as having been obtained or derived from sources other than the City but that they have no reason to believe such information is not accurate.

Sale at Competitive Bidding

The Bonds were sold at competitive sale on May 13, 2014.

The Bonds were awarded to a group of underwriters led by Stifel, Nicolaus & Company, Inc., Denver, CO (the "Underwriters") at a price to the City that results in an underwriters' discount of \$88,327 from the initial public offering prices derived from the yields for the Bonds shown on the inside cover page of this Official Statement. The Underwriters supplied the information as to the initial public offering yields for the Bonds shown on such inside cover page. If all the 2014 bonds are resold to the public at such offering prices and yields, the Underwriter has informed the City that it anticipates total underwriting compensation of \$88,327. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices, or prices derived from the yields, shown on such inside cover page.

Financial Advisor

The City has retained Public Financial Management, Inc., Arlington, Virginia, as financial advisor (the “Financial Advisor”), in connection with the issuance of the Bonds. Although the Financial Advisor assisted in the preparation and review of this Official Statement, the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The Financial Advisor is a financial advisory, investment management and consulting organization and is not engaged in the business of underwriting municipal securities.

Independent Auditor

The City’s general purpose financial statements for the fiscal year ended June 30, 2013 have been audited by the independent public accounting firm of Cherry Bekaert LLP and are included as Appendix A. These financial statements, along with the related notes to financial statements, are intended to provide a broad overview of the financial position and operating results of the City’s government wide and various fund financial statements and accounts groups. Cherry Bekaert LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Cherry Bekaert LLP also has not performed any procedures relating to this official statement.

Continuing Disclosure

The City will execute and deliver to the Underwriters for the Bonds a Continuing Disclosure Certificate, the form of which as Appendix C to this Official Statement, pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds, consistent with the Rule 15c2-12 to provide to the Municipal Securities Rulemaking Board annual financial information and operating data for the City, including audited financial statements of the City within nine (9) months after the end of each fiscal year beginning on and after July 1, 2013, and, in a timely manner not in excess of ten (10) business days after the occurrence thereof, notices of certain events with respect to the Bonds, whether relating to the City or otherwise, including (i) principal and interest payment delinquencies, (ii) non-payment related defaults, if material, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) 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 of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds, (vii) modifications to rights of Bondholders, if material, (viii) Bond calls, if material, and tender offers, (ix) defeasances, (x) release, substitution, or sale of property securing repayment of the Bonds, if material, (xi) rating changes, (xii) bankruptcy, insolvency, receivership or similar event of the City, (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; and, in a timely manner, notice to the Municipal Securities Rulemaking Board of any failure of the City to provide required annual financial information referred to above to the Municipal Securities Rulemaking Board. 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. As described in Appendix C, the Continuing Disclosure Certificate requires the City to provide only limited information at specific times, and the information provided may not be all the information necessary to value the Bonds at any particular time. The City may from time to time disclose certain information and data in addition to that required by the Continuing Disclosure Certificate. If the City chooses to provide any additional information, the City shall have no obligation to continue to update such information or to include it in any future disclosure filing. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds. The sole remedy for a default under the Continuing Disclosure Certificate is to bring an action for specific performance of the City’s covenants thereunder, and no assurance can be provided as to the outcome of any such proceeding.

In the Continuing Disclosure Certificate, the City represents that, in the five previous years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

Additional Information

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of the estimates will be realized.

Additional information concerning this offering may be obtained from the Director of Finance, City Hall, Charlottesville, Virginia 22902, Telephone (434) 970-3200 or from the City's Financial Advisor, Public Financial Management, Inc., 4350 North Fairfax Drive, Suite 580, Arlington, Virginia 22203, Telephone (703) 741-0175.

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

CITY OF CHARLOTTESVILLE

/s/Maurice T. Jones
City Manager

SECTION TWO: THE CITY

Introduction

The City of Charlottesville ("City") is located in central Virginia, approximately 100 miles southwest of Washington, D.C. and 70 miles northwest of Richmond, Virginia. Situated within the upper Piedmont Plateau, at the foothills of the Blue Ridge Mountains and at the headwaters of the Rivanna River, Charlottesville was established as a town in 1762 by the Virginia General Assembly and was incorporated as an independent city in 1888. As a result of eight annexations, the most recent of which was effective in 1968, the City now encompasses a land area of 10.4 square miles.

The City is autonomous and entirely independent of any county or any other political subdivision. It is not coterminous with or subject to taxation by any county or school district, and is not liable for any county or school district indebtedness.

As the seat of both the City and Albemarle County governments, Charlottesville serves as the economic, cultural, and educational center of a multi-county region in central Virginia. The City of Charlottesville is part of the Charlottesville Metropolitan Statistical Area (MSA). The MSA includes the City of Charlottesville and the counties of Albemarle, Fluvanna, Greene and Nelson. According to the 2010 Census, the population of the City was 43,475 while the Charlottesville MSA population was approximately 193,150.

Overview of Governmental Organization

The City has been organized according to the Council-Manager form of government since 1913. The City Council, which establishes policies for the administration of the City, is the governing body of the City. The five members of the City Council are elected by City voters for staggered four-year terms, with at least two members elected every two years. The Mayor and Vice Mayor are elected by the members every two years from among members of the City Council.

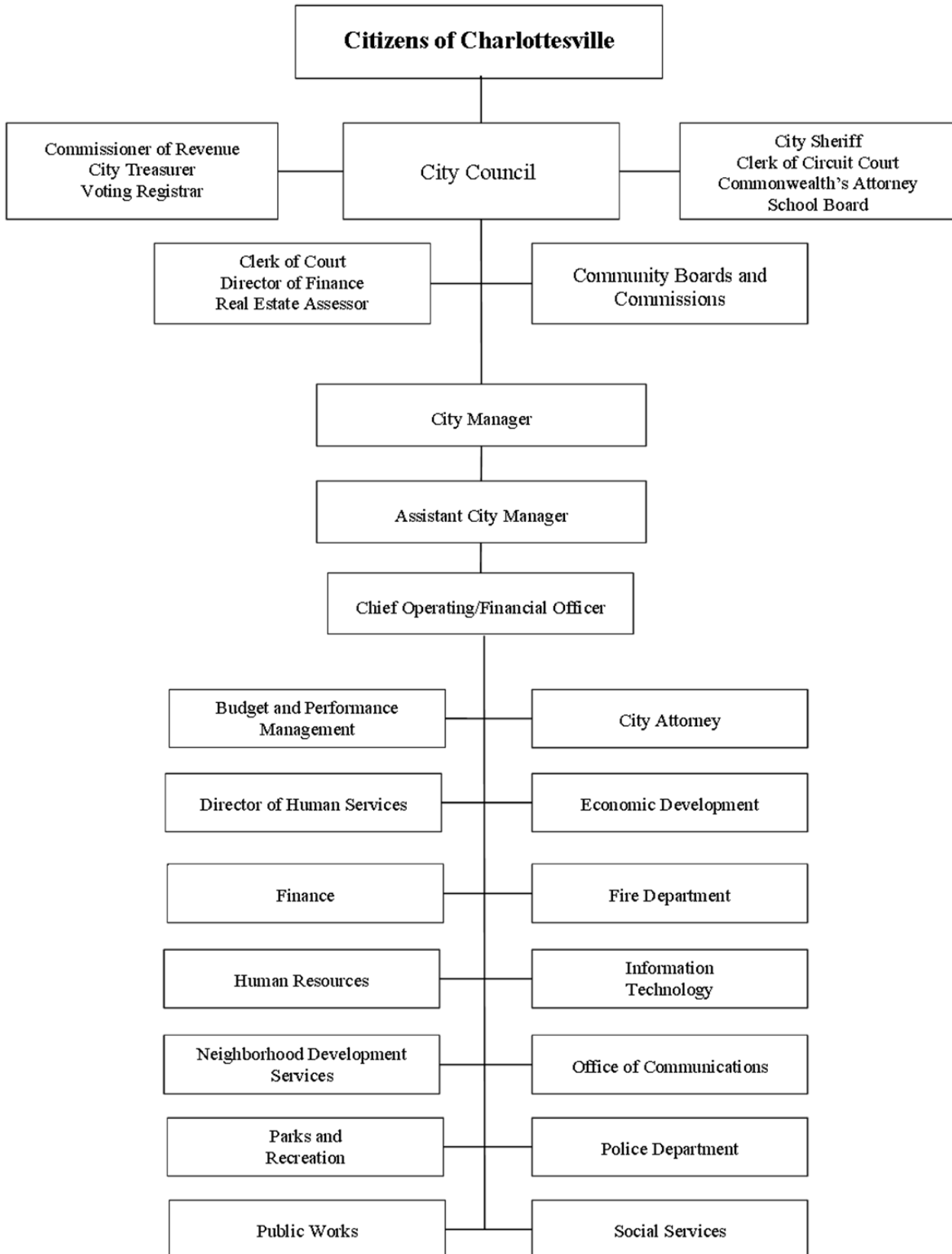
The Council appoints a City Manager to serve as the chief executive and administrator of the City. The City Manager serves at the pleasure of the City Council, implements its policies, and directs the City's business and administrative procedures. The City Manager also has the power of appointment and removal of certain department heads and City employees.

The operation of public schools in Charlottesville is the responsibility of a seven-member elected School Board. The local share of the cost of operating public schools in the City is met with an appropriation by the City Council from the City's General Fund. Operations of the School Board, however, are independent of the City Council and the City administration, as prescribed by Virginia law. The Superintendent of Schools is appointed by and serves at the pleasure of the School Board to administer the operations of the City's public schools.

In addition to the City Council, other elected City officials include the Commonwealth's Attorney, Commissioner of Revenue, Clerk of the Circuit Court, Sheriff and Treasurer. The Judges of the Circuit Court, General District Court, and Juvenile and Domestic Relations Court are appointed by the State legislature. A chart of the City governmental organization is set forth on page 11 of this Official Statement.

The executive offices of the City are located at the City Hall, 7th and Main Streets, Charlottesville, Virginia 22902. The City's central telephone number is (434) 970-3100.

City Organizational Chart



Elected Officials

Satyendra Singh Huja, Mayor, was elected to City Council in 2007 and reelected in 2011. In 2012, he was appointed as Mayor for a two year term and again in 2014. He holds a B.A. in Psychology from Roberts Wesleyan College (1966) and a Master's Degree in Urban Planning from Michigan State University (1968). He was Director of Strategic Planning for the City of Charlottesville from 1998 to 2004 and the Director of Planning and Community Development for the City for 25 years. He is a member of the Metropolitan Planning Organization and serves on the Jefferson Area Board for the Aging (JABA) Board, the Planning and Coordinating Council and the Charlottesville Redevelopment and Housing Authority.

Dede Smith, Vice-Mayor, was elected to City Council in 2011. She holds a B.S. in Microbiology from the University of Michigan. Ms. Smith is a founding member and past president of the Rivanna Chapter of the Virginia Master Naturalists, a co-founder of the Citizens for a Sustainable Water Plan and has been active in several other environmental organizations. She serves on the Social Services Advisory Board, Retirement Commission, Rivanna River Basin Commission, the LEAP Advisory Board, the Planning and Coordinating Council, and the Darden Towe Park Board.

Kristin Szakos, City Councilor, was elected to City Council in 2009 and reelected in 2013. She holds a B.A. in religious studies from Grinnell College and a Master of Science degree in journalism from Northwestern University's Medill School of Journalism. She is a freelance writer and editor and serves on the Metropolitan Planning Organization, the Albemarle-Charlottesville Regional Jail Authority, the Housing Advisory Committee, the Community Scholarship Board and the Audit Committee.

Kathy Galvin, City Councilor, was elected to City Council in 2011. She holds a B.A. in Economics and Geography from Boston University and a Masters in Architecture from the University of Virginia. She is a registered architect and owns her own urban design and architectural practice. She served on the Charlottesville City School Board from 2007 – 2011. Ms. Galvin serves on the Thomas Jefferson Planning District Commission, Rivanna Water and Sewer and Solid Waste Authorities, Piedmont Area Workforce Council, School Capital Improvement Projects Committee and the Charlottesville Development Corporation.

Bob Fenwick, City Councilor, was elected to City Council in 2013 and began his term in January of 2014. He serves on the Citizens Advisory Panel, Jefferson Area Community Criminal Justice Board, Rivanna River Basin Commission, and the School Capital Improvement Projects Committee.

Certain City Staff Members

Maurice T. Jones was appointed City Manager in December of 2010. He served as Assistant City Manager with the City of Charlottesville from February of 2008 until his appointment as City Manager. From 2005 to 2008 he served as the Director of Development for the Miller Center Foundation, the fundraising arm of the Miller Center of Public Affairs at the University of Virginia. Mr. Jones served as the City of Charlottesville's Director of Communications from 1999 to 2005. Mr. Jones is the Secretary of the Virginia Local Government Management Association (VLGMA), and a member of the International City/County Management Association (ICMA) and the Senior Executive Institute (SEI) Advisory Council at the University of Virginia. He holds a B.S. in Communications from James Madison University.

Aubrey V. Watts, Jr., Chief Operating Officer/Chief Financial Officer, received a B.S. in Business Administration from Virginia Tech, a Certificate of Public Administration from the University of Virginia and completed the MPA Program at Old Dominion University. He held a number of positions with the City of Virginia Beach beginning in 1963. His appointments included: City Manager, Deputy City Manager, Director of Public Utilities, Director of Personnel, Assistant Director of Finance and Deputy City Treasurer. He was the City Manager for the City of Greenville, South Carolina from 1991-1998. In 1999, he became the Economic Development Director for the City of Charlottesville and in November of 2003 he became the Chief Operating Officer/Chief Financial Officer.

David Ellis, Assistant City Manager, received a bachelor of science in Psychology from James Madison University and a Master of Public Administration from George Mason University. Mr. Ellis is a member of VLGMA and ICMA and was recently designated a Certified Manager by ICMA. Mr. Ellis came to Charlottesville in 2012 after serving 20 years in Fairfax County in a variety of positions including Deputy Director of the Fairfax County Redevelopment and Housing Authority and as the Assistant to the County Executive the last eight years of his career.

Chris J. Engel was appointed as Director of Economic Development in February 2012. Prior to that, he had served as the Assistant Director for the City's Office of Economic Development since 2005. Mr. Engel has a bachelor's degree in geography from Mary Washington College and a master's degree in planning from Virginia Commonwealth University. He is also a graduate of the Economic Development Institute at the University of Oklahoma and is a member of the International Economic Development Council (IEDC) where he is a certified economic developer (CEcD). From 2001 to 2005, he served as Research Analyst with the Greater Richmond Chamber of Commerce and from 1999 to 2001 he worked as Director of Research for Realticorp, a commercial real estate development firm.

Bernard W. Wray, Director of Finance, was appointed in February 2006. Prior to this appointment, Mr. Wray served as Director of Finance for Fort Lauderdale from May 2005 to February 2006, and Deputy City Manager/CFO for the City of Richmond, Virginia from 2001-2005. Prior to that time, Mr. Wray served as Director of Budget and Strategic Planning; Director of Finance; Director of the Real Estate Assessment Office; Deputy Director of Finance and Public Utilities Budget Manager. Prior to joining the City of Richmond, he held the position of Chief Financial Officer for a major Virginia wholesale tobacco distributor. He is a graduate of Richard Bland College of the College of William and Mary and Virginia Commonwealth University. Mr. Wray is a member of the Government Finance Officers Association ("GFOA") and the Virginia Government Finance Officers Association ("VGFOA") and is a past reviewer for the Government Finance Officers Association Distinguished Budget Presentation Awards Program.

Sharon L. O'Hare, Ph.D., Assistant Director of Finance was appointed to her position as Assistant Finance Director for the City of Charlottesville in September 2006. Prior to her employment with the City she served as Finance Director for the Virginia Association of Counties (VACo) following a 12 year career with the City of Richmond, VA serving as City Economist and Director of Management Services. Dr. O'Hare taught economics at the university level for nine years. She currently is a member of GFOA, VGFOA and the American Water Works Association and has served as a presenter, panel discussant, and panel chair on numerous occasions. She holds a Bachelor of Science Degree in economics and psychology from James Madison University and a Master of Arts and Doctoral Degree in economics from Boston College.

Leslie M. Beauregard, Director of Budget and Performance Management, received a B.A. in Political Science and French in 1992 and a Masters in Public Administration in 1996, both from Virginia Tech. Hired by the City of Charlottesville as Budget Manager in November 2003 and was promoted to her current position in 2007. She previously worked for the Office of Budget and Management Analysis with the City of Hampton, Virginia (1997-2003), the Finance Department with the City of Poquoson, Virginia (1997) and the City Manager's Office with the City of Williamsburg, Virginia (1996).

S. Craig Brown, City Attorney, received a B.A. (with distinction) in History from the University of Virginia in 1976 and graduated from Wake Forest University School of Law in 1979. He joined the National Legal Research Group that same year and was hired as an Assistant City Attorney for the Charlottesville City Attorney's Office in 1985. In 1989 he was promoted to Deputy City Attorney, and was appointed City Attorney by City Council effective July 1, 2001.

Rosa Atkins, Superintendent of Schools, was appointed in April 2006. She came to the City from Caroline County, Virginia, where she served as Assistant Superintendent of Schools. Prior to Caroline County, she was the Director of Instruction in the Richmond City Schools. A former Fellow in Educational Leadership and Ethics at Oxford University, Dr. Atkins holds Virginia State certification to serve as a Superintendent. She was the 2011 Virginia Superintendent of the Year.

Judith M. Mueller, Director of Public Works, is a Past President of the American Public Works Association (APWA), a 26,000 member association serving the needs of public works professionals in North America. A member of APWA since 1981, she has served the Association in a number of capacities, including President, President-Elect, and Region III Director, representing members in the southeast and mid-Atlantic region of the United States. She has also served on a number of national committees and was appointed by President Bush to a Senior Advisory Committee for the Department of Homeland Security. Additionally, Judith has been named one of the top ten Public Works Leaders of North America for 2008. Since 1985, Judith has served as the Director of Public Works for the City of Charlottesville, Virginia. In that role her responsibilities include overseeing the divisions of Facilities Management and Capital Project Management, Facilities Maintenance, Environmental Administration, Transit, Pupil Transportation, Public Service, and the Utilities of Water, Wastewater, and Gas. Prior to her becoming Director of Public Works in Charlottesville, Ms. Mueller worked for the City of Virginia Beach in the Departments of Public Utilities and Public Works. Ms. Mueller has a Bachelor of Science from Cornell University and a Master of Business Administration from Old Dominion University.

James E. Tolbert, AICP, Director of Neighborhood Development Services, was appointed to head this newly created department in July 1999. He received a Bachelor of Science Degree from Columbus State University and a Master of Community Planning from Auburn University. Previous positions include, Planning Director of Albany, Georgia; Myrtle Beach, South Carolina and Opelika, Alabama. He has been a member of the American Institute of Certified Planners since 1983.

Michael Heny, Comptroller, appointed in July 2006, is a certified public accountant and has worked in the Finance Department for the City of Charlottesville since October 2001. Mr. Heny previously served as Director and Assistant Director for Finance for the U.S. House of Representatives, was employed by a regional CPA firm in Northern Virginia and a consultant to several small businesses in the Washington, DC. metropolitan area. He currently is a member of the Government Finance Officers Association (GFOA), the Virginia Government Finance Officers Association (VGFOA) the American Institute of CPAs (AICPA) and the Virginia Society of Certified Public Accountants (VSCPA).

Khristina S. Hammill, Financial and Debt Manager, received a B.S. in Commerce from the University of Virginia in 1992. She joined the City Finance staff in 1998 as a Senior Accountant and was promoted to her current position in January 2011. Prior to working for the City, she was Administrator of Accounting and Operations for Health Data Services, Inc. She

currently is a member of the Virginia Government Finance Officers Association (VGFOA) and Virginia Women in Public Finance (VaWPF).

Jason A. Vandever has served as Treasurer for the City of Charlottesville since October 1, 2012. A 2000 graduate of Charlottesville High School, he received his Bachelor's Degree from James Madison University in 2004. Prior to becoming Treasurer, Mr. Vandever served for four years as Chief Deputy Treasurer for the City and three years in retail banking. He earned his Master Governmental Deputy Treasurer Certification in 2010, and in 2012 earned a Master's Certificate in Local Government Management from Virginia Tech's Center for Public Administration and Policy. Additionally, he holds a Certified Public Funds Investment Manager Certificate from the Association of Public Treasurers, and a Certificate in Public Plan Policy in Pensions from the International Foundation.

Todd D. Divers, Commissioner of the Revenue, received a B.A. in Sociology and a Master of Teaching degree from the University of Virginia in 1995. After spending a number of years teaching in the Greene County and Albemarle County School systems, Mr. Divers spent ten years working for a local small business. Elected in 2013, he is a member of the Commissioner of the Revenue Association of Virginia and the Virginia Association of Local Elected Constitutional Officers.

Government Services and Facilities

The City provides a comprehensive range of public services expected of its form of government under Virginia law and its integral position as a service provider within the Central Virginia area. These vital services are designed to meet the changing needs of a largely increasingly urbanized community and to provide an environment within which the educational, physical, social, and cultural needs of its citizens can be best met efficiently and effectively.

The City has implemented a number of management and program innovations, several of which have received national recognition. An efficiency study performed by a private firm recently noted that the City is a "top performer" in the nation among municipalities. Charlottesville has been recognized as providing services to meet the needs of some of the community's special citizens such as the elderly, handicapped and youth. The City has also been at the forefront of municipal innovation with many environmental and affordable housing initiatives. Several Management Innovation Awards have been received from the International City Management Association (ICMA) that recognizes City management efforts in providing effective and efficient services. Also, the City has been recognized by both the Virginia Municipal League and the Virginia Government Finance Officers Association for innovative programs and service approaches that have resulted in improved City services and direct cost savings to taxpayers. The City's Department of Social Services has been ranked in the top ten list of localities by the State and recognized for its successful implementation of the welfare reform program and its establishment of innovative program components. The City has been voted as Best Place to Live in America through a quantitative survey that included a rating on City services and a top place to retire, relocate or launch a business by several national publications. In addition, Charlottesville has been frequently noted as a best place to live or start a business by *Money*, *Fortune*, and *Forbes* magazines. The most recent recognitions received by the City include: America's Healthiest Small Cities (#6 - Daily Finance, 2014), Top 100 Places to Live (#26 - Livability.com, 2013), America's Smartest City (Luminosity.com, 2013), Top Ten Book-Loving Cities (#4 - Livability.com, 2013), Best Small Cities For Working Women (#4 - nerdwallet.com, 2013), Most Romantic Cities (#4 - Livability.com, 2013), Top 10 Cities for Affordable Health Care (Livability.com, 2014) and America's 10 Friendliest Small Cities (#2- Movoto Real Estate, 2014).

During the summer of 2008, City staff developed and started implementation of a process known as P3: Plan, Perform, Perfect, a staff-run initiative that builds on the City's internal capacity to develop (1) departmental strategic business plans, (2) a performance measurement and management system and (3) a means of reporting results to staff, City management, Council and the public, all of which will guide the organization towards intentional application of strategies and techniques to achieve desired results. In 2012, the City expanded the initiative to begin to provide qualitative and quantitative data to survey how well the City is providing services throughout the area. This initiative has been institutionalized as a process that is used to guide the organization and its partners in making key decisions and tracking progress towards achieving its goals, and to ensure that these goals are aligned upward to the City Council Strategic Vision. In January 2013, the City launched a web portal that allows residents to track progress on key departmental goals and initiatives. This staff-driven and community-monitored approach will allow for more transparency across departments in an effort to become more efficient and cost-effective in delivering city services. And in late 2013 the City began developing a citywide strategic plan with City Council, department heads and staff that will align the numerous plans and studies already in place and ultimately highlight goals, objectives and performance measures that will speak to the City's progress towards the strategic plan.

Schools

The Charlottesville School Division is directed by a seven-member elected School Board. The School Board functions independently of the City but is required to prepare and submit an annual budget to the City Council. Because the School Board can neither levy taxes nor incur indebtedness under Virginia law, the local costs of the school division are provided by an appropriation from the General Fund of the City. The costs of constructing school facilities are provided by capital appropriations from the City, by

bonds issued as City general obligations or through the State Literary Fund loan program. For the fiscal year ended June 30, 2013, the latest period for which audited information is available, the Commonwealth of Virginia provided approximately 23% of school operating funds, approximately 17% was provided from federal and other funds, and the remaining 60% was provided by an appropriation and a transfer of local revenues from the City's General Fund.

The City's public schools provide a comprehensive program of education in vocational education, career and college preparation, technical education, special education, adult education and basic and general interest educational programs.

The School Board currently operates six elementary schools (preK-4), one upper elementary school (5-6), one middle school (7-8), one high school (9-12), one alternative education program, and shares in the cost of operating a technical education center and a regional special education center. The School Division employs approximately 766 professional and nonprofessional personnel within the local operating budget. Fall enrollment for year 2013-2014 is 4,033 pupils (K-12). Approximately 60% of the professional staff have obtained advanced degrees and all are certified in their teaching fields

Public Safety

The Police Department is responsible for the protection of persons and property from criminal activity, the safe and orderly control of vehicular traffic throughout the City and the handling of all disputes and public disorder issues that impact on the safety and quality of life of our citizens.

The Charlottesville Police Department is committed to the concept of community policing. The philosophy of community policing requires common trust and embraces citizen partnerships. It focuses on arresting problems in neighborhoods, reducing crime and the fear of crime, "solving" on-going problems rather than treating the symptoms that plague communities and improving the quality of life for citizens. The Police Department has a budgeted full-time staff of 146, of whom 119 are sworn officers.

The City and the County of Albemarle (the "County" or "Albemarle County"), through the Charlottesville-Albemarle Regional Jail Authority, operate a regional jail facility. The City also participates with the County and the University of Virginia in a jointly operated center for dispatching all law enforcement personnel. The center serves as the central receiving point for a "911" emergency telephone number, providing direct and immediate access to all emergency services.

The Fire Department is responsible for fire protection and services to rescue persons from hazardous situations. The Fire Department is also a certified Emergency Medical Service agency with both basic and advanced life support certification. Fire prevention functions include fire investigation, fire prevention code enforcement, plans review and public fire education. The Department also inspects approximately 900 commercial buildings each year, with pre-fire plan drawings developed as part of the inspection process. In addition, the Department inspects evening places of assembly during their peak hours of operation. The Department also installs smoke detectors free of charge to residents of Charlottesville and has one of the lowest fire fatality rates in the country.

Fire suppression services are provided by 89 full-time employees through three City-staffed and operated fire stations which include four engine companies, one ladder company, one tower ladder and an on-duty battalion chief. The Fire Department is one of the few departments in the country to equip every in-service fire unit with a thermal imaging camera. The Department also provides contractual fire protection services to the County of Albemarle and the University of Virginia. In addition, the contractual agreement with the County addresses automatic mutual aid for large fires or emergency events. All firefighters receive comprehensive training each year, including, but not limited to, firefighting tactics, hazardous material response, weapons of mass destruction, terrorism and emergency medicine. All firefighters are required to be certified as Firefighter II and EMT-B as a minimum.

The Fire Department has achieved an ISO Insurance Class Rating of 2, on a scale from 1 to 10, with 1 being the best. The Department has achieved International Accreditation by the Commission on Fire Accreditation International. The Fire Department is in compliance with both the National Incident Management System (NIMS) and the National Fire Incident Reporting System (NFIRS). The Department participates in a public safety radio system that provides 100% interoperability between all of the City-County-UVA public safety agencies, as well as operating state of the art tactical interoperability equipment.

The Charlottesville-Albemarle Rescue Squad (CARS) is a non-profit organization staffed entirely by volunteers. The Squad provides emergency medical service to residents of the City and County. There are over 134 active members of the Rescue Squad, 68 of whom have at least EMT certification, and 66 have advanced life support training (EMT-Enhanced, Intermediate, or Paramedic). CARS operates eight advanced life ambulances (medic units), three advanced life support quick response cars (zone cars), two heavy rescue trucks (squads), a water rescue truck with two boats, a technical rescue truck, a collapse rescue trailer, a command car, a mass casualty incident truck and a special events response team with support trailer.

The Thomas Jefferson Emergency Medical Services Council manages and coordinates all emergency medical services in the Charlottesville area in an effort to standardize the care given to victims in emergency medical situations. The total system of emergency medical care provided by the Thomas Jefferson E.M.S. Council includes communications, transportation standards, agreements of mutual aid and disaster preparedness and training.

Funding for the Thomas Jefferson E.M.S. Council is provided through the "\$4 for Life" monies that the City receives each year from the four-dollar surcharge placed on automobile registrations, and in the case of the Rescue Squad, from substantial private contributions.

Public Works

The City provides numerous services in the area of public works including street and sidewalk construction and maintenance, solid waste collection and disposal, environmental administration and program management, facilities maintenance including managing capital projects for a government and school facilities, natural gas distribution, water, storm water and sanitary sewer construction and maintenance. The City maintains 156 miles of streets and provides street lights, traffic signals, and street cleaning including leaf collection and snow removal.

The City purchases gas pursuant to an annual gas supply contract with British Petroleum (BP). All gas purchased by the City is transported to the City's gate station by Columbia Gas Transmission Corporation. The transmission and storage capacities provided by the City's contract with Columbia are managed by BP as part of their contract to provide gas to the City. The City distribution system provides service to approximately 19,000 customers with over 310 miles of gas distribution lines.

The City purchases wholesale water and wastewater treatment services from the Rivanna Water and Sewer Authority (discussed below under the caption "Rivanna Water and Sewer Authority"), which has a water treatment plant capacity of 21.7 million gallons per day. The wastewater treatment plant capacity is 15.0 million gallons per day. The City distributes water to about 14,000 retail customers and maintains over 180 miles of water lines. There are over 160 miles of sanitary sewer lines maintained by the City.

Curbside solid waste and recycling collection is provided weekly to approximately 13,000 curbside customers by private firms hired by the City. Refuse disposal services were provided by a privately-run transfer station in Louisa County until July of 2011 when the City entered into a contract with another privately owned transfer facility in Louisa County where additional recycling material is removed from the waste stream. In November 1991, the Department implemented a City-wide curbside recycling program which was expanded in 2007 to include paper, plastic and cardboard.

The Department of Public Works maintains approximately 850 pieces of the City's rolling stock, and has initiated a preventive maintenance program and a paint and body rehabilitation program to extend their service lives.

Charlottesville Area Transit (CAT) and Pupil Transportation comprise the Transit Division of Public Works. Fixed-route bus service is available throughout the greater Charlottesville area. Buses operate from 6:15 a.m. until 11:45 p.m., Monday through Saturday. On Sunday, limited service is available between 7:45 a.m. and 5:45 p.m. In the calendar year ending December 31, 2012, CAT provided more than 2.5 million trips. Pupil Transportation provides school bus service to students of Charlottesville City Schools.

The Facilities Development and Facilities Maintenance Divisions are directly responsible for the planning, procurement and construction of all facility-related capital projects undertaken by the City and the Schools, as well as the on-going maintenance of these facilities. The two divisions manage and maintain well over fifty (50) government structures, comprising in excess of 850,000 square feet, as well as nine (9) school campuses, comprising over 900,000 square feet.

Social Services

The Charlottesville Department of Social Services provides a variety of public assistance programs to help low-income citizens meet their basic needs for food, shelter and medical care and social work services to protect vulnerable children and adults and promote self-sufficiency. As one of the Commonwealth's 119 local agencies under the supervision of the Virginia Department of Social Services, the Department administers legally mandated public assistance programs such as Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), Medicaid and child care assistance, and social work programs such as protective services for abused and neglected children and adults, family services, foster care and adoption.

Parks and Recreation

The City offers a diversity of recreational facilities and activities through the Department of Parks and Recreation. Parks and recreation programs are offered at twenty-seven (27) neighborhood parks and playgrounds, seven indoor recreation centers, four pools, three spray grounds, a skate park, tennis courts, two golf courses and other facilities. In addition, the City jointly owns Darden Towle Memorial Park and the Ivy Creek Natural Area with Albemarle County. The Ragged Mountain Natural Area, home to the

City's reservoir, is managed through a third party agreement with the Ivy Creek Foundation. An additional 40.85 acres of land was added to the park system in 2012 and 2013, bringing significant natural resources under protection. Programs provided include youth and adult team sports, youth-oriented activities, summer camps, and individual programs in wellness, movement, yoga, mind and body health, natural resources as well as therapeutic recreation programs for the disabled and senior citizens. Many of the Department's programs are entirely self-supporting, allowing them to be directly focused on community needs.

Economic Development

The Office of Economic Development seeks to serve as a catalyst for public and private initiatives that promote the long-term economic vitality of Charlottesville. The Office aims to expand the tax base of the City and provide additional employment opportunities for community residents. It encourages new commercial construction and rehabilitation projects within the City that are compatible with its planning goals and objectives as well as with residential interests. It also works closely with existing business and industry, devises and implements special capital projects of a public/private nature and provides assistance to area entrepreneurs. The Economic Development Director also serves as executive director for the Charlottesville Economic Development Authority (discussed below).

Neighborhood Planning and Development

The Department of Neighborhood Planning and Development Services provides planning and development services for the City. It assists in improving the quality of life and the environment for City residents and facilitates equitable access to opportunities within the City through comprehensive physical, social and economic planning action. Services of the department include development and enforcement services relating to the Comprehensive Plan, land use planning and regulation, transportation, housing and neighborhood planning, economic and social planning, grant planning and management, research and historic preservation. The Department also coordinates planning activities with other City departments, agencies and committees.

Cooperative Service Agreements

The City, together with Albemarle County, and in some cases other neighboring counties, has agreed to provide several services on a regional basis. Accounting and reporting responsibilities for these services are assigned on an alternating basis. The City is currently responsible for maintaining certain financial records of the Jefferson-Madison Regional Library.

Jefferson-Madison Regional Library

The Jefferson-Madison Regional Library, which serves the City and four neighboring counties, consists of a central library, seven branches and a bookmobile. The operating costs of the library are allocated on the basis of book circulation. Currently, 51 percent of the City's residents are cardholders. The City contributed \$1,438,251 to the Library for the fiscal year ended June 30, 2013.

Separate Authorities

Economic Development Authority

The City of Charlottesville Economic Development Authority ("CEDA") was created by ordinance of the City Council on July 19, 1976, pursuant to provisions of the Industrial Development and Revenue Bond Act (Title 15.2, Chapter 49, Section 15.2-4900 et seq., of the Code of Virginia, 1950, as amended). A board of seven directors appointed by City Council governs the Authority. During its existence, the Authority has financed over 61 projects, issuing debt totaling \$300 million dollars. The bonds, notes and other obligations of the Authority are payable solely from and secured by revenues derived from leases and contracts on the lands, buildings and equipment financed. The City has no obligation for any indebtedness of the Authority.

More recent CEDA projects have involved the development of unique public private partnerships. The Charlottesville Pavilion was built in 2005 and CEDA manages a 30-year lease with the operator and participated in the financing of the facility with a \$2.4 million dollar loan. The 3,500 seat venue serves as a focal point for entertainment and draws large crowds to the Downtown Mall on a regular basis. In 2010, CEDA managed a \$2 million City contribution towards phase 1 of the Hillsdale Drive Project which created an opportunity to attract a Whole Foods Grocery. In 2011, CEDA oversaw the City's interest in the redevelopment of the historic Jefferson School, which underwent an \$18 million renovation.

Rivanna Solid Waste Authority

The Rivanna Solid Waste Authority was created by ordinance of the governing bodies of both the City and Albemarle County on August 6, 1990. Organized pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2, Code of Virginia, 1950, as amended (the "Water and Waste Authorities Act"), and chartered by the State Corporation Commission on September 4, 1990, the Authority was created as a political subdivision to acquire, finance, construct, operate and maintain those facilities needed for the disposal of solid waste as well as those needed for recycling or other alternatives. The Authority is governed by a board of

seven directors, four of whom are ex-officio members from the City and the County, two elected officials, one each from the City Council and the Board of Supervisors appointed by those respective bodies with the seventh appointed by mutual consent of the City and the County governing bodies. The Authority is subject to the jurisdictions of the Virginia Division of Waste Management and Department of Health under the provisions of the State and federal laws. The Authority operates under terms of the Operating Agreement ratified by the City, the County and the Authority on November 4, 1990.

According to the Water and Waste Authorities Act, the Authority is authorized, among other things, to issue revenue bonds of the Authority to pay all or any part of the cost of a garbage and refuse disposal system. All indebtedness incurred by the Authority is payable solely from the revenues derived from user fees set by the Authority. The Authority has the power to raise its fees to such a level as is necessary to cover the debt service on its obligations as well as to pay its operating expenses and provide cash reserves. At present, the Authority's customers are the City and those private haulers who serve areas of Albemarle County and the City. Neither the City nor the County, however, has any direct obligation for the indebtedness of the Authority. As of June 30, 2013 the Authority had no debt outstanding, and the Authority had \$3,882,473 in landfill closure/post-closure care cost obligations, \$2,465,495 of which is guaranteed by the County and \$1,356,978 of which is guaranteed by the City.

Rivanna Water and Sewer Authority

The Rivanna Water and Sewer Authority was created by ordinances of the governing bodies of both the City and the County on June 7, 1972. Organized pursuant to the Water and Waste Authorities Act and chartered by the State Corporation Commission on June 7, 1972, the Water and Sewer Authority was created as a political subdivision to acquire, finance, construct, operate and maintain those facilities needed for the production, storage and transmission of potable water, as well as those facilities needed for the interception, treatment and discharge of wastewater. The Water and Sewer Authority is governed by a board of seven directors, four of whom are ex-officio members from the City and County, two of whom are elected officials appointed by their respective bodies, one each from the City Council and the Board of Supervisors, and a seventh who is appointed by mutual consent of the City and County governing bodies. The Water and Sewer Authority is subject to the jurisdictions of the Virginia State Water Control Board under the provisions of the State and federal water control laws.

Since July 1, 1973, the Water and Sewer Authority has provided wholesale water and sewer services to the City and the Albemarle County Service Authority after assuming responsibility for the operations of certain existing facilities of the City and the Albemarle County Service Authority. Service to the City and the Albemarle County Service Authority is currently provided in a percentage of approximately 53/47 respectively for water and 54/46 respectively for wastewater service.

According to the Water and Waste Authorities Act, the Authority is authorized, among other things, to issue revenue bonds of the Water and Sewer Authority to pay all or any part of the cost of water or wastewater discharge systems. All indebtedness incurred by the Authority is payable solely from the revenues of its water or sewerage system. The Authority has the power to raise its rates to such a level as is necessary to cover the debt service on its obligations. At present, the Water and Sewer Authority has two customers, the City and the Albemarle County Service Authority. Neither the City nor the County, however, has any direct obligation for the indebtedness of the Water and Sewer Authority. As of June 30, 2013, the Authority had financed a number of separate projects, with outstanding bonded indebtedness of \$123,284,603. Additional financings are expected to be completed in 2013-2014.

Albemarle-Charlottesville Regional Jail Authority

The Albemarle-Charlottesville Regional Jail Authority was created by ordinance adopted by the governing bodies of both the City and the County of Albemarle on November 15, 1995. Organized under the authority of Chapter 3, Article 3.1 of Title 53.1 of the Code of Virginia, 1950, as amended (the "enabling legislation"), the Jail Authority was created as a political subdivision to acquire, finance, construct, operate and maintain a regional jail. On July 1, 1998, Nelson County became a member of the Jail Authority. The Jail Authority is governed by a board of eleven directors, four each from the City and Albemarle County (three of whom are ex-officio; the fourth is a citizen appointed by his or her respective governing body), two from Nelson County, and one who is jointly appointed by mutual consent of the governing bodies. The Jail Authority's operations are subject to the limitations of Virginia statutes and regulations promulgated and enforced by the Virginia Department of Corrections.

The Jail Authority replaced the former Albemarle-Charlottesville Jail Board, which had operated since 1977 without independent borrowing powers. According to its enabling legislation, the Jail Authority is empowered, among other things, to issue revenue bonds to pay all or any part of the cost of a regional jail facility. All indebtedness incurred by the Authority is payable from the Jail Authority's revenues, which primarily include (i) payments from the State for a portion of personnel and other operating costs, (ii) operating cost per diem payments from all three member localities for prisoners they commit to the jail facility and (iii) an additional charge for the Jail Authority's debt service, collected in equal shares subject to annual appropriations from the City and the County of Albemarle, a portion of which is reimbursed to them by the County of Nelson based on its usage of the jail facility. The Jail Authority's bonds are backed solely by these revenues and do not pledge the full faith and credit of any of the member localities.

As of June 30, 2013, the outstanding bonded indebtedness of the Jail Authority was \$5,873,804.

Charlottesville-Albemarle Airport Authority

The Charlottesville-Albemarle Airport Authority was created in 1984 by the Virginia General Assembly as a political subdivision of the Commonwealth of Virginia with the authority to direct the operations of the Charlottesville-Albemarle Airport. The former governing body of the Airport, the Charlottesville-Albemarle Airport Board, transferred all airport property to the Airport Authority and was then dissolved by joint resolutions of the City and County governing bodies. Neither the City nor the County is responsible for any operational expense or indebtedness of the Airport Authority.

The Charlottesville-Albemarle Airport Authority consists of three members: the City Manager (or his principal assistant, as chosen by the city council), the County Executive (or his principal assistant, as chosen by the county board of supervisors) and a member of the Joint Airport Commission. The seven-member Joint Airport Commission is composed of three County residents, three City residents, and one member appointed by mutual consent of the City and County governing bodies. The Joint Airport Commission is advisory to the Airport Authority and elects its own Chairman.

The Charlottesville-Albemarle Airport Authority is a self-supporting, public entity. Annual revenues are derived from parking fees, airline rents and landing fees, rental car concessions and other fees paid to the Authority by concessions/tenants operating at the Airport. Bond covenants require that Airport Authority revenues exceed expenses by 25% each fiscal year. Since 1988, the Airport Authority has issued several bond issues to refund debt and to fund several major capital improvements such as the construction of a new 58,000-square foot terminal facility and site improvements, the construction of a new corporate hangar and office complex and the expansion and reconfiguration of the Airport parking facilities and revenue control system.

The runway extension project that began in 2006 to extend the runway length an additional 800 feet is all but complete. That part of the runway is operational but there are other areas related to that expansion, i.e., taxiways, safety areas, that still have a small amount of work to be performed. The runway is now 6,801 feet. That project was funded through the Federal Aviation Administration, Virginia Department of Aviation grants as well as resources from the Airport Authority's Passenger Facility Charge Program and its internal capital development fund. Future capital projects for the Authority involve a terminal expansion and rehabilitation, a new parking lot and a runway overlay. The Authority may have to incur new debt related to the parking lot construction.

As of June 30, 2013, the outstanding bonded indebtedness of the Airport Authority was \$4,954,811

Charlottesville Redevelopment and Housing Authority

The Charlottesville Redevelopment and Housing Authority (the "CRHA"), a political subdivision of the Commonwealth of Virginia, was created by City wide referendum in 1954 pursuant to the Housing Authorities Act (the "Housing Authorities Act"), Chapter 1 of Title 36 of the Code of Virginia, 1950, as amended. The CRHA Board of Commissioners is composed of one member of City Council, two residents of Public Housing and four At-Large members who are appointed by City Council to serve as Commissioners.

The Housing Authorities Act authorizes and empowers the CRHA to acquire, own and operate various public housing developments within the City. Acting pursuant to the Act, CRHA owns and operates 376 units of public housing within the corporate limits of the City, and has previously issued "private purpose" bonds to finance development of a number of other types of housing projects. As of June 30, 2013, CRHA has no outstanding indebtedness.

The agency employs 21 individuals and operates on an annual budget of \$5.7 million with revenues generated in the form of rents collected and government subsidy. The agency also secures funds annually from HUD to renovate existing housing. Currently, the CRHA has approximately \$465,361 in Capital Fund Program activities planned.

SECTION THREE: DEMOGRAPHIC AND ECONOMIC FACTORS

Historical Population

The City's population has remained relatively stable over the past 20 years. Most of the region's growth is expected to take place in the surrounding counties. Population data for the City as of July 1 in each of the years listed is shown in the following table.

<u>Year</u>	<u>Population</u>
1950	25,968
1960	29,427
1970	38,880
1980	39,916
1990	40,341
2000	40,099
2010	43,475
2012	43,965 (estimate)

Source: US Census Bureau

Public School Enrollment

Elementary and secondary enrollment/membership in the City Public Schools has recently reversed. Currently, the City Public Schools has seen increase in enrollment during the last three school years.

The following table provides information about City schools and enrollment:

SCHOOL ENROLLMENT AND EMPLOYMENT – 2004-2013¹

	<u>Year Ended June 30</u>									
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Elementary school membership	2,620	2,522	2,381	2,349	2,366	2,376	2,436	2,504	2,633	2,681
Secondary school membership	<u>1,413</u>	<u>1,429</u>	<u>1,395</u>	<u>1,477</u>	<u>1,513</u>	<u>1,538</u>	<u>1,627</u>	<u>1,662</u>	<u>1,588</u>	<u>1,586</u>
Total.....	<u>4,033</u>	<u>3,951</u>	<u>3,776</u>	<u>3,826</u>	<u>3,879</u>	<u>3,914</u>	<u>4,063</u>	<u>4,166</u>	<u>4,221</u>	<u>4,267</u>
Teachers and administrators	481	490	491	493	454	446	420	445	439	441
Other employees	<u>284</u>	<u>285</u>	<u>293</u>	<u>270</u>	<u>348</u>	<u>344</u>	<u>379</u>	<u>342</u>	<u>347</u>	<u>361</u>
Total.....	<u>765</u>	<u>775</u>	<u>784</u>	<u>763</u>	<u>802</u>	<u>790</u>	<u>799</u>	<u>787</u>	<u>786</u>	<u>802</u>

¹Elementary school membership includes grades Pre-K through 7, and secondary school membership includes grades 8 through 12.

Source: Superintendent of Schools, City of Charlottesville – numbers based on September 30 enrollment and staffing; Virginia Department of Education

Employment

Employment levels in the Charlottesville area have continued to grow modestly with growth occurring primarily in the hospitality and education sectors. Although the recession previously dampened activity in the construction and manufacturing sectors, the City has maintained its position as the economic center of a five-county area in Central Virginia and is home to firms specializing in online publishing, software development, electronics equipment, and financial services among others. Recently the federal employee presence has increased significantly with the relocation of several hundred Defense Intelligence Agency employees to the area.

Charlottesville continues to be a favorable location for many regional goods and services providers. The transportation network includes passenger, charter and freight air service at Charlottesville-Albemarle Airport, rail passenger service by Amtrak, and rail freight service by Norfolk Southern and CSX railroads. The major arterial highway in the area is Interstate 64, a major east-west, divided four-lane route, and the City is also served by U.S. 29, a divided six-lane north-south route, and U.S. 250, an east-west arterial route, which runs parallel to I-64.

The University of Virginia is the area's largest employer, providing approximately 13,000 jobs. Given the presence of the University, the City serves as a regional center for tourism, retail sales, and financial services, as well as education and health care. These factors also contribute to a heavy preponderance of professional people in the area.

The following tables present information concerning employment in the Charlottesville area.

**EMPLOYMENT BY INDUSTRY AND LOCATION – 2nd QUARTER, 2013:
(Charlottesville and Albemarle County)**

	<u>Charlottesville</u>		<u>Albemarle</u>	
	<u>Number</u>	<u>Percent of Total</u>	<u>Number</u>	<u>Percent of Total</u>
Natural Resources and Mining	0	0.0%	558	1.1%
Construction	1,612	4.5%	2,353	4.6%
Manufacturing	723	2.8%	2,170	4.2%
Trade, Transportation, and Utilities	4,975	13.8%	6,582	12.8%
Information	1,612	4.5%	585	1.1%
Financial Activities	1,329	3.7%	897	1.7%
Professional and Business Services	5,053	14.0%	9,619	18.7%
Education and Health Services	11,200	31.0%	22,534	43.7%
Leisure and Hospitality	6,303	17.4%	4,661	9.0%
Other Services	1,841	5.1%	27	0.1%
Public Administration	1,493	4.1%	1,570	3.0 %
Total	36,141	100.0%	51,556	100.0%

Source: Virginia Employment Commission, “Quarterly Census of Employment and Wages”

MAJOR AREA EMPLOYERS¹

<u>Employer Name</u>	<u>Product/Service</u>	<u>Approximate Employment Range</u>
University of Virginia	Educational Services	13,000
University of Virginia Health System	Hospitals	5,500
Albemarle County Schools	Educational Services	2,400
Martha Jefferson Hospital	Hospitals	1,600
Wal-Mart	Retail/Distribution	1,400
State Farm Insurance	Insurance	1,200
City of Charlottesville	Government Support	1,000
Charlottesville City Schools	Educational Services	800
U.S. DIA – Joint Use Intel. Agency	National Security	600
U.S. DIA – Natl. Ground Intel. Center	National Security	600
WorldStrides	Educational Services	600
Northrop Grumman Corporation	Computer and Electronic Products	600
Region Ten Community Services	Social Assistance	500
Fluvanna County Public Schools	Educational Services	550
County of Albemarle	Government Support	550
GE Intelligence Platforms	National Security	500
Greene County School Board	Educational Services	500
Piedmont VA Community College	Educational Services	450
Crutchfield Corp	Computer and Electronic Products	400

¹Includes Charlottesville and the counties of Albemarle, Fluvanna, Greene, Louisa, and Nelson.
Source: Virginia Employment Commission

AVERAGE ANNUAL UNEMPLOYMENT RATES 2001-2013

<u>Year</u>	<u>Charlottesville (City)</u>	<u>Virginia</u>	<u>United States</u>
2001	3.6 %	3.2 %	4.7 %
2002	3.9	4.2	5.8
2003	4.1	4.1	6.0
2004	4.0	3.7	5.5
2005	3.8	3.5	5.1
2006	3.2	3.0	4.6
2007	3.1	3.0	4.6
2008	3.9	3.9	5.8
2009	6.6	6.7	9.3
2010	6.9	7.0	9.6
2011	6.2	6.2	8.9
2012	5.6	6.0	8.1
2013	5.5	5.5	7.4

Source: Virginia Employment Commission, Bureau of Labor Statistics

Income

Personal income has increased 52% from 2000 through 2012, as shown by the following table:

PER CAPITA INCOME COMPARISON BY METROPOLITAN STATISTICAL AREA (MSA) 2000-2012

	<u>Charlottesville</u>	<u>Richmond</u>	<u>Lynchburg</u>	<u>Roanoke</u>	<u>Harrisonburg</u>	<u>Virginia</u>	<u>US</u>
2000	\$30,780	\$30,892	\$24,756	\$27,232	\$22,727	\$31,640	\$30,318
2001	31,869	32,828	26,094	29,314	24,412	33,249	31,145
2002	31,943	33,377	26,564	30,243	24,071	33,745	31,462
2003	33,119	34,428	27,248	30,973	25,509	34,979	32,271
2004	35,336	36,190	28,470	32,625	26,503	36,842	33,881
2005	37,374	37,978	29,494	33,692	27,637	38,892	35,424
2006	40,575	40,031	31,329	35,398	28,993	41,267	37,698
2007	42,731	41,844	32,563	37,667	30,359	43,158	39,392
2008	43,344	42,309	33,662	38,727	31,055	44,075	40,166
2009	42,921	41,161	33,308	38,322	30,673	44,057	39,635
2010	42,667	41,437	33,415	37,678	30,011	44,246	39,945
2011	44,350	43,046	33,664	39,115	31,324	46,107	41,560
2012	46,667	45,194	35,243	40,769	32,998	48,377	43,735

Source: Bureau of Economic Analysis, "Personal Income, Population, Per Capita Personal Income"

Business and Economic Development Activity

Per Capita Taxable Sales

Although the City's population has remained fairly constant, economic activity has increased in the past decade. The following table shows that retail sales in the City have generally risen on a per capita basis. The overall trend for taxable sales reflects increased income levels and the City's importance as a regional commercial and retail center.

PER CAPITA TAXABLE SALES 2001-2013

<u>Calendar Year</u>	<u>Taxable Sales (\$000)</u>	<u>Population¹</u>	<u>Per Capita Taxable Sales</u>
2001	\$709,893	40,099	\$17,704
2002	706,597	40,099	17,621
2003	726,123	40,099	18,108
2004	775,827	40,745	19,041
2005	721,660	40,745	17,712
2006	854,623	40,745	20,975
2007	816,274	40,745	20,034
2008	867,331	40,745	21,287
2009	820,895	42,218	19,444
2010	814,017	43,475	18,724
2011	822,681	43,475	18,923
2012	888,480	43,511	20,420
2013	906,786	43,956	20,629

¹US Census Bureau.

Source: Virginia Department of Taxation, Weldon Cooper Center for Public Service

New Construction Activity/Downtown Revitalization

The City's downtown has shown dramatic changes during the past decade as a result of both on-going public and private investment in new construction and renovation/restoration projects. The Downtown Mall is thriving, with an exciting combination of residential and retail units, restaurants, a movie complex, an ice skating rink, and the Charlottesville Pavilion, as well as a number of office complexes and financial institutions, all of which draw local residents and tourists to the area. While access to capital and concerns over the national economy has hampered some projects, a number of significant buildings are in various stages of planning and construction.

Since 2012, four privately-owned student housing complexes are in various stages of development. The Pavilion at North Grounds completed Phase I, a five story 230 unit, in July of 2013 and is now fully leased. Three new developments along the West Main Street corridor will further connect downtown to the University. The Flats at West Village is nearing completion and is currently leasing apartments for the fall of 2014. This 595 bedroom mixed-used development will also have 12,000 sq. ft. of ground level commercial space. The Standard on West Main, a 189 unit development, has received approvals and is in a pre-construction phase. Finally, 1000 West Main is a mixed-use development with 600 bedrooms and 9,340 sq. ft. of commercial space. This project has received City approval and continues to move forward. All of these current projects display confidence in the Charlottesville economy.

In addition to the residential projects along the West Main Street corridor, this area has seen a resurgence of business growth, with new retail and restaurants opening along the entire corridor. At the eastern end corridor, construction continues on new a Marriott hotel, slated to open later this year. Also during the past year, the City continued free, daily Charlottesville Trolley service connecting the University grounds to the Downtown Mall. Additionally, in late 2013, the City initiated a master planning process for the West Main corridor. The City will continue to look for opportunities to partner with private developers as redevelopment occurs along these corridors.

Construction and development also continue City-wide. The Battle Building, located on West Main Street, is a new state-of-the-art, 200,000 sq. ft. Children's Hospital, which will open this year after a three year construction period. In north Charlottesville, a 149 bedroom Homewood Suites is opening in 2014. Located on Route 29, this extended stay hotel will provide another lodging option for Charlottesville visitors. City Walk, a 301 unit apartment complex has begun leasing new apartments ahead of their official opening. Located just east of the Downtown Mall, City Walk will bring new economic vibrancy to this area of Charlottesville.

Smaller renovations continue to occur at a brisk pace throughout downtown. Several downtown storefronts have undergone extensive rehabilitation for the first time in many years in preparation for new office use and retail tenants. The historic Jefferson Theater and the Southern Café and Music Hall have both undergone renovations, adding new venues for year around musical performances, meetings, and celebrations downtown.

SNL Financial, a growing investment research firm that began leasing the former National Ground Intelligence Center in 2003 for its new headquarters from the Charlottesville Economic Development Authority (CEDA), continues to be a major City employer (with over 360 employees) in the downtown area. In 2012, SNL was recognized for the fifth straight year by *Inc. Magazine* as one of the 5,000 fastest growing private companies in the United States. In addition, three other Charlottesville-based companies made the 2013 *Inc. Magazine* 5000 list: WillowTree Apps, Nest Realty, and Rimm-Kauffman Group.

Arts and entertainment continue to draw large numbers of visitors to Charlottesville. The Paramount Theater, a 1,200 seat multi-purpose auditorium which was renovated and restored in 2004, now plays host to many events. This \$16 million project has significantly expanded the arts and entertainment opportunities downtown attracting more than 100,000 attendees annually. Also attracting people downtown is the Charlottesville Pavilion, which has an annual attendance of over 95,000. The Pavilion recently completed its eighth full season featuring 20 national caliber artists and numerous community events. The covered, 3,500-seat facility is expected to play a key role in continuing to attract those seeking entertainment.

The City maintains controlling interest in over 1,500 parking spaces at two facilities downtown. Every effort is made to keep parking available and affordable for residents, workers, and visitors alike. At current usage levels, parking supply exceeds demand allowing opportunity for continued growth in the entertainment, retail and tourism sectors. As parking usage continues to grow in conjunction with development, the City will assess the need for future parking.

Despite the economic challenges faced by communities throughout the country during the past several years, the City continues to see positive economic development, including an impressive rebound in the number and value of commercial building permits in the previous three years, highlighted by the growth in year 2012 and 2013, compared with 2010 and 2011. A prime example is Waterhouse, a 90,000 square foot mixed use downtown development featuring 10 luxury condominiums and class A office space for a 220 employee firm. This significant development, which completed commercial construction in November 2011 and residential construction in 2013, signals that interest in an urban environment remains high by both residential and commercial interests. The City's proactive approach in welcoming investment continues to prove effective with support from a zoning ordinance

that encourages denser, mixed-use development to help provide opportunities to expand the tax base and encourage quality commercial development. This activity provides a vibrant environment allowing us to continue to improve our city and the services it can provide to citizens, in an orderly and financially responsible manner.

BUILDING PERMITS 2001-2013

Year	Institutional and Other		Commercial		Residential		Total	
	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value
2001	85	\$8,726,805	493	\$30,910,925	1402	\$22,590,140	1980	\$62,227,870
2002	51	1,859,381	366	28,858,612	1329	32,500,033	1746	63,218,026
2003	33	1,749,581	452	34,525,328	1523	34,378,480	2008	70,653,389
2004	23	784,092	373	25,166,409	1795	63,368,326	2191	89,318,827
2005	7	3,618,401	486	42,882,837	1911	91,935,173	2404	138,436,411
2006	12	785,502	399	38,422,556	2034	82,434,409	2445	121,642,467
2007	17	863,076	382	49,322,242	2090	87,543,502	2489	137,728,820
2008	18	2,360,110	460	76,651,671	1682	56,703,220	2160	135,715,001
2009	7	1,733,218	389	38,030,282	1044	29,530,049	1440	69,293,549
2010	16	470,014	392	24,249,518	1004	31,141,260	1412	55,860,792
2011	40	14,556,777	490	49,823,606	997	30,315,915	1527	94,696,298
2012	27	62,352,717	477	52,844,933	1357	96,188,943	1861	211,388,454
2013	67	12,110,387	581	66,656,447	1482	83,500,954	2130	162,267,788
Source: Department of Neighborhood Development Services								

Between 1970 and 2010, the total number of occupied housing units in the City of Charlottesville decreased slightly (0.23%), whereas the population increased slightly (8.42%). Despite this, however, the US Census Bureau's American Community Survey three-year estimates (2008-2010) data set suggests that the number of occupied single family housing units has increased, while the number of occupied housing units with multiple residents has decreased slightly. The following data is presented to illustrate the character of housing in the City.

HOUSING PROFILE 1970 – 2010¹

	1970		1980		1990		2000		2010	
	Number	%	Number	%	Number	%	Number	%	Number	%
Single Family	8,176	57.9	8,555	53.3	9,206	54.9	9,607	54.6	10,074	57.4
Duplex	1,985	14.1	2,471	15.4	2,337	13.9	2,306	13.1	1,948	11.1
Multi-Family	3,956	28.0	4,771	29.9	5,042	30.0	5,534	31.5	5,335	30.4
Mobile Homes	-----	-----	183	1.2	200	1.2	144	0.8	176	1.0
TOTAL	14,117	100.0	15,980	100.0	16,785	100.0	17,591	100.0	17,550²	99.9

Source: US Census Bureau (1970, 1980, 1990, 2000 and 2010 data)

¹Housing profile numbers were calculated by multiplying the total number of occupied housing units by the percentage of individual occupied housing units, which are both from the US Census Bureau's American Community Survey three-year estimates (2008-2010) data set.

²The total number of occupied housing units is from the US Census Bureau's American Community Survey three-year estimates (2008-2010) data set. Individual occupied housing unit numbers equal 17,533 rather than 17,550 due to the fact that percentages total up to 99.9% instead of 100%.

³Percentages from the US Census Bureau's American Community Survey three-year estimates (2008-2010) data set do not total 100%.

Travel and Tourism

The tourism industry is a key component of the regional economy. Whether coming to experience the beauty of the area or to enjoy its many cultural and historic sites, visitors contribute significant expenditures at the area's many hotels, restaurants and specialty shops.

Charlottesville continues to be a destination of choice for both in-state and out-of-state travelers. While the increasing popularity of Virginia wines has become a significant new attraction for the area, history remains the primary draw. Visitors from all over the world continue to flock to Monticello, Ash Lawn-Highland, Michie Tavern, Montpelier, and the University of Virginia each year. The Thomas Jefferson Foundation, which operates Monticello, opened a new state of the art \$55 million dollar visitor and education center in 2009. This addition has enhanced the visitor experience and extends the length of the average visit.

Recent research done on behalf of the Charlottesville Albemarle Convention and Visitors Bureau has revealed that area visitors are among the most affluent in the country. According the Virginia Tourism Corporation, the impact of the tourism industry in Central Virginia is \$501 million annually.

The Festival of the Book, Festival of the Photograph and the Virginia Film Festival continue to draw large crowds to Charlottesville each spring, summer and fall. The Downtown Pedestrian Mall, which is home to shops, art galleries, restaurants, outdoor cafés, street vendors, street musicians and the First Amendment monument, has also become a key part of a visit to Charlottesville. In 2010, the City completed an \$800,000 wayfinding program that assists visitors in finding their destinations.

In recent years, several attractions have been added to the tourism market including the Paramount Theater, the Charlottesville Pavilion, the Jefferson Theater, and the John Paul Jones Arena at the University of Virginia. These additions have helped establish Charlottesville as the arts and entertainment center for the region.

Transportation

The City and the surrounding areas are served by I-64 as a main east/west highway, connecting to I-81 and I-95, and by U.S. Highway 29 north/south and 250 east/west. The City has 157 miles of paved streets and maintains 341 lane miles within its 10.4 square mile area. Major improvements are currently being made by the Virginia Department of Transportation for the U.S. 29/250 corridor.

The Charlottesville area is served by the Charlottesville-Albemarle Airport, which has daily flights from a number of major airlines, as well as commuter flights to Chicago, Washington, D.C., Charlotte, Philadelphia, Atlanta, New York and other cities. Rail transportation is provided by direct Amtrak passenger and freight service to Hampton Roads in the east and Chicago in the Midwest. The Norfolk Southern main line, running from Washington, D.C. to Atlanta and New Orleans, also comes through the City. An additional Amtrak train originating in Lynchburg with a stop in Charlottesville in route to Washington, D.C. commenced service in October 2009 and has demonstrated a high level of ridership in its first three years, servicing three times as many passengers as originally projected (Virginia Department of Rail and Public Transportation). In 2011, the Lynchburg to Washington, D.C. route made a profit of \$3.3 million, according to a report by the Brookings-Rockefeller Project on State and Metropolitan Innovation.

Charlottesville Area Transit ("CAT") is the public transportation provider for the greater Charlottesville urban area. CAT operates eighteen bus routes and provides service seven days a week.

Colleges and Universities

The primary institution of higher education in the area is the University of Virginia, a comprehensive State university. Founded in 1819 by Thomas Jefferson and situated on approximately 188.8 acres within and adjacent to the City's corporate limits, the University has a current enrollment of approximately 21,000 students, and is an important economic and cultural component of the City and the surrounding area. The University of Virginia was named #2 among public universities according to the 2014 *U.S. News & World Report* rankings. This marks the 10th consecutive year occupying the second spot. Since *U.S. News & World Report* began ranking public colleges and universities in 1998, the University of Virginia has never been lower than second. In its 2014 edition of "America's Best Colleges", U.S. News and World Report also ranked the University of Virginia as No. 23 in its Top National Universities category, which includes public and private institutions.

Ten separate schools within the University division include Arts and Sciences, Architecture, Business Administration, Commerce, Education, Engineering and Applied Science, Law, Medicine, Continuing and Professional Studies and Nursing. Degree programs are offered in more than 90 disciplines. In the 2008-2009 school year, there were over 2,100 full time faculty members, of whom 91% had received a Doctoral or Terminal Degree. Sixteen of its schools consistently receive national rankings.

Approximately 15,000 persons visit the University of Virginia each year to participate in conferences, short courses and continuing education activities. The availability of faculty with a wide range of knowledge and experience is ideal for many business

and professional people who turn to the University for assistance on technical, organizational, production and marketing problems. The University has recently been recognized as the eighth most "wired" university by Yahoo!, in recognition of its widespread e-mail/internet usage by both students and faculty.

In 1989, the University's Medical Center Hospital opened a \$300 million, nine-story replacement facility containing over 825,000 square feet. The former University of Virginia Hospital (432,000 square feet) has also been extensively renovated, and a four-story parking facility was constructed. The new hospital has over 800 beds. The entire construction/renovation project not only upgraded medical care provided by the hospital, but also enhanced the City's importance as a major regional medical center for both inpatient and outpatient care. Five other hospitals also serve the area, offering additional care for medical, psychiatric, alcohol and drug related problems.

The University Medical community continues to expand with a number of major projects underway. The new Emily Couric Clinical Cancer Center, a \$74 million outpatient facility that will be both technically advanced and designed for compassionate care opened in April 2011. Construction of the Couric Center marks the beginning of a dramatic expansion and transformation of the University of Virginia medical facilities. During the next several years, the U.Va. Health System will add a 72-bed, eight-story tower to the front of the existing University Hospital and will complete construction on a new children's hospital. New street and landscaping designs will be included in the project. The University of Virginia Health System is also planning to build a 40-bed, long-term acute care hospital.

In 1993, the University began a \$1 billion fundraising campaign. That goal was reached in 1999, more than one year ahead of schedule. The current campaign seeks to raise over \$3 billion. In addition, the University continues to rank as one of the top endowed schools in the country, with an endowment fund in excess of \$5.3 billion and it is only one of two public universities with bond ratings from all three debt-rating agencies: Fitch Investors Service (AAA), Moody's Investor Services (AAA), and Standard & Poor's (AAA).

The University has recently invested heavily in new academic and research facilities. Wilsdorf Hall was recently completed to house offices and laboratory space for materials sciences, chemical engineering and nanotechnology. The University also recently completed work on the \$105 million South Lawn Project, which adds 100,000 square feet of office and classroom space to the College of Arts and Sciences. This new hub of academic activity will see 12,000 student visits each day.

The combined economic impact of U.Va., which has an enrollment of 21,000 students and employs 2,700 faculty members, and U.Va. Medical Center in the metropolitan area was reported to be more than \$1.1 billion in 2005, according to the University of Virginia Weldon Cooper Center.

Additionally, the University has in recent years enjoyed nationally ranked men's and women's athletic teams in many major sports, including football, basketball, lacrosse, soccer, tennis and others. These activities and sporting events bring thousands of visitors to the area each year. In 2006, the school opened John Paul Jones Arena, a 16,000 seat venue home to the University basketball program and host to internationally acclaimed musicians. In its first several years, the Arena has hosted high profile acts such as Taylor Swift, Eric Clapton, Billy Joel, Lady Gaga, the Dave Matthews Band and Bruce Springsteen and was named the Best New Concert Venue of the Year.

The other institution of higher education within the area is Piedmont Virginia Community College, located near the intersection of Interstate 64 and State Route 20, south-southeast of the City. It has a growing enrollment of approximately 8,000 students in programs ranging from data processing and electronic technology to nursing. The community college employs 90 full-time faculty members.

SECTION FOUR: CITY INDEBTEDNESS AND CAPITAL PLANS

Issuance and Authorization of Bonded Indebtedness

Article VII, Section 10(a) of the Constitution of Virginia, 1971, and Section 15.2-2634 of the Code of Virginia, 1950, as amended, contain a limitation on outstanding indebtedness that may be incurred by cities. Such limitation is expressed as 10% of the assessed valuation of the real estate within the City that is subject to local taxation. As of June 30, 2013, the legal debt margin of the City was as follows:

LEGAL DEBT MARGIN

Total assessed value of real estate.....	\$ 5,281,021,000
Legal debt limit (10%)	528,102,100
Less: Amount of debt applicable to debt limit	<u>110,304,028</u>
Legal margin for creation of additional debt.....	<u>\$ 417,798,072</u>

Debt Information

As of March 31, 2014 the City had the following indebtedness outstanding:

General obligation bonds:	
General government/schools	\$ 73,918,317
Utilities	40,958,213
Literary loans	<u>50,403</u>
 Total general obligation indebtedness	 114,926,933
Less self-supporting utility indebtedness	<u>40,958,213</u>
 Net general obligation indebtedness	 <u>\$ 73,968,720</u>

The rapidity with which this debt is scheduled to be repaid is as follows:

<u>Year</u>	<u>Amount Maturing</u>	<u>Percent of Principal Repaid</u>
Five years	\$ 24,964,186	34%
Ten years	48,950,970	66%
Fifteen years	67,431,920	91%
Twenty years	73,968,720	100%

The following table sets forth the annual principal and interest payments, excluding debt service on self-supporting utility indebtedness and on installment loans and lease obligations, but including Literary Loans, on the outstanding general obligation long-term bonded indebtedness of the City and the projected debt service on the Bonds.

NET TAX-SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending June 30	Current Debt (1)		Less: Refunded Bonds		Series 2014 Bonds		Total*
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 1,505,000	\$ 352,908	\$ -	\$ -	\$ -	\$ -	\$ 1,857,908
2015	6,084,318	2,571,124	-	-	-	150,034	8,805,476
2016	6,062,986	2,376,861	306,667	52,167	623,480	221,308	8,925,801
2017	5,771,966	2,185,967	300,000	40,800	613,475	199,586	8,430,194
2018	5,539,917	2,000,409	296,667	28,867	610,140	178,198	8,003,130
2019	5,015,450	1,819,554	290,000	17,133	600,135	156,943	7,284,949
2020	4,986,533	1,663,773	283,333	5,667	593,465	136,105	7,090,876
2021	4,704,900	1,481,568	-	-	330,000	117,969	6,634,437
2022	4,574,600	1,303,581	-	-	330,000	111,163	6,319,344
2023	4,705,300	1,118,808	-	-	330,000	103,531	6,257,639
2024	4,486,450	941,667	-	-	325,000	95,344	5,848,461
2025	4,175,500	777,547	-	-	325,000	83,156	5,361,203
2026	3,483,000	626,908	-	-	245,000	71,356	4,426,264
2027	3,483,000	485,409	-	-	245,000	64,006	4,277,416
2028	2,853,000	353,299	-	-	245,000	56,656	3,507,955
2029	2,343,000	243,513	-	-	245,000	49,306	2,880,819
2030	1,613,000	143,452	-	-	245,000	41,956	2,043,408
2031	1,113,600	72,672	-	-	245,000	34,606	1,465,878
2032	733,600	33,012	-	-	245,000	27,256	1,038,868
2033	733,600	11,004	-	-	245,000	19,753	1,009,357
2034	-	-	-	-	245,000	11,944	256,944
2035	-	-	-	-	245,000	3,981	248,981
	<u>\$ 73,968,720</u>	<u>\$ 20,563,035</u>	<u>\$ 1,476,667</u>	<u>\$ 144,633</u>	<u>\$ 7,130,695</u>	<u>\$ 1,934,159</u>	<u>\$ 101,975,309</u>

(1) Excludes principal and interest in the amounts of \$5,180,520 and \$2,372,458 respectively, paid during fiscal 2014 prior to March 31. Does not reflect anticipated subsidy payments by the United States Treasury with respect to the city's outstanding Build America Bonds.

*May not total due to rounding.

Debt service requirements for general obligation indebtedness allocable to the self-supporting gas, water and wastewater utilities of the City are as follows:

DEBT SERVICE REQUIREMENTS OF GAS UTILITY

Fiscal Year Ending June 30	Current Debt (1)		Less: Refunded Bonds		Series 2014 Bonds		Total*
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 60,000	\$ 7,248	\$ -	\$ -	\$ -	\$ -	\$ 67,248
2015	603,800	74,723	-	-	-	8,367	\$ 686,890
2016	594,867	52,285	76,667	13,042	73,260	11,380	\$ 642,083
2017	372,000	33,485	75,000	10,200	70,763	8,841	\$ 399,889
2018	365,567	19,885	74,167	7,217	69,930	6,385	\$ 380,383
2019	127,700	10,853	72,500	4,283	67,433	3,963	\$ 133,166
2020	125,433	6,331	70,833	1,417	65,767	1,644	\$ 126,925
2021	54,600	2,184	-	-	-	-	\$ 56,784
	<u>\$ 2,303,967</u>	<u>\$ 206,993</u>	<u>\$ 369,167</u>	<u>\$ 36,158</u>	<u>\$ 347,153</u>	<u>\$ 40,580</u>	<u>\$2,493,368</u>

(1) Excludes principal and interest in the amounts of \$734,167 and \$90,304, respectively, paid during fiscal 2014 prior to March 31. Does not reflect anticipated subsidy payments by the United States Treasury with respect to the city's outstanding Build America Bonds.

*May not total due to rounding.

DEBT SERVICE REQUIREMENTS OF WATER UTILITY

Fiscal Year Ending June 30	Current Debt (1)		Less: Refunded Bonds		Series 2014 Bonds		Total*
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 340,000	\$ 80,991	\$ -	\$ -	\$ -	\$ -	\$ 420,991
2015	1,011,500	486,617	-	-	-	66,606	1,564,723
2016	1,001,817	456,226	76,666	13,042	218,260	99,712	1,686,307
2017	991,150	423,642	75,000	10,200	215,762	92,096	1,637,450
2018	987,567	389,927	74,167	7,217	214,930	84,567	1,595,608
2019	985,600	355,505	72,500	4,283	212,432	77,069	1,553,823
2020	980,383	324,262	70,833	1,417	210,768	69,675	1,512,838
2021	908,750	287,040	-	-	145,000	62,956	1,403,746
2022	789,000	251,527	-	-	145,000	59,966	1,245,493
2023	727,400	220,502	-	-	145,000	56,613	1,149,515
2024	847,025	189,252	-	-	145,000	52,988	1,234,265
2025	695,400	160,718	-	-	145,000	47,550	1,048,668
2026	690,400	134,805	-	-	145,000	41,750	1,011,955
2027	690,400	108,227	-	-	145,000	37,400	981,027
2028	590,400	83,193	-	-	145,000	33,050	851,643
2029	520,400	61,385	-	-	145,000	28,700	755,485
2030	445,400	40,801	-	-	145,000	24,350	655,551
2031	370,700	23,233	-	-	145,000	20,000	558,933
2032	230,700	10,382	-	-	145,000	15,650	401,732
2033	230,700	3,461	-	-	140,000	11,288	385,448
2034	-	-	-	-	140,000	6,825	146,825
2035	-	-	-	-	140,000	2,275	142,275
	\$ 14,034,692	\$ 4,091,695	\$ 369,166	\$ 36,158	\$-	\$ 3,232,152	\$ 21,944,300

(1) Excludes principal and interest in the amounts of \$660,067 and \$408,784, respectively, paid during fiscal 2014 prior to March 31. Does not reflect anticipated subsidy payments by the United States Treasury with respect to the city's outstanding Build America Bonds.

*May not total due to rounding.

DEBT SERVICE REQUIREMENTS OF WASTEWATER UTILITY

Fiscal Year Ending June 30	Current Debt (1)		Series 2014 Bonds		Total*
	Principal	Interest	Principal	Interest	
2014	\$ 535,000	\$ 135,416	\$ -	\$ -	\$ 670,416
2015	1,525,808	840,393	-	102,853	2,469,055
2016	1,521,968	796,434	255,000	156,025	2,729,427
2017	1,518,262	746,524	255,000	147,100	2,666,886
2018	1,521,544	694,460	255,000	138,175	2,609,179
2019	1,527,620	639,781	255,000	129,250	2,551,651
2020	1,530,996	590,671	255,000	120,325	2,496,992
2021	1,537,279	531,580	255,000	111,400	2,435,258
2022	1,379,323	472,989	255,000	106,141	2,213,453
2023	1,322,836	419,837	255,000	100,244	2,097,916
2024	1,399,898	367,316	255,000	93,869	2,116,082
2025	1,355,541	318,652	255,000	84,306	2,013,499
2026	1,311,348	271,941	255,000	74,106	1,912,395
2027	1,319,900	224,444	255,000	66,456	1,865,800
2028	1,278,704	177,058	255,000	58,806	1,769,568
2029	1,217,768	131,456	255,000	51,156	1,655,380
2030	1,152,099	86,630	255,000	43,506	1,537,235
2031	922,262	44,544	255,000	35,856	1,257,662
2032	370,700	16,682	255,000	28,206	670,588
2033	370,700	5,561	255,000	20,397	651,657
2034	-	-	255,000	12,269	267,269
2035	-	-	250,000	4,063	254,063
	\$ 24,619,555	\$ 7,512,366	\$ 5,095,000	\$ 1,684,510	\$ 38,911,431

(1) Excludes principal and interest in the amounts of \$973,126 and \$693,734 respectively, paid during fiscal 2014 prior to March 31. Does not reflect anticipated subsidy payments by the United States Treasury with respect to the city's outstanding Build America Bonds.

*May not total due to rounding.

DEBT SERVICE REQUIREMENTS OF STORMWATER UTILITY

Fiscal Year Ending June 30	Current Debt (1)		Series 2014 Bonds		Total*
	Principal	Interest	Principal	Interest	
2014	\$ -	\$ -	\$ -	\$ -	\$ -
2015	-	-	-	3,832	3,832
2016	-	-	10,000	5,800	15,800
2017	-	-	10,000	5,450	15,450
2018	-	-	10,000	5,100	15,100
2019	-	-	10,000	4,750	14,750
2020	-	-	10,000	4,400	14,400
2021	-	-	10,000	4,050	14,050
2022	-	-	10,000	3,844	13,844
2023	-	-	10,000	3,613	13,613
2024	-	-	10,000	3,363	13,363
2025	-	-	10,000	2,988	12,988
2026	-	-	10,000	2,588	12,588
2027	-	-	10,000	2,288	12,288
2028	-	-	10,000	1,988	11,988
2029	-	-	10,000	1,688	11,688
2030	-	-	10,000	1,388	11,388
2031	-	-	10,000	1,088	11,088
2032	-	-	10,000	788	10,788
2033	-	-	10,000	481	10,481
2034	-	-	5,000	244	5,244
2035	-	-	5,000	81	5,081
	\$ -	\$ -	\$ 190,000	\$ 59,807	\$ 249,807

(1) The stormwater utility began operations in January 2014. The Series 2014 bonds will be the first debt issued for the utility.

*May not total due to rounding.

The debt service requirements for the installment loans and lease obligations of the City are paid in full as of March 31, 2014.

KEY DEBT RATIOS 2004 – 2013

Fiscal Year	Population (1)	Real Estate Assessed Value	Gross Bonded Debt (2)	Net Bonded Debt (2)	Total Debt Service (2)	General Fund Expenditures and Net Other Financing Sources	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita	Ratio of Debt Service to Total General Fund Expenditures and Transfers
2013	45,073	\$ 5,281,021,000	\$ 78,676,333	\$ 66,505,547	\$ 8,970,528	\$ 137,559,888	1.26 %	\$1,476	6.52 %
2012	44,471	5,222,661,300	78,918,183	67,665,200	9,663,272	134,117,472	1.30	1,522	7.21
2011	43,475	5,282,859,100	76,002,100	66,493,923	8,882,574	127,413,032	1.26	1,529	6.97
2010	40,745	5,257,182,700	72,117,050	62,570,002	8,441,933	127,775,530	1.19	1,536	6.61
2009	40,745	5,251,290,000	67,663,745	58,506,861	7,417,263	124,813,778	1.11	1,436	5.94
2008	40,745	5,181,954,900	57,773,730	49,846,598	6,828,517	127,423,919	0.96	1,223	5.36
2007	40,745	4,826,991,400	49,829,415	44,287,970	7,579,457	115,691,159	0.92	1,087	6.55
2006	40,745	4,211,772,300	40,897,600	35,934,791	7,074,417	107,022,501	0.85	882	6.61
2005	40,745	3,595,449,500	45,135,784	41,220,825	5,529,690	100,130,411	1.15	1,012	5.52
2004	40,099	3,179,150,000	31,353,969	29,241,281	5,406,998	96,651,703	0.92	729	5.59

Note: The City has no overlapping debt.

(1) 2012-2013 Weldon Cooper Center for Public Service, Demographics & Workforce Group
www.coopercenter.org/demographics/; 2004-2011 U.S. Census Bureau

(2) Excludes self-supporting utility indebtedness, net of balance available in Debt Service Fund.

Source: Office of the Director of Finance

Capital Improvements Program

A five-year Capital Improvements Program that lists the potential capital improvements that the City plans to undertake during the next five years (fiscal years 2015 through 2019) has been developed by the City and adopted by City Council. Projects totaling approximately \$76.2 million have been identified. Funding for the projects in the Capital Improvements Program is provided primarily from three sources: General Fund revenues (including monies from the City-County revenue sharing agreement and a portion of interest income), borrowing (including the issuance of additional general obligation bonds), and the additional 1-cent of meals tax revenue (adopted in FY04), which is reserved for debt service on future bond issues. The City Council has adopted a policy of reserving at least 3% of the General Fund revenues in each fiscal year for capital improvements. In addition, there is a policy whereby if the General Fund generates a surplus, any amount of unappropriated fund balance above 14% (12% prior to FY14) of budgeted operating expenditures will be transferred to the Capital Improvements Program. Under these policies, General Fund revenues should provide at least the following percentages of capital projects funding for each of the next five years:

<u>Fiscal year</u>	<u>Percentage of total sources of funds</u>
2014-2015	33.0%
2015-2016	27.2
2016-2017	29.8
2017-2018	32.4
2018-2019	<u>42.9</u>
Average	33.1%

In adopting its 2014-15 budget, the City Council established a capital improvements budget of approximately \$17 million for the upcoming fiscal year. The City Council approved the 2014-15 budget on April 11, 2014.

The formulation of the Capital Improvements Program begins in July of each year, with the development of project requests. Over the next several months, a staff/citizen committee reviews the project requests and assigns priorities. Once the capital needs assessment is completed, the five-year Capital Improvements Program is submitted, first to the Planning Commission for review and approval and then to the City Council for review and adoption. Projects are reviewed and updated on an annual basis, and funds to support defined projects are appropriated as part of the annual budget process.

CAPITAL IMPROVEMENTS PROGRAM 2014-15 Budget and Projected Plan

	<u>Adopted Budget</u>		<u>Projected Capital Improvements Program</u>		
	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Sources of Funds:					
General fund transfer	\$ 5,599,086	\$ 4,696,500	\$ 4,743,465	\$ 4,790,900	\$ 4,838,809
Bond issues	10,829,155	11,869,515	10,750,629	9,693,044	6,019,594
Other	538,000	707,500	404,000	322,500	417,500
Total sources	<u>\$ 16,966,241</u>	<u>\$ 17,273,515</u>	<u>\$ 15,898,094</u>	<u>\$ 14,806,444</u>	<u>\$ 11,275,903</u>
Uses of funds:					
Education	\$ 2,520,491	\$ 1,720,491	\$ 1,720,491	\$ 1,720,491	\$ 2,470,491
Economic development	150,000	150,000	150,000	150,000	150,000
Facilities Capital Projects	1,345,491	1,345,491	1,345,491	1,345,491	1,345,492
Public safety and justice	3,994,911	3,448,152	3,763,410	4,000,000	-
Neighborhood Improvements	47,500	47,500	47,500	47,500	47,500
Transportation and access	5,342,111	5,150,654	5,114,238	4,489,067	4,660,370
Parks and recreation	1,698,915	3,202,127	1,804,448	1,056,793	559,160
Stormwater Initiatives	125,000	125,000	125,000	125,000	125,000
General government	1,741,822	2,084,100	1,827,516	1,872,102	1,917,890
Project contingencies	-	-	-	-	-
Total uses	<u>\$ 16,966,241</u>	<u>\$ 17,273,515</u>	<u>\$ 15,898,094</u>	<u>\$ 14,806,444</u>	<u>\$ 11,275,903</u>

SECTION FIVE: FINANCIAL INFORMATION

Basis of Accounting, Reporting Entity and Accounting Structure

The financial statements of the City of Charlottesville are prepared in accordance with U.S. generally accepted accounting principles (GAAP) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the City's more significant accounting policies.

(a) The Financial Reporting Entity

As required by GAAP, these financial statements present the City (the Primary Government) and its component units. As such, the City of Charlottesville Public Schools (the School Board or Schools) and the Charlottesville Economic Development Authority (the CEDA) are reported as separate and discretely presented component units in the City's reporting entity. The Primary Government is hereafter referred to as the "City" and the reporting entity, which includes the City and its component units, is hereafter referred to as the "City Reporting Entity."

The accompanying financial statements include all activities of the City, such as general operations and support services. The component units discussed below are included in the City Reporting Entity because the City appoints a majority of the CEDA board members, approves the budgetary request of the School Board and provides a significant amount of funding for each of these entities.

Discretely Presented Component Units

The component unit columns in the government-wide financial statements include the financial data of the City's two component units. Each is presented in a separate column to emphasize that these units are legally separate from the City and each represents a functionally independent operation. These component units are fiscally dependent on the City and provide services primarily to the citizens of Charlottesville. A description of the discretely presented component units follows:

- (i) **School Board:** The City provides education through its own school system administered by the Charlottesville School Board (the School Board). The School Board has been classified as a discretely presented component unit in the financial reporting entity because it is legally separate but financially dependent. The City Council administers the School Board's appropriation of funds at the category level, approves transfers between categories, and authorizes school debt. School Board members are elected. Financial statements of the School Board are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The School Board does not issue separate financial statements.
- (ii) **Economic Development Authority:** The Charlottesville Economic Development Authority (the CEDA) was created to promote industry and develop trade by inducing manufacturing, industrial, and commercial enterprises to locate or remain in the City. City Council appoints the seven board members of the CEDA. By statute, the CEDA has the power to cause the issuance of tax-exempt industrial revenue bonds to qualifying enterprises wishing to utilize that form of financing. The City is involved in the day-to-day operations of the CEDA the determination of its operating budget and annual service fee rates. Financial statements of the CEDA are included in a discretely presented component unit column and/or row of the government-wide financial statements. Complete audited financial statements of the CEDA can be obtained from the Office of Economic Development, City of Charlottesville, PO Box 911, Charlottesville, VA 22902 or Room B230 at City Hall.

(b) Government-wide and Fund Financial Statements

Government-wide financial statements - The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, generally 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 legally separate component units for which the primary government (City) is financially accountable. Interfund activity and balances have been eliminated from the statements to avoid duplication.

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. The City reports investment in capital assets net of depreciation, including infrastructure, in the Statement of Net Position. Depreciation expense, the cost of "using up" capital assets, is included in the Statement of Activities. Noncurrent liabilities including bonds, notes and

loans payable are included, separated into due within one year and due in more than one year. The net position of the City are reported in three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Effective July 1, 2012, the City adopted the provisions of GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. In the case of the City, the implementation of this standard was isolated to presentation of the statement of net position. This implementation required the City to present a Statement of Net Position, replacing the previously presented Statement of Net Assets, in the City's basic financial statements.

The *Statement of Activities* reports expenses before revenues of the primary government (governmental and business-type activities) and its discretely presented component units. This order emphasizes that governments identify the service needs of citizens and then raise the resources needed to meet those needs. This presentation demonstrates the degree to which direct expenses of a clearly identifiable function or segment are reduced by program revenues associated with that 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 program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a program. All taxes and other items not included among program revenues, are reported instead as general revenues.

Fund statements – Separate fund 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 enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, report all their activities using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In applying the *susceptible to accrual* concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of intergovernmental revenues. In the first type, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon when the expenditures are recorded. In the second type, monies are virtually unrestricted as to time of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Governmental fund financial statements are reported using the *current financial resource measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City Reporting Entity considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide Statement of Net Position and the government-wide Statement of Activities is presented in a schedule accompanying the governmental funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances, respectively. These differences stem from governmental statements using a different measurement focus than government-wide statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the City's gas, water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Real and personal property taxes are recorded as revenues and receivables when levied, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as deferred revenue. Sales and utility taxes, which are collected by the Commonwealth or utility companies by year-end and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the City.

Fees and permits, fines, charges for services and miscellaneous revenues, except interest on temporary investments, are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available. Unbilled accounts receivable are recorded in the Enterprise Funds when earned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues for the City's enterprise and internal service funds are charges to customers for goods and services. Operating expenses for these funds include the cost of sales and service, administrative expenses and depreciation of capital assets. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City's fiduciary (pension) funds are presented in the Fiduciary Fund financial statements. By definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government; therefore these funds are not incorporated into the government-wide statements.

The focus of the reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and proprietary categories, as well as the fiduciary funds and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

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 all of the individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is used to account for and report all of the financial resources except for those not accounted for and reported in another fund. It is the City's primary operating fund. Revenues are derived primarily from property and other local taxes, state (including pass through of federal funds), federal distributions, licenses, permits, charges for services, fees, Albemarle County Revenue Sharing and other revenue sources. A significant portion of the General Fund's revenue is transferred to other funds and the Charlottesville School Board, (a component unit), to finance operations.

The *Capital Projects Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Revenues for this fund are obtained from bond issues, a transfer from the General Fund, federal and state highway funds, PEG fee revenue and contributions from Charlottesville School Board and other local governments for shared facilities.

The *Debt Service Fund* is used to account for and report all financial resources that are restricted, committed, or assigned to expenditures for principal and interest. Payments are made on long-term general obligation debt of governmental funds including bonds, notes and other evidence of indebtedness and the cost of issuance of debt issued by the City.

The *Social Services Fund*, which is a special revenue fund, accounts for the financial resources associated with the Charlottesville Department of Social Services (CDSS). Social Services provide state and federal income support, employment assistance and social work service programs to alleviate poverty and other social problems, that is matched or 100% funded by the City.

Proprietary funds, all of which are considered major funds, are used to account for and report on their activities using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The purpose of a proprietary fund is to provide a service or product to the public or other governmental entities at a reasonable cost. The City reports the following enterprise funds as proprietary fund types:

The *Water Fund* accounts for the operations of the City's water distribution system.

The *Sewer Fund* accounts for the operations of the City's wastewater collection system.

The *Gas Fund* accounts for the operations of the City's natural gas distribution system.

The *Stormwater Fund* accounts for the operations of the City's stormwater collection system.

The *Golf Course Fund* accounts for the operations of the City's 18-hole municipal golf course.

Additionally, the City reports the following non-major funds:

Special Revenue Funds are used to account and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. The City has established special revenue funds to account for the Community Development Block Grant, Community Attention Programs, Comprehensive Services Act, Virginia Juvenile Community Crime Control Act, transit operations and various other grants to support projects undertaken. Social Services is reported as a major fund. Cemetery perpetual care is included, which is a permanent fund.

Internal Service Funds are used to account for and report the financing of goods and services provided by one department primarily or solely to other departments of the City. Information Technology, Risk Management, Warehouse and Departmental Services are accounted for and reported as Internal Service Funds. In the government-wide Statement of Net Position, the assets and liabilities of these funds are allocated to both governmental and business-type activities, based on the predominate use of the fund's services. Specifically, the assets and liabilities of the Warehouse Internal Service Fund are allocated completely to the City's Enterprise Funds based on predominate usage. The remaining Internal Service Fund balances are allocated to governmental activities. In the government-wide Statement of Activities, certain transactions are assigned directly to governmental activities and the remaining net income or loss is allocated to both governmental and business-type activities, based on actual charges for services.

The *Fiduciary Fund* is used to report assets held in a trustee capacity for the two pension trust funds for retirement and postemployment benefits. The pension trust fund is accounted for and reported similarly to proprietary funds since the economic resources measurement focus is also the same. Fiduciary funds cannot be used to finance the City's operating programs.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for each of the last thirty-four fiscal years. A Certificate of Achievement is valid for a period of one year only.

Five-Year Summary of General Fund Revenues, Expenditures and Fund Balance

The financial data shown in the following table present a summary of revenues, expenditures and other financing sources and uses of the City's General Fund for each of the five fiscal years through the period ended June 30, 2013. The summaries for the fiscal years have been compiled from the financial statements of the City for the respective years and should be read in conjunction with the financial statements for the year ended June 30, 2013 and notes thereto appearing in Appendix A.

CITY OF CHARLOTTESVILLE, VIRGINIA
SUMMARY OF GENERAL FUND ACCOUNTS
FISCAL YEARS 2009 THROUGH 2013
(\$000)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues and other financing sources:					
Revenues:					
Taxes	\$ 95,714	\$ 94,312	\$ 92,111	\$ 92,251	\$ 94,491
Licenses and permits	2,465	2,042	1,826	1,641	1,837
From the state	10,439	10,298	10,173	10,490	10,782
From other governmental units	19,593	20,260	20,530	19,973	15,895
Charges for services	5,731	5,211	5,015	4,569	4,585
Fines and forfeitures	393	552	567	393	383
Miscellaneous revenue	1,049	1,380	1,520	2,084	2,445
Total Revenues	135,384	134,055	131,742	131,401	130,418
Transfers from other funds	5,608	5,408	5,360	5,125	4,868
Total Revenues and other financing sources	140,992	139,463	137,102	136,526	135,286
Expenditures and other uses:					
Expenditures:					
General Government	14,439	14,092	13,516	12,529	13,042
Public safety	31,445	30,415	29,973	30,206	29,414
Community services	7,933	7,570	7,850	7,169	8,226
Health and welfare	5,012	5,026	4,896	5,247	5,065
Culture and recreation	11,356	10,181	9,613	8,924	9,026
Education	43,066	41,111	40,420	40,095	39,679
Conservation and development	4,899	4,751	4,476	4,422	4,389
Other activities	267	256	299	277	375
Total Expenditures	118,417	113,402	111,043	108,869	109,216
Transfers to other funds:					
Capital Projects Fund	7,739	7,339	6,385	8,452	5,388
Social Services Fund	3,127	2,969	2,761	2,642	2,833
Debt Service Fund	9,243	10,710	8,276	8,377	7,852
Other transfers	4,642	5,105	4,308	4,816	4,861
Total Expenditures and other uses	143,168	139,525	132,773	133,156	130,150
Revenues over (under) expenditures	(2,176)	(62)	4,329	3,370	5,136
Beginning fund balance	40,082	40,144	35,815	32,445	27,309
Residual Equity transfer	-	-	-	-	-
Increase (decrease) in reserve for inventory	-	-	-	-	-
Increase (decrease) in reserve for Loans Receivable	-	-	-	-	-
Ending fund balance	\$ 37,906	\$ 40,082	\$ 40,144	\$ 35,815	\$ 32,445

Source: Office of the Director of Finance

The General Fund balance at the end of each fiscal year (2009-2013) is comprised of the following components:

JUNE 30 FUND BALANCE
2009 through 2013
(\$000)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Reserved				\$ 1,181	\$ 644
Unreserved:					
Designated				10,363	4,651
Undesignated				24,271	27,150
 Nonspendable	 \$ -	 \$ -	 \$ -	 -	 -
Restricted	546	472	462	-	-
Committed	6,738	8,206	7,880	-	-
Assigned	3,633	4,542	5,946	-	-
Unassigned	26,989	26,862	25,856	-	-
Ending fund balance	<u>\$ 37,906</u>	<u>\$ 40,082</u>	<u>\$ 40,144</u>	<u>\$ 35,815</u>	<u>\$ 32,445</u>

Beginning in 2011, the City began reporting fund balance in accordance with GASB 54.

Statement of General Fund Accounts

Shown below are the City's budgeted revenues and expenditures for the General Fund for the fiscal year ending June 30, 2014, as compared with the actual General Fund revenues and expenditures for the fiscal year ended June 30, 2013.

CITY OF CHARLOTTESVILLE, VIRGINIA
GENERAL FUND
Comparison of 2014 Budget and 2013 Actual Results
(\$000)

	<u>2014</u> <u>BUDGET</u>	<u>2013</u> <u>ACTUAL</u>
Revenues and other financing sources:		
Revenues:		
Taxes	\$ 96,833	\$ 95,714
Licenses and permits	2,071	2,465
From the state	10,709	10,439
From other governmental units	18,590	19,593
Charges for services	6,689	5,731
Fines and forfeitures	570	393
Miscellaneous revenue	1,050	1,049
Total Revenues	<u>136,512</u>	<u>135,384</u>
Transfers from other funds and issuance of debt	<u>5,807</u>	<u>5,608</u>
Total Revenues and other financing sources	<u>142,319</u>	<u>140,992</u>
 Expenditures and other uses:		
Expenditures:		
General Government	14,358	14,439
Public safety	32,520	31,445
Community services	8,069	7,933
Health and welfare	5,497	5,012
Culture and recreation	11,350	11,356
Education	44,082	43,066
Conservation and development	4,636	4,899
Other activities	81	267
Total Expenditures	<u>120,593</u>	<u>118,417</u>
Transfers to other funds:		
Capital Projects Fund	4,468	7,739
Social Services Fund	2,963	3,127
Debt Service Fund	8,469	9,243
Other transfers	5,826	4,642
Total Expenditures and other uses	<u>142,319</u>	<u>143,168</u>
 Revenues and other sources over expenditures and other uses	-	(2,176)
Beginning fund balance	<u>37,906</u>	<u>40,082</u>
Ending fund balance	<u>37,906</u>	<u>37,906</u>

Source: Office of the Director of Finance

The following is a summary of the General Fund Revenues, comparing the 2013 budget with actual results for the years ended June 30, 2013 and 2012.

GENERAL FUND
Statement of Revenues and Transfers
Compared to Fiscal Year 2013 Budget
for Years Ending June 30, 2013 and 2012
(\$000)

		<u>Revenue (1)</u>		<u>Revenue (2013)</u>
	<u>2013 Budget</u>	<u>2013</u>	<u>2012</u>	<u>as a percent</u>
REVENUES:				<u>of budget</u>
General property taxes:				
Real estate- current	\$ 50,274	\$ 49,889	\$ 50,338	99.2%
Personal-current	6,372	6,679	6,137	104.8
Other property taxes.....	1,297	1,300	1,300	100.2
Sales and use	9,894	9,901	9,996	100.1
Utility	8,012	7,699	7,521	96.1
Meals.....	7,701	8,103	7,378	105.2
Transient room.....	2,819	2,932	2,807	104.0
Cigarette.....	615	672	641	109.3
Other	1,889	1,658	1,703	87.8
Business and professional licenses	6,528	6,881	6,491	105.4
Vehicle licenses	856	836	784	97.7
Permits, privilege fees, and regulatory licenses ...	891	1,629	1,258	182.8
Revenue from the state.....	10,026	10,439	10,298	104.1
Revenue from other governments	19,231	19,592	20,260	101.9
Charges for services.....	6,124	5,731	5,211	93.6
Fines.....	500	393	552	78.6
Miscellaneous revenue.....	1,523	1,049	1,380	68.9
Transfers from other funds.....	<u>5,602</u>	<u>5,608</u>	<u>5,408</u>	<u>100.1</u>
General Fund Revenues and Transfers	<u>\$ 140,154</u>	<u>\$140,992</u>	<u>\$139,463</u>	<u>100.6%</u>

(1) Summarized from audited results for the year ended June 30, 2013 and 2012.
Source: Office of the Director of Finance.

2013-2014 Operating Budget (Current Year)

The City's operating budget for 2013-2014 was approved by City Council on April 9, 2013. The budget provides for the following:

- There were no increases in taxes or fees.
- The total 2013-2014 General Fund represents an increase of 1.29% in General Fund operating revenues over the prior year's budget, and an increase of 2.96% when compared to the FY 2012 actuals. While the operating budget continues to focus on the delivery of high quality, efficient and effective government services, with clear strategies focused on education, public safety, human services, quality and affordable housing, and "green" city initiatives. The budget is conservative though and recognizes that while the economy seems to be improving, that's not a certainty.
- The 2013-2014 budget continues to provide for the maintenance of City facilities and infrastructure, supports the capital improvements program and allocated well above 40% of new real estate and personal property tax revenues to schools. Over 32% of the City's operating budget is directly earmarked as the City's local contribution to the public school system. In addition, 24.21% of the City's debt service is for school-related debt, and the City Schools receive over \$2.32 million for school capital projects under this budget. Major areas of expenditures include public safety and justice (25.75%), infrastructure and transportation (9.93%), healthy families and community (19.07%), debt payment (4.83%), fund balance target adjustment (4.83%), employee compensation and training (.47%), internal services (1.02%), financial services (3.24%), non-departmental (.13%) and management (2.83%).

Projected Fiscal 2013-2014 Results

General Fund revenues are anticipated to be slightly higher when compared to the 2013-2014 adopted budget. Real Estate tax is expected to be over the adopted 2013-2014 budget by \$434,409 due to an improving market and sales, meal and lodging tax continue to perform strong. Expenditures are anticipated to be slightly lower than the 2013-2014 adopted budget due to conservative budgeting. As such, the City expects to end the 2014 fiscal year with a modest surplus.

2014-2015 Operating Budget (Next Year)

The City's operating budget for 2014-2015 was presented to City Council on March 5, 2014 and is scheduled to be adopted on April 11, 2014. The Real Estate and Personal Property tax rates remain the same.

The 2014-2015 General Fund budget reflects an increase of 1.51% in General Fund operating revenues over the prior year's budget, and an increase of 2.59% when compared to the FY 2013 actuals. The operating budget continues to focus on the delivery of high quality, efficient and effective government services. Major areas of expenditures include the local contribution to the schools (33.12%), public safety and justice (25.54%), infrastructure and transportation (9.32%), healthy families and community (19.14%), debt payment (4.70%), fund balance target adjustment (.22%), employee compensation and training (.64%), internal services (1.01%), financial services (3.26%), non-departmental (.15%) and management (2.89%).

General Fund Revenues

The General Fund is the primary operating fund maintained by the City to account for revenue derived from City-wide *ad valorem* taxes, other local taxes, licenses, fees, permits, and certain revenue from federal, State and other local governments. General Fund expenditures include the costs of general City government, transfers to the City Schools to pay the local share of operating City public schools, transfers to Special Revenue Funds in support of certain City services, transfers to the Debt Service Fund, and transfers to the Capital Projects Fund. The following is a discussion of the General Fund revenue structure and major classifications of General Fund expenditures.

Real Estate and Personal Property Taxes

An annual *ad valorem* tax is levied by the City on the assessed value of real and tangible personal property located within the City. Prior to January 1, 1977, the ratio of the assessed value of property to its fair market value was 30% in the case of real property. As of January 1, 1977, however, the law required real property assessments throughout the State to be made at a ratio of 100% of fair market value. Real and personal property are assessed as of January 1 of the calendar year and the taxes are due on June 5 and December 5 of the same year.

In cases of real estate on which delinquent taxes are not paid within three years, the City may sell the property at public auction to pay the amounts due. There is no limit on the property tax rates which may be established by the City. In the fiscal year ended June 30, 2013, all property taxes (including penalties and interest on delinquent taxes) represented approximately 36.8% of total General Fund revenues. The current real property tax rate in the City is \$0.95 per \$100 assessed value.

The personal property assessment valuation method is average trade-in on motor vehicles. This new valuation method was adopted by Council in the fall of 2005. Previously, the valuation method was average loan value. Other types of personal property are taxed only when used for business purposes and are assessed at a declining percentage of cost. Personal property taxes are collected twice a year, with filing due by January 31, one-half payment by June 5, and the balance by December 5. The penalty for late payment is 10% of the tax due, with interest charges on unpaid balances commencing on the first day of the following month at a rate of 10% per annum. The current personal property tax is \$4.20 per \$100 assessed value. Effective January 1, 1991, the City began to pro-rate personal property taxes.

Certain classes of public service corporation property are required by State law to be assessed at different ratios.

The City's real and personal property tax levies and collections for the past ten years are as follows:

**REAL AND PERSONAL
PROPERTY TAX LEVIES AND COLLECTIONS
2004-2013**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Collections in Subsequent Years (1)	Total Tax Collections	Total Collections as a Percent of Current Levy
2013	\$ 59,958,474	\$ 59,304,770	98.91 %	\$ -	\$ 59,304,770	98.91 %
2012	59,419,008	58,573,010	98.58	640,715	59,213,725	99.65
2011	59,302,625	58,308,249	98.32	958,213	59,266,462	99.94
2010	59,534,997	58,243,180	97.83	1,227,808	59,470,988	99.89
2009	59,406,086	57,725,159	97.17	1,610,215	59,335,374	99.88
2008	55,670,857	53,115,813	95.41	2,738,960	55,854,773	100.33
2007	51,474,969	50,586,848	98.27	1,317,013	51,903,861	100.83
2006	46,625,077	44,440,033	95.31	1,826,999	46,267,032	99.23
2005	42,781,336	42,089,865	98.38	1,259,709	43,349,574	101.33
2004	39,321,514	38,825,366	98.74	1,521,987	40,347,353	102.61

Source: Treasurer of the City of Charlottesville

(1) Delinquent Collections in fiscal years prior to 2009 include receipts collected within the fiscal year for all prior year levies. Data for 2013 is not yet available.

A listing of the City's twenty largest real estate taxpayers as of January 2014 follows:

**TWENTY LARGEST REAL ESTATE TAXPAYERS
(as of January 2014)**

Taxpayer	Type of Business	2014 Assessed Valuation (1)	Tax Amount	Percentage of Total Assessed Valuation (1)
Federal Realty Investment Trust	Shopping Center	\$ 119,728,800	\$ 1,137,424	2.17%
Piedmont Hospital	Apartment/Condominium	47,868,344	454,749	0.87%
First and Main Charlottesville, LLC	Apartment/Condominium	47,328,208	449,618	0.86%
Towers Limited Partnership ETAL	Retail/Apartment/Office Building	43,701,815	415,167	0.79%
Pavilion, LLC	Apartment	41,269,200	392,057	0.75%
Caton, Douglas E.	Apartment/Office Building	39,585,617	376,063	0.72%
Blue Atlantic Charlottesville, LLC	Apartment/Office Building	35,641,100	338,590	0.65%
Peyton Associates Partnership	Retail/Office Building/Land	35,409,331	336,389	0.64%
University of Virginia Foundations	University of Virginia (Taxable)	34,803,726	330,635	0.63%
Wertland Street LLC	Apartment	32,495,718	308,709	0.59%
Wade Apartments, LLC	Apartment	32,141,006	305,340	0.58%
Ja-Zan Limited Partnership	Retail/Office Building	29,034,310	275,826	0.53%
401 East Market Street, LLC	Apartment/Retail	28,247,906	268,355	0.51%
Joseph W. Richmond, Jr.	Retail/Office Building	24,641,425	234,094	0.45%
Mall Property, LLC	Retail/Office Building	23,568,917	223,905	0.43%
ACAC Downtown, LLC	Retail/Apartment/Office Building	22,423,308	213,021	0.41%
Omni Charlottesville Virginia Corp	Hotel	20,942,000	198,949	0.38%
Cville Operations Hub, LLC	Office Building	20,489,300	194,648	0.37%
Apple Eight SPE Charlottesville, INC	Hotel	19,854,300	188,616	0.36%
Coal Tower Associates, LLC	Apartment/Office Building	18,019,200	171,182	0.33%
		\$ 717,193,531	\$ 6,813,337	13.02%

(1) Real estate only.

(2) Based on tax rate of \$0.95 per \$100 of value.

Source: City Assessor

The estimated value of tax-exempt property within the City for 2013 is shown below:

ESTIMATED VALUE OF TAX-EXEMPT PROPERTY
Calendar Year 2013

Federal	\$ 21,652,500
State and regional	288,908,100
Local	191,927,100
Religious, charitable, educational, and other	<u>510,229,200</u>
Total tax-exempt property	<u>\$1,012,716,900</u>

The assessed and estimated actual value of taxable property for the last ten years follows:

ASSESSED AND ESTIMATED MARKET VALUE OF REAL PROPERTY (1)
LAST TEN CALENDAR YEARS

Taxable Year	Real Estate	Public Service Real Estate	Total Taxable Real Property Assessed Value	Real Property Direct Tax Rate	Tax-Exempt Real Property	Total Value Real Property
2013	\$ 5,281,021,000	\$ 138,256,036	\$ 5,419,277,036	\$ 0.95	\$ 1,012,716,900	\$ 6,431,993,936
2012	5,222,661,300	138,241,036	5,360,902,336	0.95	1,016,573,300	6,377,475,636
2011	5,282,859,100	135,463,526	5,418,322,626	0.95	1,016,346,400	6,434,669,026
2010	5,257,182,700	135,809,935	5,392,992,635	0.95	1,053,205,500	6,446,198,135
2009	5,251,290,000	116,776,088	5,368,066,088	0.95	1,045,198,200	6,413,264,288
2008	5,181,954,900	114,181,608	5,296,136,508	0.95	885,548,300	6,181,684,808
2007	4,826,991,400	121,343,088	4,948,334,488	0.95	869,720,800	5,818,055,288
2006	4,211,772,300	122,531,726	4,334,304,026	0.99	865,609,200	5,199,913,226
2005	3,595,449,500	127,545,711	3,722,995,211	1.05	767,043,300	4,490,038,511
2004	3,179,150,000	150,021,836	3,329,171,836	1.09	718,612,500	4,047,784,336

(1) Assessed values of all classes of property approximate market value.

Source: Records of the City Assessor and State Corporation Commission

The City's historical tax rates for real and personal property for the most recent ten years follows:

DIRECT PROPERTY TAX RATES
(PER \$100 OF ASSESSED VALUE)
LAST TEN CALENDAR YEARS

Year	Real Property	Personal Property	Machinery & Tools	Total Direct Tax Rate of City Assessed Property	Public Service		Total Direct Tax Rate of State Assessed Property
					Real Property	Personal Property	
2013	\$ 0.95	\$ 4.20	\$ 4.20	\$ 9.35	\$ 0.95	\$ 4.20	\$ 5.15
2012	0.95	4.20	4.20	9.35	0.95	4.20	5.15
2011	0.95	4.20	4.20	9.35	0.95	4.20	5.15
2010	0.95	4.20	4.20	9.35	0.95	4.20	5.15
2009	0.95	4.20	4.20	9.35	0.95	4.20	5.15
2008	0.95	4.20	4.20	9.35	0.95	4.20	5.15
2007	0.95	4.20	4.20	9.35	0.95	4.20	5.15
2006	0.99	4.20	4.20	9.39	0.99	4.20	5.19
2005	1.05	4.20	4.20	9.45	1.05	4.20	5.25
2004	1.09	4.20	4.20	9.49	1.09	4.20	5.29

Source: Director of Finance

Local Sales Tax

A 1% local retail sales tax is added to the 4% State sales tax. The City sales tax is collected with the State sales tax. The tax monies for the local portion are remitted to the City by the State during the month following receipt. Revenues from the City sales tax amounted to approximately 7.3% of the General Fund revenues for the fiscal year ended June 30, 2013. City revenues from this tax for the past five years are as follows:

CITY SALES TAX REVENUES 2009-2013

Fiscal year ended	
<u>June 30</u>	<u>Amount</u>
2009	\$ 9,588,558
2010	9,311,664
2011	8,956,683
2012	9,995,523
2013	9,901,299

Utility Taxes

The City collects a tax on all electric, gas and water bills paid by City residents. These receipts amounted to approximately 3.2% of total General Fund revenues in fiscal year 2013. The utility tax figures shown below also include the collection of the state Telecommunications Sales Tax whereby tax on cable television and local service telephone bills is remitted directly to the State. The City receives a payment from the State for the City's prorated share of the total communications sales tax collections on a monthly basis. Revenues from utility taxes for the past five years are as follows:

CITY UTILITY TAX REVENUES 2009-2013

Fiscal year ended	
<u>June 30</u>	<u>Amount</u>
2009	\$ 7,983,254
2010	7,771,884
2011	7,827,349
2012	7,520,977
2013	7,699,029

Restaurant Meals Tax

In 1983, the City imposed a 3% tax on all restaurant meals served in the City. In the 2003-2004 budget process, this tax was raised to 4%, with the additional one-cent increase to be used to fund the debt service on bonds to finance additional capital improvements. In the fiscal year ended June 30, 2013, this revenue source produced \$8,103,257, representing 5.9% of total General Fund revenues.

Business and Professional License Taxes

The City levies taxes for the privilege of conducting business and engaging in certain professions, trades and occupations in the City. Both flat license taxes and rates established as a percentage of gross receipts are used. All license taxes are due on June 1 of each year and are calculated on the preceding calendar year's gross receipts. Persons liable for the payment of the license tax make application for the license to the Commissioner of the Revenue, and in cases where the tax is based on gross receipts, the applicant must furnish to the Commissioner of Revenue a sworn statement of the amount of gross receipts from the previous year. In the fiscal year ended June 30, 2013, business and professional licenses, along with a variety of other permits and licenses, represented approximately 6.9% of total General Fund revenues.

The following table shows revenue from business and professional license taxes over the past five years and the percentage change in each of those years over the prior year:

**BUSINESS AND PROFESSIONAL LICENSE TAXES
2009-2013**

Fiscal year ended June 30	<u>Amount</u>	<u>Change from prior year</u>
2009	\$ 7,295,646	22.5 %
2010	6,502,949	(10.9)
2011	6,061,192	(6.7)
2012	6,491,428	7.0
2013	6,880,942	6.0

The 2009 increase was due primarily to a multi-year audit of a financial firm which also helped to increase the future year revenue base in addition to collected prior years taxes owed.

Other Taxes

Revenues received from various other local taxes include a franchise tax, tax on bank stock, cigarette tax, tax on wills and deeds, rolling stock tax and a transient room tax. For the fiscal year ended June 30, 2013, this classification represented approximately 3.8% of total General Fund receipts.

City-County Revenue Sharing Agreement

As an alternative to future annexations by the City of portions of Albemarle County, the governing bodies of the two jurisdictions have entered into a revenue-sharing agreement. The agreement was adopted in 1982 after public hearings by both the City Council and the County Board of Supervisors, and approved in a referendum in May, 1982 by County voters. No referendum by City voters was required.

Under this agreement, the City has permanently foregone its annexation rights to County territory. In return, the two jurisdictions annually pool a fixed percentage of their real estate tax proceeds. The pooled revenues are then re-divided under a formula based on population and relative real estate tax effort. The formula has produced a payment by the County to the City in each year since its inception. Payments for the last ten years are as follows:

Fiscal year ended June 30	<u>Amount</u>
2005	\$ 8,004,461
2006	9,742,748
2007	10,134,816
2008	13,212,401
2009	13,633,950
2010	18,038,878
2011	18,454,658
2012	18,089,812
2013	17,520,948
2014	16,931,333

For the fiscal year ended June 30, 2015, this payment will be \$16,466,981

Revenue from the Commonwealth

The City is reimbursed by the Commonwealth of Virginia for a portion of certain shared office and employee expenses involving the Clerk of the Circuit Court, Commonwealth's Attorney, Treasurer, Commissioner of the Revenue, Sheriff and law enforcement functions. In addition, the State provides the City with revenue from the collection of gasoline taxes to be used in the maintenance of streets in the City, and a share of net profits of the State Alcoholic Beverage Control Board derived from liquor sales. As previously disclosed, beginning in 1999, the State also reimburses the City for a portion of personal property taxes levied. Revenue received from the State for the fiscal year ended June 30, 2012 was \$10.4 million, which represented 7.7% of total General Fund revenues.

Revenue from the Federal Government

The City General Funds receives no direct federal operating assistance. Federal revenues are received by the Transit Fund from the Department of Transportation for the operation of the City's transit system, and by the Community Development Block Grant Fund for neighborhood improvements. Federal revenues passed through the state are received by the Schools Fund to support education, Social Services Fund to support for families and individuals in need. The Grants Funds receive both direct and pass-through federal funds to participate in various awards supporting public safety, community services, conservation, and at-risk youth programs.

Charges for Services, Fines and Forfeitures, and Miscellaneous Revenues and Operating Transfers

Charges for services encompass all revenues derived from service or user charges levied by the City, including solid waste disposal fees, monies received from Albemarle County and the University of Virginia for fire protection services provided by the City, revenues from the Courts and recreation income. Fines and forfeitures are imposed for moving traffic violations, parking violations and other City ordinance violations. Miscellaneous revenues include income from the investment of idle funds, and a variety of small revenue producing sources. Operating transfers include payments in lieu of taxes from the City's three utilities, as classified under GASB 34.

A summary of the relative contribution of each of the General Fund revenue sources for the fiscal year ended June 30, 2013 follows:

GENERAL FUND Sources of Revenues Fiscal Year Ended June 30, 2013

<u>Source</u>	<u>Percentage</u>
Real estate and personal property tax	41.5%
Local sales tax	7.3
Utility tax	3.3
Restaurant meals tax	6.0
Business and professional licenses	6.9
Other taxes	7.6
City-County revenue sharing.....	12.9
Revenue from the Commonwealth.....	7.7
Charges for services, fines and forfeitures and miscellaneous revenues	<u>6.8</u>
	<u>100.0%</u>

Expenditures

Costs of General City Government

The City pays the costs of general City government from the General Fund. In the fiscal year ended June 30, 2012, these expenditures represented approximately 81.3% of total expenditures from the General Fund and included the following major classifications:

<u>Classification</u>	<u>Percent of General Fund</u>
General government	10.1%
Public safety	22.8
Community services	5.5
Health and welfare.....	3.5
Culture and recreation	7.9
Education.....	30.1
Conservation and development.....	3.4
Other	<u>0.2</u>
Total expenditures	<u>83.5%</u>

Transfers to Other Operating Funds

The City transfers from the General Fund to the City Schools to pay the City's share of the costs of operating public schools in the City. This expenditure represented approximately 30.1% of the total General Fund expenditures in the fiscal year ended June 30, 2013, and approximately 60.0% of total revenues of the School's Fund, net of transfers to the City, which provide pupil transportation, school resource officers, facilities maintenance and energy management services to the Schools (\$5,785,134 in FY

2013). The principal sources of other revenue credited directly to the City Schools are revenues from the State and federal governments and revenue derived locally from charges to students.

The City transfers from the General Fund to the Capital Projects Fund amounts sufficient to fund various capital projects. Transfers to the Capital Projects Fund represented approximately 5.4% of the total General Fund expenditures in the fiscal year ended June 30, 2013.

The City makes transfers from the General Fund to the Social Services Fund, Transit Fund and certain other Special Revenue funds in support of the City's various social services and transit system respectively. Transfers to all other funds approximated 5.5% of total General Fund expenditures in the fiscal year ended June 30, 2013.

The City transfers from the General Fund to the Debt Service Fund amounts sufficient to pay the current year's principal and interest on general long-term debt, except that which is paid by the Enterprise Funds. Transfers to the Debt Service Fund represented approximately 6.5% of the total General Fund expenditures in the fiscal year ended June 30, 2013.

Gas Fund Financial Information

The financial data shown in the following tables for the City's Gas Fund presents a comparative statement of revenues, expenses and changes in fund net assets for the fiscal years ended June 30, 2013 and 2012 and a comparative Statement of Net Assets at June 30, 2013 and 2012. The comparative statements have been prepared from the audited financial statements of the City. They should be read in conjunction with the City's general purpose financial statements for the fiscal year ended June 30, 2013 and the notes thereto appearing in Appendix A.

GAS FUND
Statement of Revenues, Expenses and Changes in Fund Net Position
Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Utility charges	\$ 29,260,315	\$ 27,288,337
Other	497,495	311,629
Total operating revenues	<u>29,757,810</u>	<u>27,599,966</u>
Operating expenses:		
Purchases for resale	14,453,829	12,927,542
Personnel costs	4,174,153	3,985,283
Materials and supplies	640,302	590,878
Other services and charges	3,449,932	3,726,297
Depreciation	1,212,646	1,215,433
Bad debts	-	-
Total operating expenses	<u>23,930,862</u>	<u>22,445,433</u>
Operating income (loss)	<u>5,826,948</u>	<u>5,154,533</u>
Nonoperating revenues (expenses):		
Insurance Recovery	-	-
Gain (loss) on sale of capital assets	-	(66,427)
Bond Issuance Expense	-	-
Interest income	17,465	18,845
Interest expense	(168,341)	(153,556)
Capacity fees - nonoperating	-	-
Total nonoperating revenues (expenses), net	<u>(150,876)</u>	<u>(201,138)</u>
Capital Contributions:		
Capital Contributions to other funds	-	(124,135)
Income (loss) before operating transfers	5,676,072	4,829,260
Transfer from other funds	-	-
Transfer to other funds	(3,810,765)	(3,770,840)
Retained earnings, beginning	27,464,090	26,405,670
Retained earnings, ending	<u>\$ 29,329,397</u>	<u>\$ 27,464,090</u>

Source: Office of the Director of Finance

City of Charlottesville, Virginia
GAS FUND
Statement of Net Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and temporary investments	\$ 13,550,831	\$ 11,726,294
Accounts receivable, net	901,871	562,419
Unbilled accounts receivable	1,077,749	728,142
Notes receivable	-	-
Prepaid expenses	1,694,566	1,774,193
	<hr/>	<hr/>
Total current assets	17,225,017	14,791,048
	<hr/>	<hr/>
PROPERTY, PLANT AND EQUIPMENT		
Land	584,291	584,291
Easements	84,100	84,100
Vehicles	1,124,649	1,124,649
Transmission lines and mains	38,595,141	37,922,130
Equipment	1,799,639	1,780,714
	<hr/>	<hr/>
	42,187,820	41,495,884
	<hr/>	<hr/>
Less accumulated depreciation	(24,283,051)	(23,070,404)
	<hr/>	<hr/>
Net noncurrent assets	17,904,769	18,425,480
	<hr/>	<hr/>
TOTAL ASSETS	\$ 35,129,786	\$ 33,216,528
	<hr/>	<hr/>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,824,214	\$ 1,041,862
Accrued liabilities	88,629	82,444
Accrued interest payable	85,427	47,612
Customer deposits	624,746	602,513
Compensated absences - due within one year	18,568	18,119
Unamortized Bond Premium	-	-
Bonds payable - due within one year	794,168	811,200
Note payable - due within one year	-	-
	<hr/>	<hr/>
Total current liabilities	3,435,752	2,603,750
	<hr/>	<hr/>
Compensated absences	136,165	132,875
Bonds payable - due after one year	2,228,472	3,015,813
less deferred amount on refunding	-	-
Note payable - due after one year	-	-
	<hr/>	<hr/>
Total liabilities	5,800,389	5,752,438
	<hr/>	<hr/>
NET ASSETS:		
Net investment in capital assets	29,091,247	14,598,466
Unrestricted	238,150	12,865,624
	<hr/>	<hr/>
Total net position	\$ 29,329,397	\$ 27,464,090
	<hr/>	<hr/>

Source: Office of the Director of Finance

The following are the City's gas rates as of April 1, 2014 for each class of customer. These rates are adjusted monthly with a purchased gas adjustment (PGA) factor or as needed when the cost of purchased gas varies from the base amount budgeted annually.

	<u>With PGA</u>
1. Firm Customer Rates	
Monthly charge	\$ 10.000
First 3,000 cu. ft., per MCF	12.042
Next 3,000 cu. ft., per MCF	11.404
Next 144,000 cu. ft., per MCF	10.341
Over 150,000 cu. ft., per MCF	10.129
2. Interruptible Customer Rates	
Monthly charge	\$ 60.00
First 600 MCF, per MCF	9.512
Over 600 MCF, per MCF	7.987
3. Transportation Rate	
Monthly charge	\$ 150.00
Rate per DTH	3.446
4. Air Conditioning Rate	
Per MCF	\$ 10.496
5. Gas Light Rate	
Monthly charge (one mantle)	\$ 17.00

Note: MCF (thousands of cubic feet) represents volume which has been adjusted by a thermal factor and is equivalent to DTH (decatherms).

Water Fund Financial Information

The financial data shown in the following tables for the City's Water Fund presents a comparative statement of revenues, expenses and changes in fund net assets for the fiscal years ended June 30, 2013 and 2012 and a comparative statement of net assets at June 30, 2013 and 2012. The comparative statements have been prepared from the audited financial statements of the City for both years. They should be read in conjunction with the City's general purpose financial statements for the fiscal year ended June 30, 2013 and the notes thereto appearing in Appendix A.

WATER FUND**Statement of Revenues, Expenses and Changes in Fund Net Position**

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Utility charges	\$ 8,628,913	\$ 8,489,329
Other	194,008	179,054
Total operating revenues	<u>8,822,921</u>	<u>8,668,383</u>
Operating expenses:		
Purchases for resale	4,547,520	4,508,553
Personnel costs	1,231,095	1,163,383
Materials and supplies	318,163	299,109
Contractual services and charges	1,004,416	1,283,486
Depreciation	667,376	542,289
Bad debts	-	-
Total operating expenses	<u>7,768,570</u>	<u>7,796,820</u>
Operating income (loss)	<u>1,054,351</u>	<u>871,563</u>
Nonoperating revenues (expenses):		
Insurance Recovery	1,878	
Gain (loss) on sale of capital assets	-	(10,495)
Supply Purchase Refund	-	-
Bond Issuance Expense	(40,201)	(26,156)
Interest income	22,161	38,015
Interest expense	(398,731)	(640,503)
Capacity Fees-nonoperating	232,520	247,600
Total nonoperating		
revenues (expenses), net	<u>(182,373)</u>	<u>(391,539)</u>
Income (loss) before operating transfers	871,978	480,024
Transfer to other funds	(708,548)	(694,863)
Total net position - July 1, 2012	<u>7,627,078</u>	<u>7,841,917</u>
Total net position - June 30, 2013	<u>\$ 7,790,508</u>	<u>\$ 7,627,078</u>

Source: Office of the Director of Finance

City of Charlottesville, Virginia

WATER FUND

Statement of Net Position

June 30, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS:		
Cash and temporary investments	\$ 6,802,361	\$ 6,771,184
Accounts receivable, net	654,628	494,802
Unbilled accounts receivable	614,877	508,065
Note Receivable	<u>129,618</u>	<u>257,332</u>
Total current assets	<u>8,201,484</u>	<u>8,031,383</u>
CAPITAL ASSETS:		
Easements	12,625	
Vehicles	222,661	243,661
Transmission lines and mains	24,776,367	22,200,032
Equipment	<u>674,297</u>	<u>496,184</u>
	25,685,950	22,939,877
Less accumulated depreciation	<u>(9,382,008)</u>	<u>(8,777,632)</u>
Net noncurrent assets	<u>16,303,942</u>	<u>14,162,245</u>
TOTAL ASSETS	<u>\$ 24,505,426</u>	<u>\$ 22,193,628</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 798,280	\$ 890,207
Accrued liabilities	19,476	19,269
Accrued interest payable	123,728	72,517
Customer deposits	170,124	183,845
Unamortized Bond Premium	-	-
Compensated absences - due within one year	5,811	5,294
Bonds payable - due within one year	<u>1,000,067</u>	<u>772,000</u>
Total current liabilities	<u>2,117,486</u>	<u>1,943,132</u>
Compensated absences	42,614	38,824
Bonds payable - due after one year	14,554,818	12,584,594
less deferred amount on refunding	<u>-</u>	<u>-</u>
Total liabilities	<u>16,714,918</u>	<u>14,566,550</u>
Net Assets:		
Net investment in capital assets	2,728,643	1,762,314
Unrestricted	<u>5,061,865</u>	<u>5,864,764</u>
Total net position	<u>\$ 7,790,508</u>	<u>\$ 7,627,078</u>

Source: Office of the Director of Finance.

The following are the City's water rates as of April 1, 2014:

	<u>Summer (May-Sept.)</u>	<u>Winter (Oct.-April)</u>
Monthly charge.....	\$4.00	\$4.00
Per 1,000 cu. ft.....	\$50.62	\$38.94

Historically, the City's water and sewer rates are adjusted annually, as of July 1, in conjunction with the annual operating budget. As part of a multi-faceted water conservation program, summer/winter rates were adopted to encourage water conservation during the traditionally high usage months.

Sewer Fund Financial Information

The financial data shown in the following tables for the City's Sewer Fund presents a comparative statement of revenues, expenses and changes in fund net assets for the fiscal years ended June 30, 2013 and 2012 and a comparative statement of net assets at June 30, 2013 and 2012. The comparative statements have been prepared from the audited financial statements of the City for both years. They should be read in conjunction with the City's general purpose financial statements for the fiscal year ended June 30, 2013 and the notes thereto appearing in Appendix A.

Sewer Fund
Statement of Revenues, Expenses and Changes in Fund Net Position
Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Utility charges	\$ 10,110,411	\$ 8,834,131
Other	37,090	2,557
Total operating revenues	<u>10,147,501</u>	<u>8,836,688</u>
Operating expenses:		
Purchases for resale	6,731,770	6,255,601
Personnel costs	1,160,331	1,102,830
Materials and supplies	97,960	117,681
Other services and charges	565,965	1,137,566
Depreciation	617,201	470,107
Bad debts	-	-
Total operating expenses	<u>9,173,227</u>	<u>9,083,785</u>
Operating income (loss)	<u>974,274</u>	<u>(247,097)</u>
Nonoperating revenues (expenses):		
Insurance Recovery	-	-
Gain (loss) on sale of capital assets	-	-
Bond Issuance Expense	(80,259)	(24,058)
Interest Income	22,502	52,219
Interest expense	(656,989)	(781,795)
Capacity fees - nonoperating	404,705	282,430
Total nonoperating		
revenues (expenses), net	<u>(310,041)</u>	<u>(471,204)</u>
Income (loss) before operating transfers	664,233	(718,301)
Transfer to other funds	(713,867)	(700,270)
Total net position - July 1, 2012	8,171,216	9,589,787
Total net position - June 30, 2013	<u>\$ 8,121,582</u>	<u>\$ 8,171,216</u>

Source: Office of the Director of Finance

City of Charlottesville, Virginia
Sewer Fund
Statement of Net Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and temporary investments	\$ 8,172,458	\$ 9,862,474
Accounts receivable, net	431,408	259,300
Unbilled accounts receivable	736,957	454,360
Notes Receivable	272,867	541,727
	<hr/>	<hr/>
Total current assets	9,613,690	11,117,861
	<hr/>	<hr/>
PROPERTY, PLANT AND EQUIPMENT		
Easements	95,600	95,600
Buildings and improvements	39,014	39,014
Vehicles	642,909	635,414
Transmission lines and mains	31,068,238	24,393,958
Equipment	383,357	388,856
	<hr/>	<hr/>
	32,229,118	25,552,842
	<hr/>	<hr/>
Less accumulated depreciation	(5,374,467)	(4,800,766)
	<hr/>	<hr/>
Net noncurrent assets	26,854,651	20,752,076
	<hr/>	<hr/>
TOTAL ASSETS	\$ 36,468,341	\$ 31,869,937
	<hr/>	<hr/>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,352,989	\$ 1,465,225
Accrued liabilities	18,138	17,635
Accrued interest payable	153,437	91,898
Unamortized Bond Premium	-	-
Compensated absences - due within one year	5,059	5,036
Bonds payable - due within one year	1,508,126	1,134,453
	<hr/>	<hr/>
Total current liabilities	3,037,749	2,714,247
	<hr/>	<hr/>
Compensated absences	37,103	36,934
Bonds payable - due after one year	25,271,907	20,947,540
less deferred amount on refunding	-	-
	<hr/>	<hr/>
Total liabilities	28,346,759	23,698,721
	<hr/>	<hr/>
NET ASSETS:		
Net investment in capital assets	4,004,481	3,509,349
Unrestricted	4,117,101	4,661,867
	<hr/>	<hr/>
Total net position	\$ 8,121,582	\$ 8,171,216
	<hr/>	<hr/>

Source: Office of the Director of Finance..

The following are the City's sewer rates as of April 1, 2014:

Monthly charge.....	\$4.00
Per 1,000 cu. ft.....	\$54.00

Employee Retirement Plans

City employees are participants in the federal Social Security System and most are also members of a City supplemental retirement system, which provides pension benefits and post-retirement healthcare and life insurance benefits for eligible employees through the City Retirement Fund and Post-employment Benefits Fund, respectively. Further information regarding the City retirement system is provided in Note 11 on page A-57 in "Notes to the Financial Statements". At June 30, 2013, the City's Retirement Fund and Post-employment Benefits Fund had a net position available for payment of future benefits of \$100,330,395, at market value. Actuarial valuations for post-employment benefits other than pension determine annual required contributions for the City Retirement Fund. The City has always fully funded the Annual Required Contribution (ARC). The unfunded actuarial liability for pension benefits for retirees, terminated employees and beneficiaries currently receiving or entitled to benefits was approximately \$50.8 million at June 30, 2013.

Effective July 1, 2001, the City established a defined contribution plan for City employees who elect to participate. Current employees were given a one-time opportunity to elect to participate in this plan and to freeze their defined benefit; all new hires will be given a choice of plans. At June 30, 2013, approximately 324 City employees were enrolled in the plan. The City's contribution rate to this plan is 8%, and there is a three-year vesting period. Participants in this plan are not eligible for post-retirement healthcare benefits.

The School System does not participate in the City retirement plan. Employees of the School System participate in the Virginia Retirement System (VRS). See Note 11 in Appendix A for further information.

Post-Employment Benefits Other Than Pensions (OPEB)

A post-employment benefits trust was established and adopted by City Council on July 1, 2007. The unfunded actuarial liability for post-employment benefits for retirees, terminated employees and beneficiaries currently receiving or entitled to benefits was approximately \$62.3 million at June 30, 2013. The City is fully funding the Annual Required Contribution (ARC).

Employees of the School System are not eligible for post-retirement healthcare benefits, but may be eligible for a medical plan subsidy. See Note 12 in Appendix A for further information.

Budgetary Procedure

The City Charter requires that the City Manager submit a balanced General Fund budget to the City Council. In the fall of each fiscal year, each department within the City government is required to submit its estimate for the ensuing year's revenues and expenditures to the City administration by a date established by the Budget Manager. The City Manager reviews the estimates and other data and recommends an annual budget to the City Council. This budget may not exceed the estimated General Fund revenues.

All City budgets are presented at the departmental level, to allow for the reallocation of resources from low to high priority programs and to provide departments with flexibility of operations. Further, budgetary compliance is monitored by each department at the operating cost center level, and control is exercised at the department level, as specified by the City Code.

The budgets for the General Fund and Special Revenue Funds are maintained on the modified accrual basis of accounting, adjusted for encumbrances. General Fund appropriations lapse at year-end. Special Revenue Funds have appropriations that lapse at year-end or project appropriations that lapse at the end of the respective projects following Council approval to continue them. Encumbrances are recorded upon the execution of appropriate documents and are accounted for as a reduction of the available budget amount.

Two public hearings on the budget are held after a synopsis of the budget is published in a local newspaper. After the public hearings, the City Council may change any item in the budget (other than debt service or items required by law), and an appropriation ordinance must be adopted by the City Council by April 15.

Employee Relations

At the present time, there are no strikes or work stoppages by employees of the City, either in progress or threatened. Such actions are illegal under current State statutes. Pursuant to the ruling of the Supreme Court of Virginia, in *Commonwealth of Virginia v. County Board of Arlington County*, 217 Va. 558.232 S.E. 2d 30 (1977), the City is not empowered to recognize a labor organization as the exclusive representative of its public employees, and cannot negotiate or enter into binding contracts with any such organizations concerning the terms and conditions of employment of its employees. The City does not have any formal negotiations with its employees concerning any aspect of the terms and conditions of their employment.

Published Financial Information

The City Code requires an annual audit of the books of account, financial records and transactions of all departments of the City by independent certified public accountants selected by the City Council. The most recently completed examination, which was for the fiscal year ended June 30, 2013, was performed by Cherry Bekaert L.L.P., Richmond, Virginia.

The City's annual financial reports are available for inspection at the Office of the Director of Finance which is located at the City Hall, 7th and Main Streets, Charlottesville, Virginia 22902.

Appendix A

CITY OF CHARLOTTESVILLE, VIRGINIA

**General Purpose Financial Statements
For the Year Ended June 30, 2013**

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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the individual discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlottesville, Virginia (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the individual discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, 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.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective July 1, 2012.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 15-29 and 82-89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Richmond, Virginia
November 26, 2013

CITY OF CHARLOTTESVILLE, VIRGINIA

Management's Discussion and Analysis Year Ended June 30, 2013

As management of the City of Charlottesville, Virginia, we offer readers this narrative overview and analysis of the financial activities of the City of Charlottesville, Virginia for the fiscal year ended June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section. The intent of this discussion and analysis is to evaluate the City's financial performance as a whole.

FINANCIAL HIGHLIGHTS

Government-wide

- The City's total net position, on a government-wide basis excluding component units, totaled \$242.1 million at June 30, 2013. Of this amount, \$96.5 million is unrestricted.
- The City's total net position increased by \$6.2 million over the prior year. This increase is the sum of a \$3.8 million increase for the governmental net position and a \$2.4 million increase in business-type net position.

Governmental Funds

- At June 30, 2013, the City's governmental funds reported combined ending fund balances of \$64.7 million (a decrease of \$7.8 million over the prior year). Approximately 41.7 percent, or \$27 million, of this amount is unassigned.
- The General Fund, on a current financial resource measurement focus and the modified accrual basis of accounting, reported excess revenues over budget of \$832,328 due primarily to several of the tax revenues (meals, business license and personal property) performing better than expected. The expenditures and other financing sources (net) finished out the year under budget primarily due to several agencies – Comprehensive Services Act, The Blue Ridge Detention Center, the Charlottesville Albemarle Regional Jail and Transit all needing fewer local dollars than originally anticipated. Several City departments – Parks and Recreation, Treasurer and Public Works - finished the year under budget due to vacancy and attrition savings.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$27 million, or 19.6 percent of total General Fund expenditures and transfers, net.

Long-term Debt

- The City's total debt, consisting of general obligation bonds, literary loans and notes payable, increased by \$4.7 million during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Charlottesville's basic financial statements. The City's basic financial statements comprise the following three components:

- *Government-wide financial statements, Exhibits A and B*
- *Fund financial statements, Exhibits C, D, E and F*
- *Notes to the financial statements*

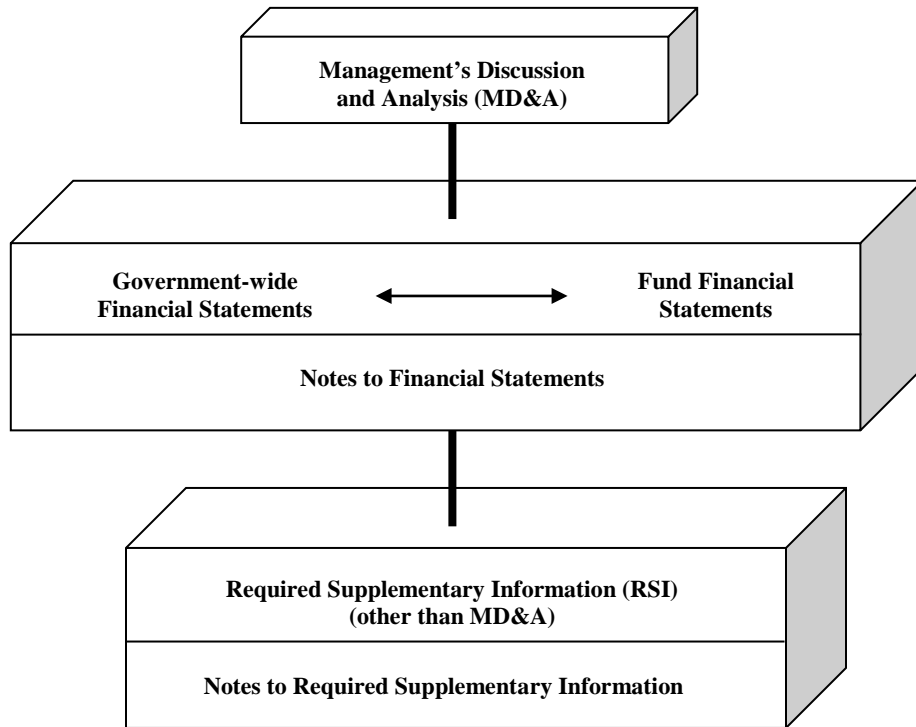
This report contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements presenting different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall financial status*.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City's government, reporting the City's operations in *more detail* than the government-wide statements.
 - *Governmental fund* statements tell how *general government* services like public safety were financed in the *short term* as well as what amounts remain for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the public utility systems (water, sewer, and gas) and the golf course.
 - *Fiduciary fund* statements provide information about the financial relationship in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong, such as the City's retirement plan.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A shows how the required parts of this *Management's Discussion and Analysis* and the City's *basic financial statements* are arranged and relate to one another.

Figure A
Required Components of City's Financial Statements



The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year-to-year or government-to-government) and enhance the City's accountability.

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 financial information on all of the City's assets and liabilities, with the difference 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 City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused accrued 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*).

In the Statement of Net Position and the Statement of Activities, the City is divided into three categories:

- *Governmental activities* – Most of the City's basic services are included here, such as the activities of the police, fire, public works, social services, parks and recreation departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to cover the cost of certain services it provides. The City's water, sewer, and gas systems as well as the golf course are included here.
- *Component units* – The City includes two separate legal entities in its report – the City of Charlottesville Economic Development Authority and the Charlottesville Public Schools. Although legally separate, these "component units" are important because the City is financially accountable for them and provides operating funding.

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 the funds of the City of Charlottesville, Virginia can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- * ***Governmental Funds***. Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the long-term focus of the government-wide financial statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund financial statements.

- * ***Proprietary Funds.*** Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like the government-wide financial statements, provide both short-term and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, with the exception of the Internal Service Funds' allocation, but they provide more detail and additional information, such as a *statement of cash flows*. The City also uses internal service funds (another kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities – such as the Risk Management Fund and the Information Technology Fund.
- * ***Fiduciary Funds.*** Fiduciary funds are used to report assets held in a trustee or agency capacity for others outside the government. The City maintains two pension trust funds for retirement and post-employment benefits. These activities are reported in a separate statement of fiduciary net assets. The City excludes this activity from its government-wide financial statements because the City cannot use these assets to finance its operations.

The Total Governmental Funds column requires reconciliation because of the different measurement focus from the government-wide statements (current financial resources versus total economic resources) which is reflected at the bottom of or following each statement. The flow of current financial resources will reflect bond proceeds and inter-fund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bond and others) into the Governmental Activities column (in the government-wide statements).

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following Exhibit F-2 at the end of the basic financial section of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information and notes*. General and Social Service fund budget and actual reports are presented on a budgetary reporting basis as Exhibits G and H. Progress in funding its obligation to provide pension and other post-employment benefits (OPEB) to its employees is provided as Exhibit I. The supplementary section has combining and individual financial statements of non-major governmental funds, Exhibits J, K, K-1, K-2, K-3, K-4, K-5 and K-6 and internal service funds are presented as L-1, L-2, L-3 and L-4. Financial Statements for the Charlottesville School Board – Component unit are presented in Exhibits M-1, M-2, M-3, M-4, M-5, M-6 and M-7.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

City of Charlottesville, Virginia Condensed Statement of Net Position June 30, 2013 and 2012

Table I

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2013	2012	2013	2012	2013	2012	2012-2013
Assets:							
Current and other assets	\$ 118,730,524	\$ 121,112,165	\$ 37,059,160	\$ 35,493,899	\$ 155,789,684	\$ 156,606,064	(0.5) %
Capital assets	203,690,956	194,061,621	62,999,055	55,332,589	266,690,011	249,394,210	6.9
Total assets	322,421,480	315,173,786	100,058,215	90,826,488	422,479,695	406,000,274	4.1
Liabilities:							
Long-term liabilities							
outstanding	79,625,798	80,531,511	42,290,011	36,779,678	121,915,809	117,311,189	3.9
Other liabilities	49,868,500	45,510,979	8,633,745	7,301,636	58,502,245	52,812,615	10.8
Total liabilities	129,494,298	126,042,490	50,923,756	44,081,314	180,418,054	170,123,804	6.1
Net position:							
Net investment in capital assets	105,462,444	122,164,890	37,760,064	21,862,917	143,222,508	144,027,807	(0.6)
Restricted							
General government	291,453	77,957	-	-	291,453	77,957	273.9
Public safety	321,917	458,127	-	-	321,917	458,127	(29.7)
Parks, recreation & culture	56,303	17,299	-	-	56,303	17,299	225.5
Health and welfare	1,272	521,103	-	-	1,272	521,103	(99.8)
Conservation and development	1,520,702	5,327,678	-	-	1,520,702	5,327,678	(71.5)
Permanent fund, nonexpendable	162,501	162,501	-	-	162,501	162,501	-
Unrestricted	85,110,590	60,401,741	11,374,395	24,882,257	96,484,985	85,283,998	13.1
Total net position	\$ 192,927,182	\$ 189,131,296	\$ 49,134,459	\$ 46,745,174	\$ 242,061,641	\$ 235,876,470	2.6

Net position (the difference between assets and liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Charlottesville, assets exceeded liabilities by \$242.1 million at the close of fiscal year 2013. The largest portion of the City's net position (59.2%) reflects its net investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The City uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources.

Approximately 1% of the City's net position is subject to external restrictions. The remaining balance of unrestricted net position (\$96.5 million or 39.9%) may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental Activities

The net position of the City's governmental activities increased from \$189.1 million to \$192.9 million as shown by the increase by \$3.8 million on the Statement of Activities. The increase is primarily due to an increase in net position in the internal service funds – governmental type activities.

Business-type Activities

The net position of the City's business-type activities increased by \$2.4 million primarily due to higher gas consumption by the University of Virginia's power plant. These resources are not to be used to make up for any net position deficit in governmental activities. In general, the City can only use the unrestricted net position to finance the continued operations of its enterprise operations, which include the Water, Sewer, Gas and Meadowcreek Golf Course enterprise funds.

Statement of Activities

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

City of Charlottesville, Virginia

Changes in Net Position

For the Years Ended June 30, 2013 and 2012

Table II

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2013	2012	2013	2012	2013	2012	2012-2013
Revenues:							
Program Revenues:							
Charges for services	\$ 21,637,752	\$ 20,171,167	\$ 50,241,223	\$ 46,604,268	\$ 71,878,975	\$ 66,775,435	7.6 %
Operating grants and contributions	29,528,159	30,093,632	-	-	29,528,159	30,093,632	(1.9)
Capital grants and contributions	6,848,481	6,377,173	-	18,800	6,848,481	6,395,973	7.1
General Revenues:							
Property taxes	56,060,959	55,819,958	-	-	56,060,959	55,819,958	0.4
Other taxes	39,539,573	38,252,689	-	-	39,539,573	38,252,689	3.4
Grants and contributions*	27,910,750	24,887,083	-	-	27,910,750	24,887,083	12.1
Interest and investment earnings	276,657	373,961	62,128	109,079	338,785	483,040	(29.9)
Gain on sale of assets	-	252,742	-	-	-	252,742	(100.0)
Total revenues	<u>181,802,331</u>	<u>176,228,405</u>	<u>50,303,351</u>	<u>46,732,147</u>	<u>232,105,682</u>	<u>222,960,552</u>	4.1
Expenses:							
General government	23,535,445	22,483,608	-	-	23,535,445	22,483,608	4.7
Public safety	32,597,684	32,258,520	-	-	32,597,684	32,258,520	1.1
Community services	20,052,677	23,670,432	-	-	20,052,677	23,670,432	(15.3)
Health and welfare	30,274,966	30,034,547	-	-	30,274,966	30,034,547	0.8
Parks, recreation and culture	12,368,616	11,256,003	-	-	12,368,616	11,256,003	9.9
Education	51,677,155	42,460,291	-	-	51,677,155	42,460,291	21.7
Conservation and development	10,373,102	14,171,433	-	-	10,373,102	14,171,433	(26.8)
Interest on long term debt	2,359,980	5,100,955	-	-	2,359,980	5,100,955	(53.7)
Water	-	-	8,162,082	8,417,556	8,162,082	8,417,556	(3.0)
Sewer	-	-	9,858,802	9,829,643	9,858,802	9,829,643	0.3
Gas	-	-	23,788,374	22,288,691	23,788,374	22,288,691	6.7
Golf course	-	-	871,628	912,244	871,628	912,244	(4.5)
Total expenses	<u>183,239,625</u>	<u>181,435,789</u>	<u>42,680,886</u>	<u>41,448,134</u>	<u>225,920,511</u>	<u>222,883,923</u>	1.4
Change in net position before transfers	(1,437,294)	(5,207,384)	7,622,465	5,284,013	6,185,171	76,629	7,971.6
Transfers	<u>5,233,180</u>	<u>4,793,791</u>	<u>(5,233,180)</u>	<u>(4,793,791)</u>	<u>-</u>	<u>-</u>	-
Change in net position	3,795,886	(413,593)	2,389,285	490,222	6,185,171	76,629	7,971.6
Net position - beginning of year	<u>189,131,296</u>	<u>189,544,889</u>	<u>46,745,174</u>	<u>46,254,952</u>	<u>235,876,470</u>	<u>235,799,841</u>	-
Net position - end of year	<u>\$ 192,927,182</u>	<u>\$ 189,131,296</u>	<u>\$ 49,134,459</u>	<u>\$ 46,745,174</u>	<u>\$ 242,061,641</u>	<u>\$ 235,876,470</u>	2.6

* Not restricted to specific programs.

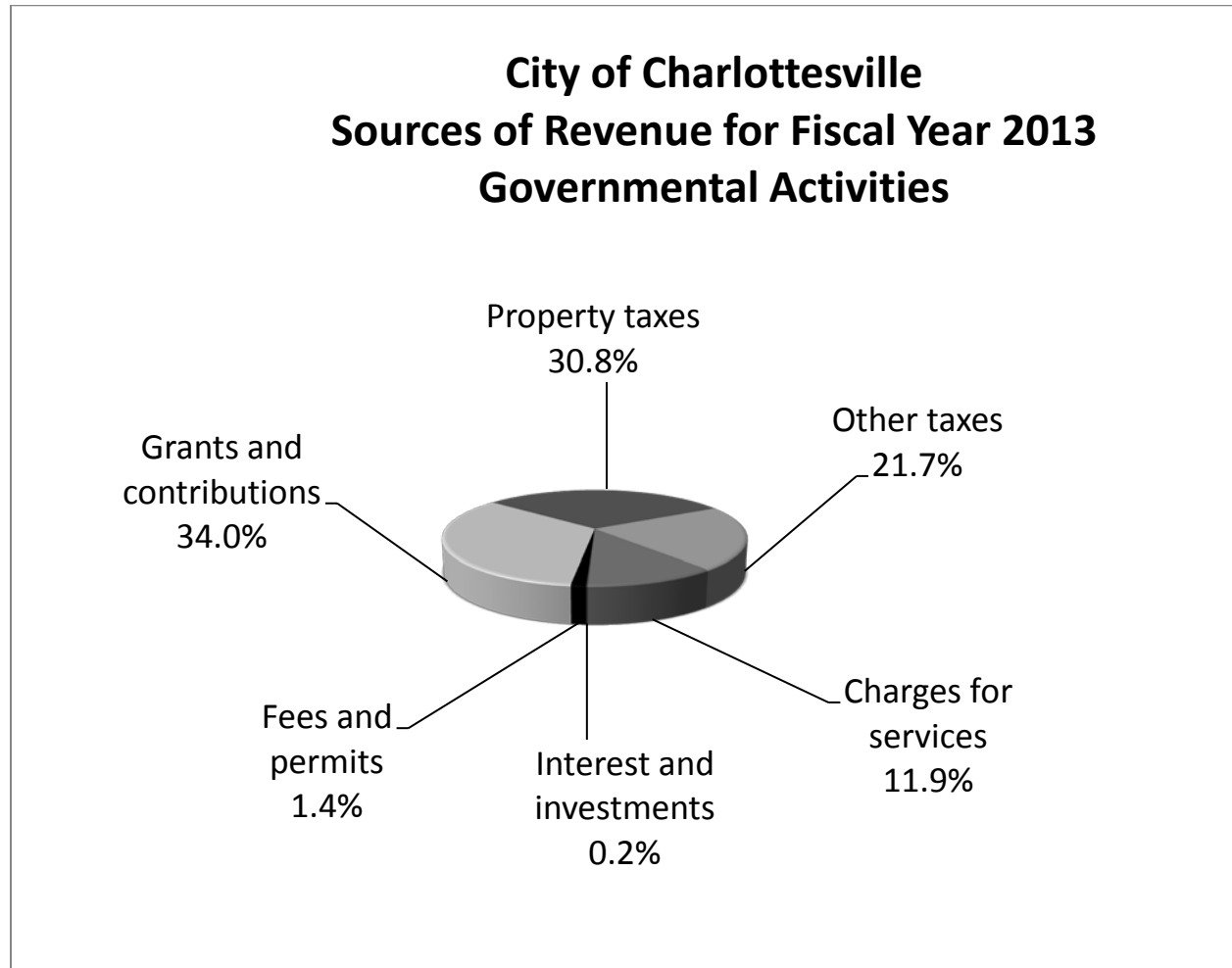
Governmental Activities

The City's total revenues from governmental activities were \$181.8 million for the fiscal year ended June 30, 2013, an increase of \$5.6 million. The more significant changes are the following:

- Other Taxes – an increase of \$1.3 million, primarily from an increase in meals tax and business license tax revenues.
- Grants and Contributions – an increase of \$3 million, primarily from work on road construction projects.
- Charges for Services – an increase of \$1.5 million, primarily from an increase in the internal service allocation, building and plumbing permits, parking fines, and other miscellaneous revenues, licenses and permits.

Approximately 52.5% of the City's revenue from governmental activities comes from property and other taxes (53.4% in 2012).

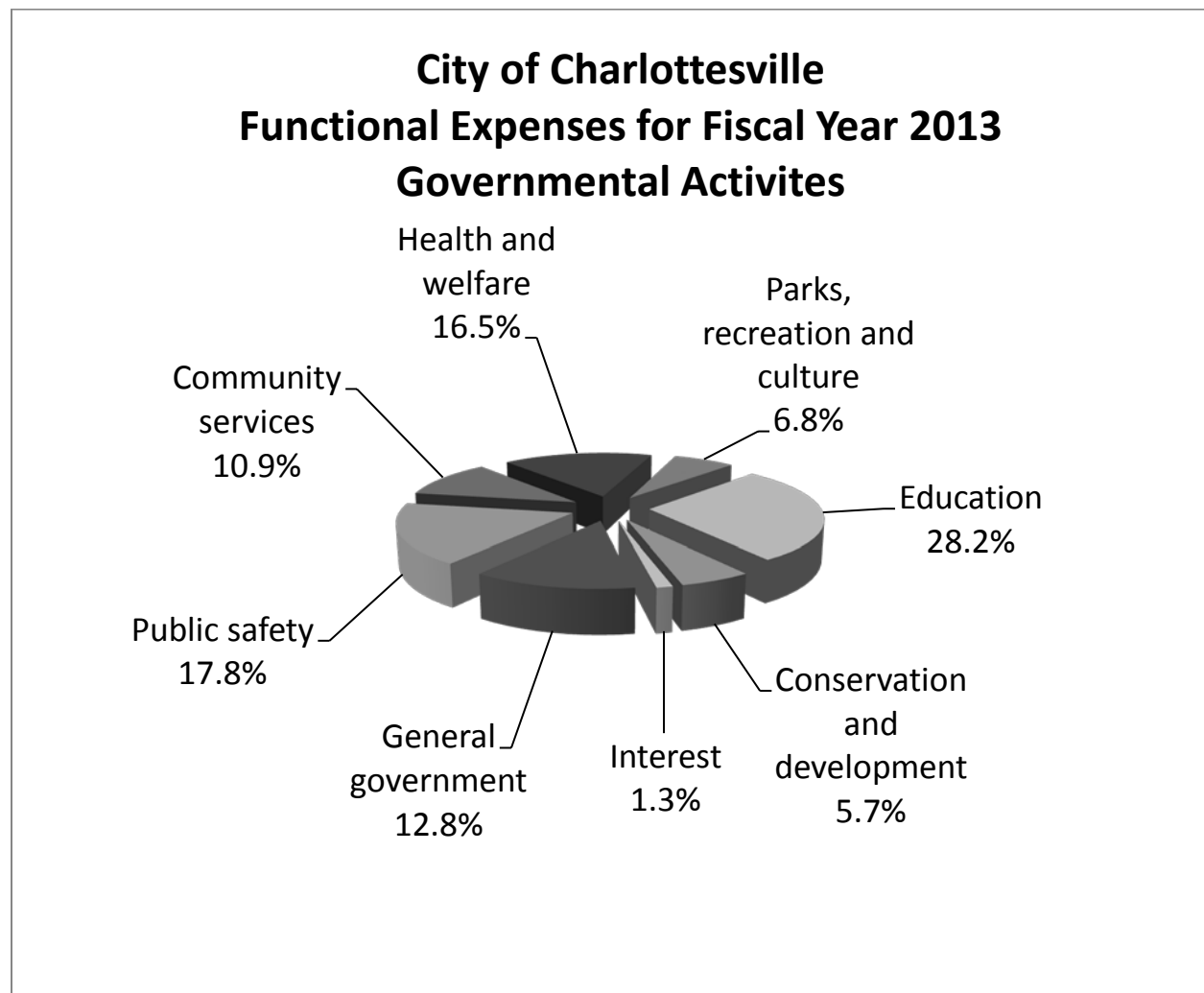
Revenues by Source – Governmental Activities



The City's expenses increased by \$1.8 million in 2013. Expenses for fiscal year 2013 cover a wide range of services, with 16.5% or \$30.3 million related to health and welfare, 28.2% or \$51.7 million for education (primarily payments to the City's Public Schools, a component unit), and 17.8% or \$32.6 million related to public safety. For fiscal year 2013, the City changed its spending in the following areas:

- Education – an increase of \$9.2 million, representing the prior year's transfer of capital assets to the public schools, a component unit.
- Conservation and development – a decrease of \$3.8 million, primarily due to the expenditure for the Jefferson School in FY12.
- Interest on long-term debt – a decrease of \$2.7 million, primarily due to refunding bond issues.

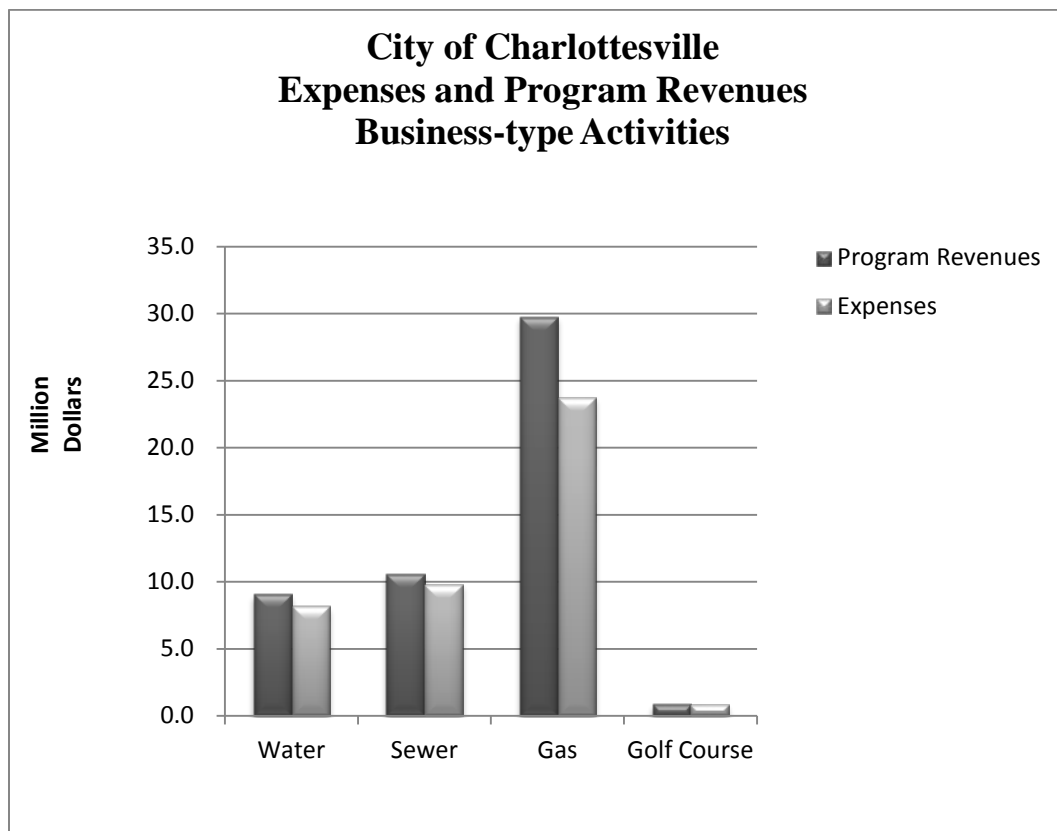
Expenses by Function – Governmental Activities



Business-Type Activities

Net position for the City's business-type activities increased by \$2.4 million, primarily due to higher gas consumption by the University of Virginia's power plant.

Gas wholesale prices increased during fiscal year 2013, starting with a price of \$2.774 per the NYMEX index in July 2012 and ending with a price of \$4.148 in June 2013. There was also an increased consumption by the University of Virginia for gas and increased utility revenues.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City of Charlottesville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of Charlottesville's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. In particular, restricted, committed, assigned, and unassigned fund balances may serve as a useful measure of a city's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2013, the governmental funds reported combined ending fund balances of \$64.7 million, a decrease of \$7.8 million in comparison with the prior year. Included in this are the following major transactions:

- \$21.4 million spent in the Capital Projects Fund for capital outlay to fund Meadowcreek Parkway, Washington Park Bath House Renovation, Ivy Rd/Fontaine Ave Fire Station, Old Lynchburg Road, Belmont Bridge Replacement, Park Land Acquisitions, CHS Football Stadium Bleachers, Parks and Recreation Improvements, School Improvements, and bridge, road and sidewalk construction and other projects.
- \$43 million contributed by the City's governmental funds to finance the Public Schools' operations.

Approximately \$26.4 million of the combined total fund balances constitutes committed and assigned fund balance, which generally is available for spending at the government's discretion. This balance includes \$12.2 million committed for debt service. It also includes \$1.3 million for non-major governmental funds.

Nonspendable fund balance is \$1.3 million. This amount represents assets that are not readily available to the City for current expenditures. The City also has \$10 million in restricted fund balance. Restricted fund balance represents resources that have restrictions placed on them by an outside party. In this case, the City has received grant funds that must be used for a specific purpose and has also received bond proceeds that have not yet been spent.

The remaining fund balance at June 30, 2013, indicated as unassigned, is \$27 million in the General Fund. This amount represents 19.6% of General Fund expenditures and transfers (net) and is a measure of the General Fund's liquidity. Total fund balance of the General Fund decreased by \$2.2 million in fiscal year 2013.

Proprietary Funds

The City of Charlottesville's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The Water Fund had an increase in net position of \$163,430. The Sewer Fund had a decrease in net position of \$49,634. The Gas Fund had an increase in net position of \$1.9 million. The Golf Fund had a decrease in net position of \$45,177.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund For the Year Ended June 30, 2013

Table III

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 57,943,094	\$ 57,943,094	\$ 57,894,427	\$ (48,667)
Other taxes	39,204,827	39,204,827	40,284,703	1,079,876
Intergovernmental	29,195,930	29,256,556	30,031,104	774,548
Other	7,891,675	8,146,943	7,173,514	(973,429)
Total	134,235,526	134,551,420	135,383,748	832,328
Expenditures and transfers (net)				
Expenditures	118,314,792	124,685,376	118,416,759	6,268,617
Transfers (net)	15,798,086	19,519,854	19,143,129	376,725
Total	134,112,878	144,205,230	137,559,888	6,645,342
Change in Fund Balance	\$ 122,648	\$ (9,653,810)	\$ (2,176,140)	\$ 7,477,670

The City's budget ordinance includes, as part of the original budget for expenditures, the amount of \$747,419 for encumbrances re-appropriated from June 30, 2012, as well as continuing appropriations from the prior year totaling \$9,788,004 and \$2,785,302 for Landfill Remediation Reserve.

Differences between the original and the final amended budget for the City's General Fund for expenditures and other financing uses, net, totaled \$10,092,352. This difference is primarily due to the continuing appropriations from the prior year and supplemental appropriations during the year.

Actual total revenues were greater than the amended budget by \$832,328, primarily due to higher than estimated tax revenues. Several of the significant differences between budgeted and actual revenue were in meals tax, lodging tax, sales tax, and parking garage revenue. Expenditures and transfers were below budget by \$6.6 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Charlottesville's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$266.7 million (net of depreciation). This investment includes land, municipal and school buildings and improvements, water, sewer and gas distribution systems, machinery and equipment, roads, and bridges.

Major capital asset events during the fiscal year included the following:

- Charlottesville High School Football Stadium Bleachers
- Route 250 Bypass/Meadowcreek Parkway
- Fontaine Fire Station
- Old Lynchburg Road Improvements
- Washington Park Bathhouse
- Fire Apparatus

The City's fiscal year 2013 capital budget provides approximately \$17.2 million for various capital projects. Some of the major categories include \$1.7 million in school related projects, \$7.6 million for transportation projects, \$1.5 million for parks and recreation facility improvements, \$1.3 million for facility capital projects, \$0.9 million for stormwater initiatives, \$1.4 million for public safety and justice, \$0.2 million for economic development, and \$2.6 million for other governmental commitments. General obligation bonds have been issued for a portion of the funding, in accordance with the City's on-going, five year capital plan.

City of Charlottesville's Capital Assets
(net of accumulated depreciation)
June 30, 2013 and 2012

Table IV

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2013	2012	2013	2012	2013	2012	2012-2013
Land	\$ 17,316,007	\$ 16,312,289	\$ 2,114,048	\$ 2,101,423	\$ 19,430,055	\$ 18,413,712	5.5 %
Buildings and improvements	109,506,181	106,020,920	599,966	645,783	110,106,147	106,666,703	3.2
Vehicles	10,064,720	11,130,917	644,763	784,887	10,709,483	11,915,804	(10.1)
Equipment	5,032,872	4,471,810	918,664	844,270	5,951,536	5,316,080	12.0
Streets	25,190,452	18,502,874	-	-	25,190,452	18,502,874	36.1
Bridges	3,030,022	3,055,281	-	-	3,030,022	3,055,281	(0.8)
Infrastructure	33,550,702	34,567,530	-	-	33,550,702	34,567,530	(2.9)
Distribution and collection systems	-	-	58,721,614	50,956,226	58,721,614	50,956,226	15.2
Total	<u>\$ 203,690,956</u>	<u>\$ 194,061,621</u>	<u>\$ 62,999,055</u>	<u>\$ 55,332,589</u>	<u>\$ 266,690,011</u>	<u>\$ 249,394,210</u>	6.9

Additional information about the City of Charlottesville's capital assets can be found in note 9 of the notes to the financial statements.

Long-term Debt

At the end of the current fiscal year, the City of Charlottesville had total bonded debt (including notes payable and literary loans) outstanding of \$122.5 million. This entire amount is backed by the full faith and credit of the City and \$43.3 million is being repaid by the City's utilities.

City of Charlottesville's Outstanding Debt
General Obligation Bonds, Literary Loans and Notes Payable
June 30, 2013 and 2012

Table V

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2013	2012	2013	2012	2013	2012	2012-2013
General obligation							
bonds	\$ 78,676,333	\$ 78,918,183	\$ 43,325,574	\$ 37,762,227	\$ 122,001,907	\$ 116,680,410	4.6 %
Literary loans payable	70,421	90,439	-	-	70,421	90,439	(22.1)
Installment notes							
payable	402,486	960,793	-	-	402,486	960,793	(58.1)
Total	\$ 79,149,240	\$ 79,969,415	\$ 43,325,574	\$ 37,762,227	\$ 122,474,814	\$ 117,731,642	4.0

Charlottesville's total debt increased by \$4.7 million during the fiscal year. On its most recent bond issue in May 2013, the City's bond rating was reaffirmed by Standard & Poor's Corporation and Moody's Investors Service, as AAA and Aaa, respectively.

State statutes limit the amount of general obligation debt a government entity may issue to 10 percent of its total assessed valuation of real property. The current debt limitation for the City of Charlottesville is \$528,102,100. This is significantly more than the City's current total outstanding debt.

Additional information on the City of Charlottesville's long-term debt can be found in note 10 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The City's unemployment rate has stabilized from its high in 2012 and as of July 2013 is at 6.4%. This compares favorably to the national unemployment rate of 7.7% but is slightly higher than the state's rate of 5.8%.
- City employment levels increased slightly from 23,200 in July 2012 to 23,256 in July 2013 based on current Virginia Employment Commission statistics.
- The City has a population of 45,073, according to the Weldon Cooper Center for Public Service.

These indicators were taken into account when adopting the General Fund budget for 2013. Amounts available for appropriation in the General Fund budget for 2013 are \$146.3 million, an increase of 2.07% percent over the 2012 budget of \$143.3 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, City of Charlottesville, 605 East Main Street, Charlottesville, Virginia 22902.

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BASIC FINANCIAL SECTION

STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
ASSETS					
Cash and cash equivalents (note 3)	\$ 58,747,807	\$ 28,601,955	\$ 87,349,762	\$ 6,715,185	\$ 1,939,669
Investments (note 3)	14,818,113	-	14,818,113	-	971,935
Interest receivable	71,632	-	71,632	-	-
Accounts receivable, net	344,264	4,417,490	4,761,754	1,027,428	-
Special assessments receivable	3,997	-	3,997	-	-
Taxes receivable, net	29,142,873	-	29,142,873	-	-
Loans receivable (note 5)	2,314,601	-	2,314,601	-	-
Notes receivable (note 6)	-	402,485	402,485	-	1,531,928
Due from other governments (note 7)	13,375,679	-	13,375,679	1,942,720	-
Internal balances	(1,493,772)	1,493,772	-	-	-
Inventories	208,859	448,892	657,751	35,878	-
Prepaid expenses	487,649	1,694,566	2,182,215	-	-
Prepaid rent	-	-	-	-	23
Net OPEB asset (note 12)	708,822	-	708,822	-	-
Capital assets (note 9):					
Land	14,066,508	1,921,723	15,988,231	982,889	-
Infrastructure right of way	3,249,499	192,325	3,441,824	-	-
Depreciable assets, net	186,374,949	60,885,007	247,259,956	27,245,794	-
Total assets	322,421,480	100,058,215	422,479,695	37,949,894	4,443,555
LIABILITIES					
Accounts payable	6,533,221	3,992,422	10,525,643	868,464	-
Accrued liabilities	4,223,787	149,480	4,373,267	5,031,075	200,000
Customer deposits	-	794,870	794,870	-	65,895
Due to other governments	1,211,471	-	1,211,471	-	-
Unearned revenue	27,427,865	-	27,427,865	73,415	200,979
Accrued interest payable	873,896	362,592	1,236,488	-	-
Noncurrent liabilities due within one year:					
Insurance claims payable (note 17)	2,659,321	-	2,659,321	-	-
Compensated absences (note 10)	259,329	32,020	291,349	153,152	-
Notes, loans and capital leases payable (note 10)	416,593	-	416,593	462,548	130,000
Bonds payable (note 10)	6,263,017	3,302,361	9,565,378	-	-
Noncurrent liabilities due in more than one year:					
Insurance claims payable (note 17)	77,585	-	77,585	-	-
Compensated absences (note 10)	1,901,742	234,814	2,136,556	1,123,116	-
Unfunded liability for postemployment medical benefits (note 10)	-	-	-	174,829	-
Notes, loans and capital leases payable (note 10)	56,314	-	56,314	476,180	-
Bonds payable (note 10)	77,590,157	42,055,197	119,645,354	-	-
Total liabilities	129,494,298	50,923,756	180,418,054	8,362,779	596,874
NET POSITION					
Net investment in capital assets	105,462,444	37,760,064	143,222,508	27,289,955	-
Restricted for: (note 2a)					
General government	291,453	-	291,453	-	-
Public safety	321,917	-	321,917	-	-
Parks, recreation and culture	56,303	-	56,303	-	-
Education	-	-	-	1,123,417	-
Health and welfare	1,272	-	1,272	-	-
Conservation and development	1,520,702	-	1,520,702	-	200,000
Permanent fund, nonexpendable	162,501	-	162,501	-	-
Unrestricted	85,110,590	11,374,395	96,484,985	1,173,743	3,646,681
Total net position	\$ 192,927,182	\$ 49,134,459	\$ 242,061,641	\$ 29,587,115	\$ 3,846,681

The accompanying notes are an integral part of the basic financial statements.

CITY OF CHARLOTTESVILLE, VIRGINIA

EXHIBIT B

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			School Board	Economic Development Authority
					Governmental Activities	Business-type Activities	Total		
PRIMARY GOVERNMENT:									
Governmental activities:									
General government	\$ 23,535,445	\$ 14,000,028	\$ 1,762,119	\$ -	\$ (7,773,298)	\$ -	\$ (7,773,298)		
Public safety	32,597,684	29,778	1,675,385	12,825	(30,879,696)	-	(30,879,696)		
Community services	20,052,677	1,843,964	8,107,968	6,776,156	(3,324,589)	-	(3,324,589)		
Health and welfare	30,274,966	3,923,086	16,278,179	-	(10,073,701)	-	(10,073,701)		
Parks, recreation and culture	12,368,616	1,610,587	904,083	-	(9,853,946)	-	(9,853,946)		
Education (includes payment to school system)	51,677,155	208,988	562,087	-	(50,906,080)	-	(50,906,080)		
Conservation and development	10,373,102	21,321	238,338	59,500	(10,053,943)	-	(10,053,943)		
Interest on long-term debt	2,359,980	-	-	-	(2,359,980)	-	(2,359,980)		
Total governmental activities	183,239,625	21,637,752	29,528,159	6,848,481	(125,225,233)	-	(125,225,233)		
Business-type activities:									
Water	8,162,082	9,064,161	-	-	-	902,079	902,079		
Sewer	9,858,802	10,554,384	-	-	-	695,582	695,582		
Gas	23,788,374	29,779,891	-	-	-	5,991,517	5,991,517		
Golf course	871,628	842,787	-	-	-	(28,841)	(28,841)		
Total business-type activities	42,680,886	50,241,223	-	-	-	7,560,337	7,560,337		
TOTAL PRIMARY GOVERNMENT	\$ 225,920,511	\$ 71,878,975	\$ 29,528,159	\$ 6,848,481	(125,225,233)	7,560,337	(117,664,896)		
COMPONENT UNITS:									
Economic Development Authority	\$ 116,593	\$ 266,350	\$ -	\$ -				\$ -	\$ 149,757
School Board	64,679,487	3,391,632	10,071,040	5,327,130				(45,889,685)	-
TOTAL COMPONENT UNITS	\$ 64,796,080	\$ 3,657,982	\$ 10,071,040	\$ 5,327,130				(45,889,685)	149,757
General Revenues:									
General property taxes					56,060,959	-	56,060,959	-	-
Sales tax					9,901,299	-	9,901,299	-	-
Utility tax					4,422,168	-	4,422,168	-	-
Communications tax					3,276,861	-	3,276,861	-	-
Meals tax					8,103,257	-	8,103,257	-	-
Lodgings tax					2,932,367	-	2,932,367	-	-
Other taxes					4,022,679	-	4,022,679	-	-
Business license tax					6,880,942	-	6,880,942	-	-
Grants and contributions not restricted to specific programs					27,910,750	-	27,910,750	12,092,069	-
Payment from City					-	-	-	38,819,064	-
Interest and investment earnings					276,657	62,128	338,785	2,356	60,016
Transfers, net					5,233,180	(5,233,180)	-	-	-
Total general revenues and transfers					129,021,119	(5,171,052)	123,850,067	50,913,489	60,016
Change in net position					3,795,886	2,389,285	6,185,171	5,023,804	209,773
Net position - July 1, 2012					189,131,296	46,745,174	235,876,470	24,563,311	3,636,908
Net position - June 30, 2013					\$ 192,927,182	\$ 49,134,459	\$ 242,061,641	\$ 29,587,115	\$ 3,846,681

The accompanying notes are an integral part of the basic financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Capital Projects Fund	Debt Service Fund	Social Services Fund	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 18,737,769	\$ 11,605,320	\$ 12,201,576	\$ 77,878	\$ 1,122,150	\$ 43,744,693
Investments	14,818,113	-	-	-	-	14,818,113
Interest receivable	71,632	-	-	-	-	71,632
Accounts receivable, net	283,472	-	-	5,830	15,188	304,490
Taxes receivable, net	29,142,873	-	-	-	-	29,142,873
Special assessments receivable	-	3,997	-	-	-	3,997
Due from other governments (note 7)	2,967,586	4,532,258	-	512,808	5,363,027	13,375,679
Due from other funds (note 8)	3,372,154	-	-	-	-	3,372,154
Loans receivable (note 5)	-	1,100,000	-	-	1,214,601	2,314,601
Total assets	<u>\$ 69,393,599</u>	<u>\$ 17,241,575</u>	<u>\$ 12,201,576</u>	<u>\$ 596,516</u>	<u>\$ 7,714,966</u>	<u>\$ 107,148,232</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 920,469	\$ 4,594,182	\$ -	\$ 22,317	\$ 382,480	\$ 5,919,448
Accrued liabilities	2,594,499	-	30,790	179,381	1,241,084	4,045,754
Due to other governments	-	-	-	-	1,211,471	1,211,471
Due to other funds (note 8)	-	-	-	35,116	3,227,952	3,263,068
Deferred revenue	27,972,383	-	-	-	-	27,972,383
Total liabilities	<u>31,487,351</u>	<u>4,594,182</u>	<u>30,790</u>	<u>236,814</u>	<u>6,062,987</u>	<u>42,412,124</u>
FUND BALANCES (note 2b):						
Nonspendable	-	1,100,000	-	-	172,501	1,272,501
Restricted	545,723	8,950,111	-	359,702	176,222	10,031,758
Committed	6,737,955	2,597,282	12,170,786	-	-	21,506,023
Assigned	3,633,160	-	-	-	1,303,256	4,936,416
Unassigned	26,989,410	-	-	-	-	26,989,410
Total fund balances	<u>37,906,248</u>	<u>12,647,393</u>	<u>12,170,786</u>	<u>359,702</u>	<u>1,651,979</u>	<u>64,736,108</u>
Total liabilities and fund balances	<u>\$ 69,393,599</u>	<u>\$ 17,241,575</u>	<u>\$ 12,201,576</u>	<u>\$ 596,516</u>	<u>\$ 7,714,966</u>	<u>\$ 107,148,232</u>

(continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

Total fund balances per Balance Sheet for Governmental Funds \$ 64,736,108

Amounts reported for governmental activities in the Statement of Net Position
(Exhibit A) are different because:

Capital assets used in government activities are not financial resources and therefore are
not reported in the fund statements. The Statement of Net Position, however, includes these assets,
net of accumulated depreciation. 202,407,200

Other long-term assets are not available to pay current-period expenditures and therefore are
deferred in the governmental funds and are not included in fund balance.

Property taxes receivable 544,516
Net OPEB asset 708,822

Internal service funds are used by management to charge the cost of certain activities, such as
insurance and telecommunication to individual funds. The assets and liabilities of certain
internal service funds are included in governmental activities in the Statement of Net Position.

Internal Service Funds net position 11,775,338

Some liabilities, including general governmental bonds payable, are not due and payable
in the current period and therefore are not reported as fund liabilities. All liabilities are included
in the Statement of Net Position.

Accrued interest payable (873,896)
Unamortized premium on bonds (4,170,431)
Bonds and notes payable (79,149,240)
Deferred amount of refunding (1,006,410)
Compensated absences (2,044,825)

Net position of governmental activities \$ 192,927,182

The accompanying notes are an integral part of the basic financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects Fund	Debt Service Fund	Social Services Fund	Other Governmental Funds	Total
REVENUES						
Taxes	\$ 95,714,241	\$ -	\$ -	\$ -	\$ -	\$ 95,714,241
Fees and permits	2,464,889	-	-	-	-	2,464,889
Intergovernmental	30,031,104	7,705,746	185,173	8,624,926	13,668,093	60,215,042
Charges for services	5,731,381	-	-	-	4,875,921	10,607,302
Fines	392,763	-	-	-	-	392,763
Investment earnings	239,096	5,412	32,149	-	-	276,657
Miscellaneous	810,274	3,754,121	-	22,383	193,448	4,780,226
Total revenues	135,383,748	11,465,279	217,322	8,647,309	18,737,462	174,451,120
EXPENDITURES						
Current:						
General government	14,438,666	913,557	-	-	-	15,352,223
Public safety	31,444,547	118,276	-	-	424,609	31,987,432
Community service	7,933,104	2,309,752	-	-	8,281,270	18,524,126
Health and welfare	5,012,504	-	-	11,899,321	14,284,562	31,196,387
Parks, recreation and culture	11,355,857	796,468	-	-	77,414	12,229,739
Education	43,065,839	2,460,328	-	-	-	45,526,167
Conservation and development	4,899,680	2,858,009	-	-	1,006,943	8,764,632
Other activities	266,562	-	-	-	-	266,562
Debt service:						
Principal	-	-	6,430,175	-	-	6,430,175
Interest	-	-	2,452,754	-	-	2,452,754
Miscellaneous	-	-	87,599	-	-	87,599
Capital outlay	-	21,380,655	-	-	-	21,380,655
Total expenditures	118,416,759	30,837,045	8,970,528	11,899,321	24,074,798	194,198,451
Revenues over (under) expenditures	16,966,989	(19,371,766)	(8,753,206)	(3,252,012)	(5,337,336)	(19,747,331)
OTHER FINANCING SOURCES (USES)						
Transfers in (note 8)	5,608,472	7,810,768	9,671,009	3,127,218	4,829,576	31,047,043
Transfers out (note 8)	(24,751,601)	(319,874)	-	-	(37,298)	(25,108,773)
Issuance of debt (note 10)	-	5,610,000	-	-	-	5,610,000
Premium on issuance of debt	-	427,859	-	-	-	427,859
Total other financing sources (uses)	(19,143,129)	13,528,753	9,671,009	3,127,218	4,792,278	11,976,129
Net change in fund balance	(2,176,140)	(5,843,013)	917,803	(124,794)	(545,058)	(7,771,202)
FUND BALANCE - JULY 1, 2012	40,082,388	18,490,406	11,252,983	484,496	2,197,037	72,507,310
FUND BALANCE - JUNE 30, 2013	\$ 37,906,248	\$ 12,647,393	\$ 12,170,786	\$ 359,702	\$ 1,651,979	\$ 64,736,108

(continued)

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds (Exhibit D) \$ (7,771,202)

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:

Governmental funds report the cost of equipment and facilities acquired as current expenditures while the Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.

Change in capital assets	22,573,753
Depreciation expense	(8,291,446)

Capital assets for the component unit (School Board) that are funded by the City with bonds or loans are recorded as a capital asset of the City until the bonds or loans are paid in full at which time the capital assets and accumulated depreciation revert to the School Board component unit.

Capital asset, net of accumulated depreciation taken off City capital assets and added to the School Board component unit.	(5,327,130)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	(113,709)
Loss on sale of assets	(59,592)

Debt proceeds provide current financing resources to governmental funds but debt issues increase long-term liabilities in the Statement of Net Position. Principal payments are expenditures in governmental funds but reduce long-term liabilities in the Statement of Net Position

New debt issued	(6,037,859)
Principal payments	6,430,175

Governmental funds report interest on long-term debt as expenditures when payments are due, while the Statement of Activities reports interest expense on the accrual basis.

Change in accrued interest	258,288
Amortization of bond premium	(126,895)
Amortization of deferred amount of refunding	50,098

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(61,076)
Net OPEB obligation	708,822

The net expense of internal service funds is combined with governmental activities on the Statement of Activities.

1,563,659

Change in Net Position of Governmental Activities

<u>\$ 3,795,886</u>

The accompanying notes are an integral part of the basic financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business - Type Activities - Enterprise Funds					Internal Service Funds
	Water	Sewer	Gas	Golf Course	Total	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 6,802,361	\$ 8,172,458	\$ 13,550,831	\$ 1,100	\$ 28,526,750	\$ 15,078,319
Accounts receivable, net	654,628	431,408	901,871	-	1,987,907	39,774
Unbilled accounts receivable	614,877	736,957	1,077,749	-	2,429,583	-
Note receivable (note 6)	129,618	272,867	-	-	402,485	-
Inventories	-	-	-	28,753	28,753	628,998
Prepaid expenses	-	-	1,694,566	-	1,694,566	487,649
Total current assets	8,201,484	9,613,690	17,225,017	29,853	35,070,044	16,234,740
Noncurrent assets:						
Capital assets (note 9):						
Land	-	-	584,291	1,337,432	1,921,723	-
Easements	12,625	95,600	84,100	-	192,325	-
Buildings and improvements	-	39,014	-	1,819,260	1,858,274	-
Vehicles	222,661	642,909	1,124,649	27,888	2,018,107	133,480
Transmission lines and mains	24,776,367	31,068,238	38,595,141	-	94,439,746	-
Equipment	674,297	383,357	1,799,639	189,327	3,046,620	10,207,563
Total capital assets	25,685,950	32,229,118	42,187,820	3,373,907	103,476,795	10,341,043
Less accumulated depreciation	(9,382,008)	(5,374,467)	(24,283,051)	(1,454,602)	(40,494,128)	(9,040,899)
Net noncurrent assets	16,303,942	26,854,651	17,904,769	1,919,305	62,982,667	1,300,144
Total assets	24,505,426	36,468,341	35,129,786	1,949,158	98,052,711	17,534,884
LIABILITIES						
Current liabilities:						
Accounts payable	798,280	1,352,989	1,824,214	1,881	3,977,364	598,041
Accrued liabilities	19,476	18,138	88,629	21,109	147,352	210,951
Accrued interest payable	123,728	153,437	85,427	-	362,592	-
Customer deposits	170,124	-	624,746	-	794,870	-
Due to other funds (note 8)	-	-	-	109,086	109,086	-
Compensated absences	5,811	5,059	18,568	2,312	31,750	14,219
Insurance claims payable (note 17)	-	-	-	-	-	2,659,321
Bonds payable - due within one year (note 10)	1,000,067	1,508,126	794,168	-	3,302,361	-
Total current liabilities	2,117,486	3,037,749	3,435,752	134,388	8,725,375	3,482,532
Noncurrent liabilities:						
Compensated absences	42,614	37,103	136,165	16,954	232,836	104,273
Bonds payable (note 10)	14,554,818	25,271,907	2,228,472	-	42,055,197	-
Insurance claims payable (note 17)	-	-	-	-	-	77,585
Total noncurrent liabilities	14,597,432	25,309,010	2,364,637	16,954	42,288,033	181,858
Total liabilities	16,714,918	28,346,759	5,800,389	151,342	51,013,408	3,664,390
NET POSITION						
Net investment in capital assets	2,728,643	4,004,481	29,091,247	1,919,305	37,743,676	1,300,144
Unrestricted	5,061,865	4,117,101	238,150	(121,489)	9,295,627	12,570,350
Total net position	\$ 7,790,508	\$ 8,121,582	\$ 29,329,397	\$ 1,797,816	\$ 47,039,303	\$ 13,870,494

The accompanying notes are an integral part of the basic financial statements.

**RECONCILIATION OF THE PROPRIETARY FUNDS
STATEMENT OF NET POSITION TO THE
STATEMENT OF NET POSITION FOR BUSINESS-TYPE ACTIVITIES
JUNE 30, 2013**

	Total Enterprise Funds	Internal Service Funds Allocation	Business-Type Activities Statement of Net Position
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 28,526,750	\$ 75,205	\$ 28,601,955
Accounts receivable, net	1,987,907	-	1,987,907
Unbilled accounts receivable	2,429,583	-	2,429,583
Notes receivable	402,485	-	402,485
Due from other funds	-	1,602,858	1,602,858
Inventories	28,753	420,139	448,892
Prepaid expenses	1,694,566	-	1,694,566
Total current assets	<u>35,070,044</u>	<u>2,098,202</u>	<u>37,168,246</u>
Noncurrent assets:			
Capital assets:			
Land	1,921,723	-	1,921,723
Easements	192,325	-	192,325
Buildings	1,858,274	-	1,858,274
Vehicles	2,018,107	-	2,018,107
Transmission lines and mains	94,439,746	-	94,439,746
Equipment	3,046,620	20,067	3,066,687
Total capital assets	103,476,795	20,067	103,496,862
Less accumulated depreciation	<u>(40,494,128)</u>	<u>(3,679)</u>	<u>(40,497,807)</u>
Net noncurrent assets	<u>62,982,667</u>	<u>16,388</u>	<u>62,999,055</u>
Total assets	<u>98,052,711</u>	<u>2,114,590</u>	<u>100,167,301</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	3,977,364	15,058	3,992,422
Accrued liabilities	147,352	2,128	149,480
Accrued interest payable	362,592	-	362,592
Customer deposits	794,870	-	794,870
Due to other funds	109,086	-	109,086
Compensated absences	31,750	270	32,020
Bonds payable - due within one year	3,302,361	-	3,302,361
Total current liabilities	<u>8,725,375</u>	<u>17,456</u>	<u>8,742,831</u>
Noncurrent liabilities:			
Compensated absences	232,836	1,978	234,814
Bonds payable	42,055,197	-	42,055,197
Total noncurrent liabilities	<u>42,288,033</u>	<u>1,978</u>	<u>42,290,011</u>
Total liabilities	<u>51,013,408</u>	<u>19,434</u>	<u>51,032,842</u>
NET POSITION:			
Net investment in capital assets	37,743,676	16,388	37,760,064
Unrestricted	<u>9,295,627</u>	<u>2,078,768</u>	<u>11,374,395</u>
Total net position	<u>\$ 47,039,303</u>	<u>\$ 2,095,156</u>	<u>\$ 49,134,459</u>

The accompanying notes are an integral part of the basic financial statements.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Business - Type Activities - Enterprise Funds					Internal Service Funds
	Water	Sewer	Gas	Golf Course	Total	
OPERATING REVENUES						
Utility charges	\$ 8,628,913	\$ 10,110,411	\$ 29,260,315	\$ -	\$ 47,999,639	\$ -
Other charges for services	194,008	37,090	497,495	842,787	1,571,380	24,828,766
Total operating revenues	8,822,921	10,147,501	29,757,810	842,787	49,571,019	24,828,766
OPERATING EXPENSES						
Purchases for resale	4,547,520	6,731,770	14,453,829	36,029	25,769,148	2,434,738
Personnel costs	1,231,095	1,160,331	4,174,153	429,123	6,994,702	3,171,720
Materials and supplies	318,163	97,960	640,302	114,510	1,170,935	319,039
Contractual services and charges	1,004,416	565,965	3,449,932	253,212	5,273,525	2,683,981
Depreciation	667,376	617,201	1,212,646	55,090	2,552,313	355,997
Claims incurred	-	-	-	-	-	10,917,862
Insurance premiums	-	-	-	-	-	2,223,067
Total operating expenses	7,768,570	9,173,227	23,930,862	887,964	41,760,623	22,106,404
Operating income (loss)	1,054,351	974,274	5,826,948	(45,177)	7,810,396	2,722,362
NONOPERATING REVENUES (EXPENSES)						
Interest expense	(398,731)	(656,989)	(168,341)	-	(1,224,061)	-
Interest income	22,161	22,502	17,465	-	62,128	-
Bond issuance expense	(40,201)	(80,259)	-	-	(120,460)	-
Capacity fees	232,520	404,705	-	-	637,225	-
Insurance recovery	1,878	-	-	-	1,878	1,746
Total nonoperating revenues (expenses), net	(182,373)	(310,041)	(150,876)	-	(643,290)	1,746
Income (loss) before contributions and transfers	871,978	664,233	5,676,072	(45,177)	7,167,106	2,724,108
Transfers out	(708,548)	(713,867)	(3,810,765)	-	(5,233,180)	(705,090)
Change in net position	163,430	(49,634)	1,865,307	(45,177)	1,933,926	2,019,018
Total net position - July 1, 2012	7,627,078	8,171,216	27,464,090	1,842,993	45,105,377	11,851,476
Total net position - June 30, 2013	\$ 7,790,508	\$ 8,121,582	\$ 29,329,397	\$ 1,797,816	\$ 47,039,303	\$ 13,870,494
Change in net positions					\$ 1,933,926	
Warehouse external sales					31,101	
Expenses associated with warehouse external sales					(30,052)	
Total allocation of warehouse external sales					1,049	
Internal service fund allocations					454,310	
Changes in net positions of business-type activities					\$ 2,389,285	

The accompanying notes are an integral part of the basic financial statements.

CITY OF CHARLOTTESVILLE, VIRGINIA

EXHIBIT E-4

**RECONCILIATION OF THE PROPRIETARY FUNDS STATEMENT OF
REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Water Fund	Sewer Fund	Gas Fund	Golf Course Fund	Total
DIRECT REVENUES					
Charges for services	\$ 8,822,921	\$ 10,147,501	\$ 29,757,810	\$ 842,787	\$ 49,571,019
Capacity fees	232,520	404,705	-	-	637,225
Insurance recovery	1,878	-	-	-	1,878
Warehouse external sales	6,842	2,178	22,081	-	31,101
Program revenues - Statement of Activities	9,064,161	10,554,384	29,779,891	842,787	50,241,223
DIRECT EXPENSES					
Purchases for resale	4,547,520	6,731,770	14,453,829	36,029	25,769,148
Personnel costs	1,231,095	1,160,331	4,174,153	429,123	6,994,702
Materials and supplies	318,163	97,960	640,302	114,510	1,170,935
Contractual services and charges	1,004,416	565,965	3,449,932	253,212	5,273,525
Depreciation	667,376	617,201	1,212,646	55,090	2,552,313
Interest expense	398,731	656,989	168,341	-	1,224,061
Bond issuance expense	40,201	80,259	-	-	120,460
Total fund expenses	8,207,502	9,910,475	24,099,203	887,964	43,105,144
Expenses associated with warehouse external sales	6,611	2,104	21,337	-	30,052
Internal service fund allocations	(52,031)	(53,777)	(332,166)	(16,336)	(454,310)
Program expenses - Statement of Activities	8,162,082	9,858,802	23,788,374	871,628	42,680,886
Revenues over (under) expenses	902,079	695,582	5,991,517	(28,841)	7,560,337
Interest and investment earnings	22,161	22,502	17,465	-	62,128
Transfers out	(708,548)	(713,867)	(3,810,765)	-	(5,233,180)
Change in net position	\$ 215,692	\$ 4,217	\$ 2,198,217	\$ (28,841)	\$ 2,389,285

The accompanying notes are an integral part of the basic financial statements.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Business - Type Activities - Enterprise Funds					Internal Service Funds
	Water	Sewer	Gas	Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 8,542,563	\$ 9,692,795	\$ 29,090,984	\$ 845,040	\$ 48,171,382	\$ 24,815,348
Payments to suppliers	(5,962,027)	(7,507,931)	(17,682,082)	(406,090)	(31,558,130)	(17,753,358)
Payments to employees	(1,226,581)	(1,159,636)	(4,164,230)	(434,326)	(6,984,773)	(3,301,017)
Net cash provided by operating activities	1,353,955	1,025,228	7,244,672	4,624	9,628,479	3,760,973
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Insurance recovery	1,878	-	-	-	1,878	1,746
Transfers out	(708,548)	(713,867)	(3,810,765)	-	(5,233,180)	(705,090)
Payments received from other funds	-	-	-	(4,624)	(4,624)	-
Payments received on notes receivable	127,714	268,860	-	-	396,574	-
Net cash used for noncapital financing activities	(578,956)	(445,007)	(3,810,765)	(4,624)	(4,839,352)	(703,344)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(2,809,072)	(6,719,776)	(691,936)	-	(10,220,784)	(999,023)
Capacity fees	232,520	404,705	-	-	637,225	-
Bond proceeds	2,810,000	5,610,000	-	-	8,420,000	-
Bond principal paid	(772,000)	(1,164,586)	(811,200)	-	(2,747,786)	-
Bonds redeemed	-	(108,867)	-	-	(108,867)	-
Interest paid	(401,541)	(661,815)	(123,699)	-	(1,187,055)	-
Bond issuance expenses	(40,201)	(80,259)	-	-	(120,460)	-
Premium on bonds issued	214,311	427,859	-	-	642,170	-
Net cash used for capital and related financing activities	(765,983)	(2,292,739)	(1,626,835)	-	(4,685,557)	(999,023)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest on investments	22,161	22,502	17,465	-	62,128	-
Net increase (decrease) in cash and cash equivalents	31,177	(1,690,016)	1,824,537	-	165,698	2,058,606
Balances - July 1, 2012	6,771,184	9,862,474	11,726,294	1,100	28,361,052	13,019,713
Balances - June 30, 2013	\$ 6,802,361	\$ 8,172,458	\$ 13,550,831	\$ 1,100	\$ 28,526,750	\$ 15,078,319
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ 1,054,351	\$ 974,274	\$ 5,826,948	\$ (45,177)	\$ 7,810,396	\$ 2,722,362
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	667,376	617,201	1,212,646	55,090	2,552,313	355,997
(Increase) Decrease in accounts receivable	(266,638)	(454,706)	(689,058)	58	(1,410,344)	(13,418)
Decrease in inventories	-	-	-	4,050	4,050	(25,072)
Decrease in prepaid expenses	-	-	79,627	-	79,627	(19,395)
Increase (Decrease) in accounts payable	(91,927)	(112,236)	782,352	(6,390)	571,799	447,978
Increase (Decrease) in accrued liabilities	207	503	6,185	(1,041)	5,854	15,134
Increase (Decrease) in customer deposits	(13,721)	-	22,233	-	8,512	-
Increase in unredeemed gift certificates	-	-	-	2,196	2,196	-
Increase (decrease) in compensated absences	4,307	192	3,739	(4,162)	4,076	5,005
Increase in insurance claims payable	-	-	-	-	-	272,382
Net cash provided by operating activities	\$ 1,353,955	\$ 1,025,228	\$ 7,244,672	\$ 4,624	\$ 9,628,479	\$ 3,760,973

The accompanying notes are an integral part of the basic financial statements.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents (note 3b)	\$ 674,104
Interest receivable	258,844
Investments (Note 3b):	
Common stocks	38,510,366
Corporate fixed income securities	6,374,160
Government and agency fixed income securities	18,082,256
Mutual funds:	
Domestic	22,094,496
International	14,336,531
Total investments	<u>99,397,809</u>
Total assets	<u>100,330,757</u>
LIABILITIES	
Accounts payable	<u>362</u>
NET POSITION	
Held in trust for pension and other postemployment benefits	<u><u>\$ 100,330,395</u></u>

The accompanying notes are an integral part of the basic financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	<u>Pension Trust</u>
ADDITIONS	
Contributions:	
Employer	\$ 11,247,402
Plan members	<u>917,932</u>
Total contributions	<u>12,165,334</u>
Investment earnings:	
Net increase in fair value of investments	11,568,485
Interest	1,255,485
Dividends	<u>685,011</u>
Total investment earnings	13,508,981
Less investment expenses	<u>473,640</u>
Net investment earnings (loss)	<u>13,035,341</u>
Total additions	<u>25,200,675</u>
DEDUCTIONS	
Pension benefits	8,756,855
Other post-retirement benefits	3,532,219
Administrative expenses	<u>304,461</u>
Total deductions	<u>12,593,535</u>
Change in net position	12,607,140
Net position - July 1, 2012	<u>87,723,255</u>
Net position - June 30, 2013	<u><u>\$ 100,330,395</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF CHARLOTTESVILLE, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Charlottesville, Virginia (the City), named for Queen Charlotte of England, was established as a town in 1762 and incorporated as a city by an act of the Virginia General Assembly in 1888. The City has an area of 10.4 square miles and a population of 45,073 according to the Weldon Cooper Center for Public Service. The City provides a full range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, housing and human services programs, transportation, recreation, and gas, water and wastewater utilities. The City is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Council consists of a mayor and four other members elected at large. The Council has responsibility for appointing the City Manager. The City has taxing powers subject to statewide restrictions and tax limits.

The financial statements of the City of Charlottesville are prepared in accordance with U.S. generally accepted accounting principles (GAAP) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the City's more significant accounting policies.

(a) The Financial Reporting Entity

As required by GAAP, these financial statements present the City (the Primary Government) and its component units. As such, the City of Charlottesville Public Schools (the School Board or Schools) and the Charlottesville Economic Development Authority (the CEDA) are reported as separate and discretely presented component units in the City's reporting entity. The Primary Government is hereafter referred to as the "City" and the reporting entity, which includes the City and its component units, is hereafter referred to as the "City Reporting Entity."

The accompanying financial statements include all activities of the City, such as general operations and support services. The component units discussed below are included in the City Reporting Entity because the City appoints a majority of the CEDA board members, approves the budgetary request of the School Board and provides a significant amount of funding for each of these entities.

Discretely Presented Component Units

The component unit columns in the government-wide financial statements include the financial data of the City's two component units. Each is presented in a separate column to emphasize that these units are legally separate from the City and each represents a functionally independent operation. These component units are fiscally dependent on the City and provide services primarily to the citizens of Charlottesville. A description of the discretely presented component units follows:

- (i) School Board:** The City provides education through its own school system administered by the Charlottesville School Board (the School Board). The School Board has been classified as a discretely presented component unit in the financial reporting entity because it is legally separate but financially dependent. The City Council administers the School Board's appropriation of funds at the category level, approves transfers between categories, and authorizes school debt. School Board members are elected. Financial statements of the School Board are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The School Board does not issue separate financial statements.

- (ii) **Economic Development Authority:** The Charlottesville Economic Development Authority (the CEDA) was created to promote industry and develop trade by inducing manufacturing, industrial, and commercial enterprises to locate or remain in the City. City Council appoints the seven board members of the CEDA. By statute, the CEDA has the power to cause the issuance of tax-exempt industrial revenue bonds to qualifying enterprises wishing to utilize that form of financing. The City is involved in the day-to-day operations of the CEDA the determination of its operating budget and annual service fee rates. Financial statements of the CEDA are included in a discretely presented component unit column and/or row of the government-wide financial statements. Complete audited financial statements of the CEDA can be obtained from the Office of Economic Development, City of Charlottesville, PO Box 911, Charlottesville, VA 22902 or Room B230 at City Hall.

(b) Government-wide and Fund Financial Statements

Government-wide financial statements - The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, generally 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 legally separate component units for which the primary government (City) is financially accountable. Interfund activity and balances have been eliminated from the statements to avoid duplication.

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. The City reports investment in capital assets net of depreciation, including infrastructure, in the Statement of Net Position. Depreciation expense, the cost of “using up” capital assets, is included in the Statement of Activities. Noncurrent liabilities including bonds, notes and loans payable are included, separated into due within one year and due in more than one year. The net position of the City are reported in three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Effective July 1, 2012, the City adopted the provisions of GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. In the case of the City, the implementation of this standard was isolated to presentation of the statement of net position. This implementation required the City to present a Statement of Net Position, replacing the previously presented Statement of Net Assets, in the City’s basic financial statements.

The *Statement of Activities* reports expenses before revenues of the primary government (governmental and business-type activities) and its discretely presented component units. This order emphasizes that governments identify the service needs of citizens and then raise the resources needed to meet those needs. This presentation demonstrates the degree to which direct expenses of a clearly identifiable function or segment are reduced by program revenues associated with that 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 program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a program. All taxes and other items not included among program revenues, are reported instead as general revenues.

Fund statements – Separate fund 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 enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, report all their activities using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In applying the *susceptible to accrual* concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of intergovernmental revenues. In the first type, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon when the expenditures are recorded. In the second type, monies are virtually unrestricted as to time of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Governmental fund financial statements are reported using the *current financial resource measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City Reporting Entity considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide Statement of Net Position and the government-wide Statement of Activities is presented in a schedule accompanying the governmental funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances, respectively. These differences stem from governmental statements using a different measurement focus than government-wide statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the City's gas, water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Real and personal property taxes are recorded as revenues and receivables when levied, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as deferred revenue. Sales and utility taxes, which are collected by the Commonwealth or utility companies by year-end and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the City.

Fees and permits, fines, charges for services and miscellaneous revenues, except interest on temporary investments, are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available. Unbilled accounts receivable are recorded in the Enterprise Funds when earned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues for the City's enterprise and internal service funds are charges to customers for goods and services. Operating expenses for these funds include the cost of sales and service, administrative expenses and depreciation of capital assets. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City's fiduciary (pension) funds are presented in the Fiduciary Fund financial statements. By definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government; therefore these funds are not incorporated into the government-wide statements.

The focus of the reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and proprietary categories, as well as the fiduciary funds and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

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 all of the individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is used to account for and report all of the financial resources except for those not accounted for and reported in another fund. It is the City's primary operating fund. Revenues are derived primarily from property and other local taxes, state (including pass through of federal funds), federal distributions, licenses, permits, charges for services, fees, Albemarle County Revenue Sharing and other revenue sources. A significant portion of the General Fund's revenue is transferred to other funds and the Charlottesville School Board, (a component unit), to finance operations.

The *Capital Projects Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Revenues for this fund are obtained from bond issues, a transfer from the General Fund, federal and state highway funds, PEG fee revenue and contributions from Charlottesville School Board and other local governments for shared facilities.

The *Debt Service Fund* is used to account for and report all financial resources that are restricted, committed, or assigned to expenditures for principal and interest. Payments are made on long-term general obligation debt of governmental funds including bonds, notes and other evidence of indebtedness and the cost of issuance of debt issued by the City.

The *Social Services Fund*, which is a special revenue fund, accounts for the financial resources associated with the Charlottesville Department of Social Services (CDSS). Social Services provide state and federal income support, employment assistance and social work service programs to alleviate poverty and other social problems, that is matched or 100% funded by the City.

Proprietary funds, all of which are considered major funds, are used to account for and report on their activities using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The purpose of a proprietary fund is to provide a service or product to the public or other governmental entities at a reasonable cost. The City reports the following enterprise funds as proprietary fund types:

The *Water Fund* accounts for the operations of the City's water distribution system.
The *Sewer Fund* accounts for the operations of the City's wastewater collection system.
The *Gas Fund* accounts for the operations of the City's natural gas distribution system.
The *Golf Course Fund* accounts for the operations of the City's 18-hole municipal golf course.

Additionally, the City reports the following non-major funds:

Special Revenue Funds are used to account and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. The City has established special revenue funds to account for the Community Development Block Grant, Community Attention Programs, Comprehensive Services Act, Virginia Juvenile Community Crime Control Act, transit operations and various other grants to support projects undertaken. Social Services is reported as a major fund. Cemetery perpetual care is included, which is a permanent fund.

Internal Service Funds are used to account for and report the financing of goods and services provided by one department primarily or solely to other departments of the City. Information Technology, Risk Management, Warehouse and Departmental Services are accounted for and reported as Internal Service Funds. In the government-wide Statement of Net Position, the assets and liabilities of these funds are allocated to both governmental and business-type activities, based on the predominate use of the fund's services. Specifically, the assets and liabilities of the Warehouse Internal Service Fund are allocated completely to the City's Enterprise Funds based on predominate usage. The remaining Internal Service Fund balances are allocated to governmental activities. In the government-wide Statement of Activities, certain transactions are assigned directly to governmental activities and the remaining net income or loss is allocated to both governmental and business-type activities, based on actual charges for services.

The *Fiduciary Fund* is used to report assets held in a trustee capacity for the two pension trust funds for retirement and postemployment benefits. The pension trust fund is accounted for and reported similarly to proprietary funds since the economic resources measurement focus is also the same. Fiduciary funds cannot be used to finance the City's operating programs.

(d) Encumbrances

Encumbrances are used to control expenditure commitments for the year and to enhance cash management. Accounting for encumbrances is employed in all general governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as assigned fund balance and do not constitute expenditures or liabilities, but are obligations that will be paid in a following fiscal year.

(e) Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, money market mutual funds and certificates of deposit with original maturities of twelve months or less from date of acquisition. Investments are reported at fair value (generally based on quoted market prices) or the net asset value per share.

(f) Internal Balances

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(g) Allowance for Uncollectibles

The City calculates its allowances for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. At June 30, 2013, the allowances approximated \$761,521 in the General Fund and \$1,006,604 in the Proprietary Funds (\$173,257, \$220,158, and \$613,189) for the Water, Sewer and Gas Funds, respectively.

(h) Inventory of Supplies and Prepaid Items

Inventories are valued at cost using the weighted average method. Inventories consist of expendable materials and supplies held for future consumption. They are accounted for by the consumption method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide financial statements.

(i) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets and bridges,) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's storm drainage system was inventoried and valued and is included in the basic financial statements as detailed in Note 2 for Governmental Activities in accordance with GAAP. All other infrastructure has been inventoried, valued and included in the basic financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of at least two years. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building/building improvements	40-50
Streets and bridges	30-50
Infrastructure (storm structures and storm pipe)	50-75
Utility transmission lines and mains	20-40
Furniture and equipment	5-10
Vehicles	5-7

(j) Compensated Absences

City employees are granted vacation and sick leave in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick leave earned. Vacation leave can be accrued for up to the amount earned in one year, plus an additional week. Upon retirement, termination or death, employees may be compensated for certain amounts of unused vacation leave earned at their then current rates of pay. In addition, unused sick leave becomes credited service for pension benefit calculations, for one-half of the accumulated amount, up to a maximum of two thousand hours. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Sick leave earned but not taken by City and School Board employees at June 30, 2013, approximated \$13,594,388 and \$13,786,077 respectively. Upon retirement, no cash payments are made for sick leave. Therefore, the accrued balance is not recorded in the financial statements.

(k) Defined Benefit Pension Plans

Defined benefit pension plan contributions are actuarially determined and consist of current service costs and amortization of past service costs over a 25-year period for the City retirement plan and 30-year period for post-employment benefits plan. The Virginia Retirement System (VRS) plan, to which the Schools' non-professional employees belong amortizes past service costs over a 20-year period and the post-employment medical plan over a 30-year period. The City and School's policy is to fully fund the annual contribution. The Schools' post-employment medical plan is funded on a pay-as-you-go basis.

(I) Risk Management

The City is exposed to various risks of loss related to torts; errors and omissions; injuries to and illnesses of employees; theft of, damage to, and destruction of assets; and natural disasters. The City employs a variety of risk management techniques, including the purchase of commercial insurance, participation in insurance pools and self-insurance. All funds of the City participate in the risk program and make payments to the Risk Management Internal Service Fund in a manner that is appropriate in allocating the costs associated with the risk involved. Claims, including incurred but not reported (IBNR) claims, are recognized as expense when incurred. There have been no significant changes in coverage from the prior year, nor have settlements exceeded coverage in the past five fiscal years.

2. EQUITY

For government-wide, proprietary funds and fiduciary funds financial statements, equity is described as net position (total assets minus total liabilities) and is broken down into three components: (1) amount invested in capital assets, net of related debt, (2) restricted and (3) unrestricted net position. The City considers restricted net position to have been depleted before using any of the components of unrestricted net positions. For governmental funds, equity is described as fund balance (current assets minus current liabilities), which is broken down into nonspendable, restricted, committed, assigned and unassigned fund balance.

- **Net investment in capital assets** consists of capital assets less accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction, or permanent improvement of those assets. Unspent debt proceeds are excluded.
- **Restricted net position** reflects net position whose use is not subject solely to the government's own discretion.
- **Unrestricted net position** consists of net position that does not meet the definition of the two preceding categories. Unrestricted net assets are often designated to indicate that management does not consider them available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be modified or removed.

(a) Net Position-Restricted – Government-wide Financial Statements:

Restricted net position on the government-wide Statement of Net Position is composed of the following:

	Governmental Activities
General government	\$ 291,453
Public safety	321,917
Parks, recreation and culture	56,303
Health and welfare	1,272
Conservation and development	1,520,702
Permanent fund, nonexpendable	162,501
Total restricted net position	<u>\$ 2,354,148</u>

The net position in the Fiduciary Funds are for Pension Trust Funds and therefore, all held in trust for pension and other post-employment benefits.

(b) Fund Balances:

City Council is the City's highest level of decision making authority. The City Council can establish, modify or rescind a fund balance commitment through adoption of an appropriation. Assigned fund balance contains purchase orders and amounts at year end that City Council intends to use for a specific purpose.

The City maintains a minimum fund balance in the General Fund, classified as unassigned fund balance. The minimum fund balance policy is found in the City's adopted operating budget. Currently, the City is to maintain a minimum of 12% of the operating budget in fund balance. City Council may elect to maintain a higher unassigned fund balance to provide the City with sufficient working capital and a margin of safety to address emergencies and unexpected declines in revenue without borrowing.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The City Manager has the authority to deviate from this policy if it is in the best interest of the City.

- **Nonspendable** - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** - Represents amounts with constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** - Represents specific purposes in accordance with internal constraints imposed by formal action of the City's highest level of decision-making, Charlottesville City Council. Once adopted, the appropriation can only be removed or changed by City Council with similar action.
- **Assigned** – Represents amounts that are constrained by City Council's intent to use for specific purposes, but meet neither the restricted or committed forms of constraint. Amounts that are assigned are only temporary until City Council takes formal action with an appropriation.
- **Unassigned** – Represents the residual category for the general fund only. It is also where negative fund balance for all other governmental funds would be reported.

Fund balances are composed of the following at June 30, 2013:

	General Fund	Capital Projects Fund	Debt Service Fund	Social Services Fund	Other Governmental Funds	Total
Nonspendable:						
Loans receivable	\$ -	\$ 1,100,000	\$ -	\$ -	\$ 10,000	\$ 1,110,000
Cemetery perpetual care	-	-	-	-	162,501	162,501
Total nonspendable	-	1,100,000	-	-	172,501	1,272,501
Restricted:						
Unspent bond proceeds	-	8,950,111	-	-	-	8,950,111
Fire programs	51,359	-	-	-	88,337	139,696
Law enforcement	146,608	-	-	-	35,613	182,221
Social services	-	-	-	359,702	-	359,702
Court house security	227,939	-	-	-	-	227,939
Property cost share agreement	63,514	-	-	-	-	63,514
Youth programs	56,303	-	-	-	51,000	107,303
Education programs	-	-	-	-	1,272	1,272
Total restricted:	545,723	8,950,111	-	359,702	176,222	10,031,758
Committed:						
Building Repairs and improvements	902,230	-	-	-	-	902,230
Nonrecurring vehicle and equipment purchases	2,477,513	-	-	-	-	2,477,513
Neighborhood development services	31,385	2,597,282	-	-	-	2,628,667
Parks and recreation programs	152,152	-	-	-	-	152,152
Fire programs	24,708	-	-	-	-	24,708
City Council initiatives	176,446	-	-	-	-	176,446
Human service initiatives	24,268	-	-	-	-	24,268
Contingency reserve	152,720	-	-	-	-	152,720
Historic resources	26,559	-	-	-	-	26,559
Economic job fair	30,293	-	-	-	-	30,293
Workforce development	66,572	-	-	-	-	66,572
Law enforcement	9,969	-	-	-	-	9,969
Public service	921	-	-	-	-	921
Communications	52	-	-	-	-	52
Corporate training	20,581	-	-	-	-	20,581
Census	2,228	-	-	-	-	2,228
Human rights initiatives	90,000	-	-	-	-	90,000
Reserve for landfill remediation	2,549,358	-	-	-	-	2,549,358
Future debt service	-	-	12,170,786	-	-	12,170,786
Total committed:	6,737,955	2,597,282	12,170,786	-	-	21,506,023
Assigned:						
Purchases on order	436,087	-	-	-	32,032	468,119
Human services	-	-	-	-	1,271,224	1,271,224
Subsequent year's budget:						
appropriation of fund balance	3,197,073	-	-	-	-	3,197,073
Total assigned:	3,633,160	-	-	-	1,303,256	4,936,416
Unassigned:	26,989,410	-	-	-	-	26,989,410
Total fund balance	\$ 37,906,248	\$ 12,647,393	\$ 12,170,786	\$ 359,702	\$ 1,651,979	\$ 64,736,108

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

(a) Primary Government

At June 30, 2013, the carrying value of the City's deposits and investments, with their respective credit ratings, was as follows:

<u>Deposit and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Demand deposits	\$ 48,319,089	N/A
Cash on hand	7,530	N/A
Commonwealth LGIP	1,034	AAAm
Money Market Mutual Funds	3,454	AAAm
Commonwealth Non-Arbitrage Program (SNAP)	19,018,655	AAAm
Non-negotiable Certificate of Deposit	20,000,000	N/A
Corporate notes	2,976,742	Aa
Federal agency notes	11,841,371	Aaa
Total deposits and investments	<u>\$ 102,167,875</u>	

Credit Risk:

The City has a Statement of Investment Policy in accordance with of the Commonwealth of Virginia Code section 2.2-400 et. seq., 2.2-4500 et. seq., 58.1-3123 et. seq. and Trust Agreements, where applicable. Deposits and investments not exposed to credit quality risk, as defined by GAAP, are designated as "N/A" in the credit rating column.

All demand deposits of the City are maintained in bank accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia Vol 1, Chapter 44 or covered by federal depository insurance.

Local Government Investment Pool (LGIP) is a specialized money market-like fund created in the 1980 session of the Virginia General Assembly designed to offer a convenient and cost-effective investment vehicle for public entities. The Fund is administered by the Treasury Board of the Commonwealth of Virginia and is rated AAAm by Standard & Poors, Inc.

Money Market Mutual Funds are shares in open-end, no-load investment funds registered under the Federal Investment Company Act of 1940, provided that the fund is rated at least AAAm or the equivalent by NRSRO.

The Commonwealth of Virginia State Non-Arbitrage Program (SNAP) was established pursuant to the Local Government Non-Arbitrage Investment Act to make available to Virginia counties, cities and towns assistance with the investment of and accounting for bond proceeds in compliance with rebate requirements of the Internal Revenue Code of 1986, as amended. The program is managed by PFM Asset Management LLC, an investment advisor registered with the Securities and Exchange Commission. SNAP provides local governments with a convenient method of pooling proceeds of bonds and notes for temporary investment pending their capital project expenditures.

Corporate notes with a rating at least Aa (or its equivalent) by Moody's Investor's Service, Inc. and Standard and Poors, Inc. The final maturity shall not exceed a period of five (5) years from the time of purchase.

Federal agency obligations include bonds, notes and other obligations of the United States, and securities issued by any Aaa rated federal government agency, instrumentality or government sponsored enterprise except for Collateralized Mortgage Obligations. The final maturity shall not exceed a period of five (5) years from the time of purchase.

Concentration of Credit Risk:

The Policy establishes limitations on portfolio diversification by security type and institution to control concentration of credit risk as follows:

<u>Permitted Investment</u>	<u>Sector Limit</u>	<u>Issue Limit</u>
U. S. Treasury Obligations	100 %	100 %
Federal Agency Obligations	100	100
Municipal Obligations	10	3
Commercial Paper	10	3
Bankers' Acceptances	10	3
Corporate Notes	10	3
Negotiable Certificates of Deposit and Bank Deposit Notes	10	3
Money Market Mutual Funds	100	50
LGIP	100	50
Repurchase Agreements	35	35

At June 30, 2013, the sector and issue limits have not been exceeded.

Interest Rate Risk:

As a means of limiting exposure to fair value arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase. Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities. At June 30, 2013, all investments in the City's portfolio had a maturity of five years or less.

(b) City of Charlottesville Pension Trust Fund

At June 30, 2013, the carrying value of the Trust Fund deposits and investments, with the respective credit ratings, was as follows:

<u>Deposit and Investment Type</u>		<u>Fair Value</u>	<u>Credit Rating</u>
Demand deposits		\$ 674,104	N/A
Common stock		38,510,366	N/A
Corporate fixed income securities		6,374,160	Aaa-Baa3
Government and agency fixed income securities			
Explicitly guaranteed by U.S. government	\$ 12,346,749		N/A
Implicitly guaranteed by U.S. government	4,460,015		Aaa-Aa1
Municipal	<u>1,275,492</u>		Aaa-Aa1
Total government fixed income securities		18,082,256	
Mutual funds - domestic		22,094,496	N/A
Mutual funds - international		<u>14,336,531</u>	N/A
Total investments		<u>99,397,809</u>	
Total deposits and investments		<u>\$ 100,071,913</u>	

Credit Risk:

Investments in the Pension Trust Fund are managed in accordance with policies adopted by the Retirement Commission. These policies sets target allocations of 55% for domestic equities, 20% for fixed income, 15% for international equities, and 10% for real estate and authorizes investments in cash equivalents, fixed income securities, equity securities and mutual funds. The Statement specifically addresses the credit quality rating requirements on fixed income investments, permitting the purchase of investment grade bonds rated BBB or better. Credit ratings in the table below are ratings from Moody's Investor's Service. If the investment was rated only by Standard & Poor's Rating Services, the table below has the Moody's equivalent rating.

The following table summarizes the Pension Trusts' credit risk for corporate, implicitly guaranteed by U.S. government and municipal fixed income securities at June 30, 2013:

<u>Investment Type</u>	<u>Rating</u>	<u>% of Total Portfolio</u>
Corporate Bonds	Aaa	0.9 %
Corporate Bonds	Aa2-Aa3	1.3
Corporate Bonds	A1-A3	2.1
Corporate Bonds	Baa1-Baa3	2.2
Federal Home Loan Mortgage Corporation	Aaa-Aa1	0.3
Federal National Mortgage Association	Aaa-Aa1	4.0
Tennessee Valley Authority	Aaa-Aa1	0.2
Municipal Bonds	Aaa-Aa1	1.3

Concentration of Credit Risk:

The policy establishes limitations on corporate securities by issuer in order to control concentration of credit risk as follows:

Company	Not to exceed 5% of the total fund
Industry	Not to exceed 20% of the total fund

The Plan has no investment that is greater than 5% of the total portfolio, excluding mutual funds and government securities.

Interest Rate Risk:

The Plan has no specific limits on the maximum maturity for any security held. There is a 5% limit on holding fixed income securities in any issuer, excluding government and government agency securities.

At June 30, 2013, the Trust had the following investments and maturities:

	<u>Fair Value</u>	<u>0-5 Years</u>	<u>6-10 Years</u>	<u>11-50 Years</u>
Corporate fixed income	\$ 6,374,160	\$ 1,133,130	\$ 2,060,399	\$ 3,180,631
Government fixed income	18,082,256	441,423	3,557,420	14,083,413
Total	<u>\$ 24,456,416</u>	<u>\$ 1,574,553</u>	<u>\$ 5,617,819</u>	<u>\$ 17,264,044</u>

(c) School Board Component Unit

At June 30, 2013, the carrying value of the School Board component unit deposits and investments, with their respective credit ratings, was as follows:

<u>Deposit and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Demand deposits	\$ 5,122,924	N/A
Commonwealth LGIP	<u>1,592,261</u>	AAAm
Total deposits and investments	<u>\$ 6,715,185</u>	

School Board deposits are invested in accordance with the City's investment policy. At June 30, 2013, excluding the demand deposits and Commonwealth LGIP, there were no investments. Accordingly, there is no credit risk, concentration of credit risk, or interest rate risk.

(d) Charlottesville Economic Development Authority (CEDA)

At June 30, 2013, the carrying value of the CEDA component unit deposits and investments, with their respective credit ratings, was as follows:

<u>Deposit and Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Demand deposits	\$ 1,939,669	N/A
US government fixed income security	<u>971,935</u>	N/A
Total deposits and investments	<u>\$ 2,911,604</u>	

The City serves as fiscal agent for the CEDA. However, the CEDA is not subject to the City's investment policy. The CEDA does not have a formal investment policy that addresses credit risk, concentration of credit risk or interest rate risk. At June 30, 2013, excluding the demand deposits and U.S. government agency securities, there were no investments. Accordingly, based on this minimal risk, the CEDA does not have a policy.

4. GENERAL PROPERTY TAXES

The two major sources of general property taxes are as follows:

(a) Real Estate

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute. These levies are assessed each year as of January 1 on the estimated market value of the property. January 1 is also the date an enforceable, legal claim to the asset applies. The City reassesses all property annually.

Real estate taxes are collected in equal semiannual payments due June 5 and December 5. During the fiscal year, the real estate taxes budgeted for and reported as revenue in the fund financial statements are the second half of the January 1, 2012, assessment due December 5, 2012, and the first half of the January 1, 2013 assessment due June 5, 2013, less an allowance for uncollectibles and less taxes not considered to be available for current expenditures plus collections on previously delinquent taxes. The tax rate for both 2012 and 2013 was \$.95, per \$100 of assessed value. Real estate taxes receivable, assessed as of January 1, 2013, and due December 5, 2013, are reflected in the accompanying fund financial statements as a receivable and are offset by deferred revenue, which is consistent with the City's budget ordinance. In the government-wide financial statements, real estate taxes that are not due as of June 30, 2013, are included in unearned revenue, since they are not due for the current fiscal year.

(b) Personal Property

The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are assessed as of January 1 and prorated for motor vehicles acquired or sold during the year, with payment in equal semiannual installments due June 5 and December 5. During fiscal year 2013, the personal property taxes budgeted for and reported as revenue in the fund financial statements are the second half of the January 1, 2012, assessment due December 5, 2012, and the first half of the January 1, 2013, assessment due June 5, 2013, less an allowance for uncollectibles and less taxes not considered to be available for current expenditures plus collections on previously delinquent taxes. The tax rate for both 2012 and 2013 was \$4.20 per \$100 of assessed value. Personal property taxes receivable, assessed during 2013 and due December 5, 2013, are reflected in the accompanying fund financial statements as a receivable and are offset by deferred revenue, which is consistent with the City's budget ordinance. In the government-wide financial statements, personal property taxes that are not due as of June 30, 2013, are included in unearned revenue, since they are not due for the current fiscal year.

In April 1998, the Virginia General Assembly passed S.B. 4005, the Personal Property Tax Relief Act of 1998, PPTRA. In its original form, PPTRA, in essence, was a vehicle-based entitlement. Beginning 2006, changes to PPTRA made by S.B. 5005 marked an end to this vehicle-based entitlement. S.B. 5005 establishes what amounts to a fixed, annual block grant to localities, the proceeds of which must be used to provide relief to the owners of qualifying vehicles. Localities determine how relief is to be distributed, within the guidelines established. The 56% relief provided during 2012 decreased to 53% for 2013. Vehicles below \$1,000 assessed value are given 100% relief.

5. LOANS RECEIVABLE

The Community Development Block Grant (CDBG) Special Revenue Fund had \$29,363 in outstanding installment loans and \$580,289 in deferred payment loans, which are secured by property liens. The installment loans have terms of up to 30 years and bear an interest rate of three percent. The property liens are 30 year deferred payment loans payable upon sale, transfer or disposal of the property. Both loans represent monies advanced to low-income qualified property owners under the federally-funded housing renovation and rehabilitation project and are fully offset on the combined balance sheet by an amount due to the federal government.

The Grants Special Revenue Fund had \$10,000 in an outstanding loan and \$594,949 in deferred payment loans, which are secured by property liens. The \$10,000 loan, made in 2003, to the Albemarle Housing Improvement Program (AHIP) has a term of 5 years and bears an interest rate of 3%. Payment of the principal amount was due in 2008 with the option of extending the note for up to two additional five-year periods. The deferred payment loan represents federally-funded monies advances to low-income qualified property owners under the HOME Investment Partnership. The terms are the same as the CDBG deferred payment loans found above and is fully offset on the combined balance sheet by an amount due to the federal government.

The Capital Projects Fund had loans outstanding totaling \$880,000, consisting of a loan to the Albemarle Housing Improvement Program (AHIP) for \$30,000 and a loan for \$850,000 to Piedmont Housing Alliance (PHA). The loan to AHIP is a non-interest bearing, revolving loan due upon demand. The loan to PHA is a non-interest bearing loan, that closed December, 2007 and was originally had a term of 5 years. In August 2012, the loan was extended an additional 5 years. It is due by October 31, 2017, unless the property is sold.

The Capital Projects Fund had \$1,043,285 in deferred payment loans, which are secured by property liens. These loans represent monies advances to low-income qualified property owners from the Charlottesville Housing Fund. The terms of the loan are the same as the CDBG deferred payment loans found above. A contra-receivable was used to offset this loan receivable.

The Capital Projects Fund had \$1,550,000 in an outstanding loan to The Crossings at Fourth and Preston, LLC for the transfer of property at 401 4th Street, N.W. Charlottesville, to be operated as a Single Room Occupancy facility. The loan is for a period of 31 years, interest calculated at 4.30% per annum. The entire principal balance and any accrued, unpaid, interest are due June 30, 2042, or upon sale of the property. A contra-receivable was used to offset this loan receivable.

The Capital Projects Fund had \$130,000 in an outstanding loan to the Economic Development Authority (EDA). The EDA used these funds to make up a six-month loan to the Lewis & Clark Explority Center of Virginia, Inc. (Lewis & Clark). Lewis & Clark are using these funds, grant funds from the Virginia Department of Transportation and funds from Albemarle County to construct the Lewis & Clark Exploratory Center, an access road, a parking area and a connecting trail network at Darden Towe Park. Darden Towe Park is currently jointly owned by the City and the County. The loan was extended in September 2013, and is due April 30, 2014, is non-interest bearing and is subject to a 5% late charge on the outstanding balance.

The Capital Projects Fund has \$90,000 in an outstanding loan to the City Manager. The loan and its terms were part of the City Manager's employment agreement. The loan is deferred until certain real property owned by the City Manager is sold. It is non-interest bearing and has a term of ten years. The balance has been classified as noncurrent because it is not expected to be collected within one year from the Balance Sheet date.

6. NOTES RECEIVABLE

The City Link note balance of \$402,486 at June 30, 2013, is recorded as a note receivable in the City's Water and Sewer Funds (\$129,618 and \$272,867, respectively). Because the City executed this note on an arms-length basis, this note has not been eliminated at the government-wide level. The note was executed during Fiscal Year 2004, with \$950,000 due to Water Fund and \$2,000,000 due to Sewer Fund. The note is due in 2014 and bears interest at 1.49%, with annual payments.

7. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2013, are presented below:

	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
City Government Activities:				
Major funds:				
General Fund	\$ -	\$ 2,960,760	\$ 6,826	\$ 2,967,586
Capital Projects Fund	-	4,521,067	11,191	4,532,258
Social Services Fund	-	498,943	13,865	512,808
Total major funds	-	7,980,770	31,882	8,012,652
Non-major funds	2,829,776	1,911,112	622,139	5,363,027
Total Primary Government	<u>\$ 2,829,776</u>	<u>\$ 9,891,882</u>	<u>\$ 654,021</u>	<u>\$ 13,375,679</u>
Component Unit - Schools	<u>\$ 5,875</u>	<u>\$ 1,882,582</u>	<u>\$ 54,263</u>	<u>\$ 1,942,720</u>

8. DUE TO/FROM OTHER FUNDS AND INTERFUND TRANSFERS

- (a) Individual fund deficits in consolidated pooled cash are considered short-term receivables of the General Fund. Individual fund interfund receivable and payable balances of the City at June 30, 2013, are presented below:

	Due From <u>Other Funds</u>	Due To <u>Other Funds</u>
Major funds:		
General Fund	\$ 3,372,154	\$ -
Social Services Fund	-	35,116
Golf Course Fund	-	109,086
Total major funds	<u>3,372,154</u>	<u>144,202</u>
Non-major funds:		
Special Revenue Funds:		
Community Development Block Grant Fund	-	96,517
Grants Fund	-	125,716
Comprehensive Services Act Fund	-	482,232
Transit Fund	-	2,523,487
Total non-major funds	<u>-</u>	<u>3,227,952</u>
Total due to/from other funds	<u>\$ 3,372,154</u>	<u>\$ 3,372,154</u>

- (b) Transfers are primarily used to 1) transfer revenues that have been collected in the required fund per state law to the funds and activities that state law allows for expenditures; 2) transfer of “payment in lieu of taxes” contributions from the utility funds to the General Fund; 3) transfer funding from governmental funds to debt service and capital project funds; and 4) transfer matching funds from the General Fund and Special Revenue Funds for various grant programs.

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfers out:						
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Social Services</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Transfers in:						
General Fund	\$ -	\$ 7,739,465	\$ 9,242,514	\$ 3,127,218	\$ 4,642,404	\$ 24,751,601
Capital Projects Fund	150,000	-	-	-	169,874	319,874
Nonmajor governmental funds	-	-	20,000	-	17,298	37,298
Water Fund	708,548	-	-	-	-	708,548
Sewer Fund	713,867	-	-	-	-	713,867
Gas Fund	3,786,057	24,708	-	-	-	3,810,765
Internal Service Funds	250,000	46,595	408,495	-	-	705,090
Total	<u>\$ 5,608,472</u>	<u>\$ 7,810,768</u>	<u>\$ 9,671,009</u>	<u>\$ 3,127,218</u>	<u>\$ 4,829,576</u>	<u>\$ 31,047,043</u>

Reconciliation to exhibits:

		<u>Transfers in:</u>	<u>Transfers out:</u>
Governmental Funds	Exhibit D	\$ 31,047,043	\$ 25,108,773
Proprietary Funds	Exhibit E-3	-	5,233,180
Internal Service Funds	Exhibit L-2	-	705,090
Total		<u>\$ 31,047,043</u>	<u>\$ 31,047,043</u>

9. CAPITAL ASSETS

(a) Primary Government

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 13,678,603	\$ 387,905	\$ -	\$ 14,066,508
Infrastructure right of way	2,633,686	615,813	-	3,249,499
Total capital assets not being depreciated	<u>16,312,289</u>	<u>1,003,718</u>	<u>-</u>	<u>17,316,007</u>
Other capital assets:				
Building and improvements	146,711,674	12,799,902	6,913,036	152,598,540
Vehicles	28,483,179	1,586,388	1,180,449	28,889,118
Mobile equipment	2,990,863	528,031	116,847	3,402,047
Furniture and equipment	18,654,846	1,537,269	10,627	20,181,488
Streets	59,921,140	7,386,527	-	67,307,667
Bridges	4,593,628	59,597	-	4,653,225
Infrastructure	<u>56,446,371</u>	<u>-</u>	<u>-</u>	<u>56,446,371</u>
Total other capital assets at historical cost	<u>317,801,701</u>	<u>23,897,714</u>	<u>8,220,959</u>	<u>333,478,456</u>
Less accumulated depreciation:				
Building and improvements	40,690,754	3,987,511	1,585,906	43,092,359
Vehicles	17,352,262	2,640,212	1,168,076	18,824,398
Mobile equipment	2,255,472	174,283	115,221	2,314,534
Furniture and equipment	14,918,427	1,328,329	10,627	16,236,129
Streets	41,418,266	698,949	-	42,117,215
Bridges	1,538,347	84,856	-	1,623,203
Infrastructure	<u>21,878,841</u>	<u>1,016,828</u>	<u>-</u>	<u>22,895,669</u>
Total accumulated depreciation	<u>140,052,369</u>	<u>9,930,968</u>	<u>2,879,830</u>	<u>147,103,507</u>
Other capital assets, net	<u>177,749,332</u>	<u>13,966,746</u>	<u>5,341,129</u>	<u>186,374,949</u>
Governmental activities capital assets, net	<u>\$ 194,061,621</u>	<u>\$ 14,970,464</u>	<u>\$ 5,341,129</u>	<u>\$ 203,690,956</u>

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Business-Type activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 1,921,723	\$ -	\$ -	\$ 1,921,723
Easements	179,700	12,625	-	192,325
Total capital assets not being depreciated	2,101,423	12,625	-	2,114,048
Other capital assets:				
Building and improvements	1,858,274	-	-	1,858,274
Vehicles	2,017,880	59,227	59,000	2,018,107
Equipment	2,891,115	239,040	63,468	3,066,687
Distribution and collection systems	84,516,120	9,923,626	-	94,439,746
Total other capital assets at historical cost	91,283,389	10,221,893	122,468	101,382,814
Less accumulated depreciation:				
Building and improvements	1,212,491	45,817	-	1,258,308
Vehicles	1,232,993	199,351	59,000	1,373,344
Equipment	2,046,845	164,646	63,468	2,148,023
Distribution and collection systems	33,559,894	2,158,238	-	35,718,132
Total accumulated depreciation	38,052,223	2,568,052	122,468	40,497,807
Other capital assets, net	53,231,166	7,653,841	-	60,885,007
Business-Type activities capital assets, net	<u>\$ 55,332,589</u>	<u>\$ 7,666,466</u>	<u>\$ -</u>	<u>\$ 62,999,055</u>

(b) School Board Component Unit

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 982,889	\$ -	\$ -	\$ 982,889
Other capital assets:				
Building and improvements	45,939,255	6,913,036	-	52,852,291
Vehicles	141,474	-	-	141,474
Furniture and equipment	3,884,622	55,613	-	3,940,235
Total other capital assets at historical cost	49,965,351	6,968,649	-	56,934,000
Less accumulated depreciation:				
Building and improvements	25,274,924	2,703,457	-	27,978,381
Vehicles	109,845	7,109	-	116,954
Furniture and equipment	1,030,519	562,352	-	1,592,871
Total accumulated depreciation	26,415,288	3,272,918	-	29,688,206
Other capital assets, net	23,550,063	3,695,731	-	27,245,794
Governmental activities capital assets, net	<u>\$ 24,532,952</u>	<u>\$ 3,695,731</u>	<u>\$ -</u>	<u>\$ 28,228,683</u>

(c) Allocation of Depreciation Expense

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental activities:	
General government	\$ 1,824,269
Public safety	1,434,411
Community services, including depreciation of general infrastructure assets	3,305,717
Health and welfare	76,841
Parks, recreation and culture	1,007,757
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	353,990
Education	1,199,071
Conservation and development	712,948
Total depreciation expense - governmental activities	9,915,004
Accumulated depreciation from assets transferred from enterprise funds	15,964
Total increase in accumulated depreciation - governmental activities	<u>\$ 9,930,968</u>
Business-Type activities:	
Water	\$ 667,376
Sewer	617,201
Gas	1,212,646
Golf course	55,090
Warehouse	2,007
Total depreciation expense - business-type activities	2,554,320
Accumulated depreciation from assets transferred from governmental funds	13,732
Total increase in accumulated depreciation - business-type activities	<u>\$ 2,568,052</u>

Depreciation expense was charged to functions/programs of the Schools component unit as follows:

Instruction and instruction-related service	\$ 1,117,551
Support services - student based	7,109
Administrative support services	562,352
Total increase to depreciation	1,687,012
Capital asset contribution	1,585,906
Total accumulated depreciation	<u>\$ 3,272,918</u>

(d) Tenancy in Common – School Board Capital Assets

In fiscal year 2002, the Commonwealth of Virginia General Assembly passed a law to respond to GASB 34 which established a local option of creating, for financial reporting purposes, a tenancy in common with the local school board when a city or county issues bonds. The sole purpose of the law was to allow cities and counties the ability to record together school assets and related debt liabilities. As a result, certain assets purchased with the City's general obligation bonds and literary loans are recorded as part of the Primary Government. According to the law, the tenancy in common ends when the associated obligation is repaid; therefore, the assets will revert to the School Board when the debt is repaid. Nothing in the law alters the authority or responsibility of the local school board or control of the assets. As of June 30, 2013, capital assets classified as Primary Government – building and improvements were decreased by \$6,913,036, along with accumulated depreciation of \$1,585,906. These capital assets are included in the School Board Component Unit as buildings and improvements.

10. LONG-TERM DEBT

(a) City

At June 30, 2013, the City's long-term debt consisted of the following:

	Interest Rates	Original Amount of Debt	Amount Outstanding
Governmental Activities:			
General obligation bonds:			
General Improvement Refunding, Series 2003	2.00 - 4.125	\$ 15,555,000	\$ 1,275,000
General Improvement Refunding, Series 2004	3.00 - 4.25	19,913,333	3,803,333
General Improvement, Series 2006	3.45 - 4.12	12,500,000	5,000,000
General Improvement Refunding, Series 2008	3.25 - 5.00	15,617,500	8,162,500
General Improvement Refunding, Series 2009	2.00 - 5.00	15,875,700	11,361,450
General Improvement, Series 2010	2.00-4.38	9,956,200	8,458,750
General Improvement, Series 2011	2.00-5.00	9,425,000	8,135,000
General Improvement Refunding, Series 2012	1.25-4.50	26,870,300	26,870,300
General Improvement, Series 2013	3.00-4.00	5,610,000	5,610,000
Total bonds			78,676,333
State Literary Fund Loan, 1995	5.00	193,121	28,969
State Literary Fund Loan, 1996	5.00	207,244	41,452
Total literary loans			70,421
Notes payable			402,486
Total bonds, literary loans and notes payable			79,149,240
Compensated absences			2,161,071
Total			<u>\$ 81,310,311</u> *
Business-Type Activities:			
General obligation bonds:			
General Improvement Refunding, Series 2003	2.00 - 4.125	\$ 8,295,000	\$ 1,055,000
General Improvement Refunding, Series 2004	3.00 - 4.25	1,456,667	1,051,669
General Improvement, Series 2006	3.45 - 4.12	3,000,000	1,200,000
General Improvement Refunding, Series 2008	3.25 - 5.00	5,222,500	2,972,500
General Improvement Refunding, Series 2009	2.00 - 5.00	6,494,300	4,848,550
General Improvement, Series 2010	2.00-4.38	4,903,800	4,166,250
General Improvement, Series 2010 (VRA)	2.93	5,030,409	4,696,905
General Improvement, Series 2011	2.00-5.00	8,560,000	7,690,000
General Improvement Refunding, Series 2012	1.25-4.50	7,224,700	7,224,700
General Improvement, Series 2013	3.00-4.00	8,420,000	8,420,000
Total bonds			43,325,574
Compensated absences			266,834
Total			<u>\$ 43,592,408</u> *

The Water, Sewer, and Gas Funds are responsible for \$14,694,758, \$25,592,681, and \$3,038,135, respectively, of the Business-Type Activities bonds payable.

*Amounts exclude premium and deferred amounts on bonds.

(b) School Board Component Unit

At June 30, 2013, the School Board's long-term debt consisted of:

Notes payable	\$ 7,517
Capital leases payable	931,211
Compensated absences	1,276,268
Unfunded liability for post-employment medical benefits	174,829
Total	<u>\$ 2,389,825</u>

(c) Changes in Long-Term Debt

The following is a summary of the long-term debt transactions for the City and component units for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 78,918,183	\$ 5,610,000	\$ 5,851,850	\$ 78,676,333	\$ 6,263,017
Unamortized premium	4,043,536	427,859	300,964	4,170,431	-
Deferred amounts on refunding	1,056,507	-	50,097	1,006,410	-
Total bonds payable	84,018,226	6,037,859	6,202,911	83,853,174	6,263,017
Compensated absences	2,094,420	2,257,922	2,191,271	2,161,071	259,329
State literary loans:					
Johnson School - 1995	38,625	-	9,656	28,969	9,656
Burnley Moran School - 1996	51,814	-	10,362	41,452	10,362
Total literary loans	90,439	-	20,018	70,421	20,018
Notes payable:					
CityLink note	799,060	-	396,574	402,486	396,575
Police cruisers - 2010	86,645	-	86,645	-	-
Police cruisers - 2011	75,088	-	75,088	-	-
Total notes payable	960,793	-	558,307	402,486	396,575
Total governmental activities	<u>\$ 87,163,878</u>	<u>\$ 8,295,781</u>	<u>\$ 8,972,507</u>	<u>\$ 86,487,152</u>	<u>\$ 6,938,939</u>

Compensated absences are paid by General Fund, Social Services Fund and Non-Major Governmental Funds responsible for salary costs.

The City Link note originated in 2004, has a life of 10 years and bears interest at 1.49%. Annual payments are due to the City's Water and Sewer Funds of \$127,714 and \$268,860, respectively. Because the City executed this note on an arms-length basis, this note has not been eliminated at the government-wide level.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Business-Type Activities:					
Bonds payable:					
General obligation bonds	\$ 37,762,227	\$ 8,420,000	\$ 2,856,653	\$ 43,325,574	\$ 3,302,361
Unamortized premium	1,466,932	642,170	131,389	1,977,713	-
Deferred amounts					
on refunding	36,441	-	(17,830)	54,271	-
Total bonds payable	39,265,600	9,062,170	2,970,212	45,357,558	3,302,361
Compensated absences	263,329	289,419	285,914	266,834	32,020
Total business-type activities	<u>\$ 39,528,929</u>	<u>\$ 9,351,589</u>	<u>\$ 3,256,126</u>	<u>\$ 45,624,392</u>	<u>\$ 3,334,381</u>

Compensated absences are paid by business – type activities that are responsible for salary costs.

Exhibits A and E-1, “Net investment in capital assets” excludes unspent bond proceeds of \$13,902,431 for Governmental Activities, \$1,230,528 for Water and \$3,855,245 for Sewer in the Business-type Activities-Enterprise Funds.

School Board Component Unit:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
School Board:					
Notes payable	\$ 11,924	\$ -	\$ 4,407	\$ 7,517	\$ 4,668
Capital lease payable	1,374,448	-	443,237	931,211	457,880
Compensated absences	1,276,760	1,467,782	1,468,274	1,276,268	153,152
Unfunded liability for post-employment medical benefits	169,202	5,627	-	174,829	-
Total	<u>\$ 2,832,334</u>	<u>\$ 1,473,409</u>	<u>\$ 1,915,918</u>	<u>\$ 2,389,825</u>	<u>\$ 615,700</u>

(d) Debt Compliance and Repayment

The governmental activities general improvement bonds and public improvement refunding bonds are secured by the full faith and credit of the City and are payable from taxes levied on all property located within the City. Governmental activities notes payable are payable from General Fund revenues. Literary loans from the Commonwealth of Virginia are for the construction or renovation of school buildings and are collateralized by such buildings and are payable by the City from General Fund resources. The Gas, Water and Sewer Funds general obligation and public improvement refunding bonds are payable from revenues generated by the facilities constructed from the bond proceeds, although they are also backed by the full faith and credit of the City should the facilities not provide sufficient revenues to meet bond obligations. The City has complied with all significant financial bond covenants.

The City has no overlapping debt with other jurisdictions. At June 30, 2013, the City had a debt limit of \$528,102,100 which is 10% of assessed value of real property and a legal debt margin of \$417,798,072.

The annual requirements to amortize to maturity all long-term obligations outstanding of the City, except for compensated absences payable for which the payment dates cannot be estimated are presented on note 10 (g).

(e) General Obligation Public Improvement Bonds

On May 29, 2013, the City issued \$14,030,000 in General Obligation Public Improvement Bonds at a true interest cost of 2.44%. Series 2013 includes \$5,610,000 of debt for general government to finance the costs of public improvement capital projects, \$2,810,000 to finance water system improvements and \$5,610,000 for sewer improvement projects. The full faith and credit of the City is pledged to the punctual payment of the principal and interest on the bonds as they become due. The bonds will be repaid in semiannual installments of principal and interest beginning August 15, 2013, and ending February 15, 2032.

(f) Prior Year Defeasance of Debt

In prior years, the City defeased general obligation public improvement bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2013, \$18,095,000 of defeased bonds remain outstanding.

(g) **Debt Service Requirements to Maturity**

General Obligation Bonds:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 6,263,017	\$ 2,715,848	\$ 3,302,359	\$ 1,416,476
2015	6,064,300	2,568,603	3,141,108	1,401,733
2016	6,042,967	2,375,342	3,118,652	1,304,945
2017	5,761,600	2,185,449	2,881,412	1,203,651
2018	5,539,917	2,000,409	2,874,677	1,104,272
2019 - 2023	23,986,782	7,387,284	11,996,921	4,113,062
2024 - 2028	18,480,950	3,184,829	10,179,015	2,035,606
2029-2033	<u>6,536,800</u>	<u>503,653</u>	<u>5,831,430</u>	<u>424,131</u>
Total bonds	<u>\$ 78,676,333</u>	<u>\$ 22,921,417</u>	<u>\$ 43,325,574</u>	<u>\$ 13,003,876</u>

Literary Loans:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 20,018	\$ 3,521
2015	20,018	2,521
2016	20,019	1,519
2017	<u>10,366</u>	<u>518</u>
Total literary loans	<u>\$ 70,421</u>	<u>\$ 8,079</u>

Notes Payable:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 402,486	\$ 5,997

11. PENSION OBLIGATIONS

City of Charlottesville Supplemental Retirement or Pension Plan

Plan description. The City administers the Pension Plan, a single-employer defined benefit plan for general and public safety employees. The Pension Plan provides retirement and disability benefits to eligible plan members and their beneficiaries. The plan is governed by City Council, as provided in Article II, IV and V of Chapter 19 of the City Code, 1990, as amended, of the City of Charlottesville. City Council may amend benefits and other plan provisions, and are responsible for the management of plan assets. The Plan does not provide automatic annual increases in benefits. The Pension Plan is considered a part of the City's Reporting Entity and is included in the City's financial statements as the Pension Trust Fund (Exhibits F-1 and F-2). There is no separately issued City Supplementary Retirement or Pension Plan report.

The Pension Plan covers all regular employees that work at least half time for at least 36 weeks per year. Employer contribution is determined annually based on actuarial valuation data. Plan members are entitled to an annual retirement benefit, payable monthly for life. Public safety employees include sworn police and sheriff officers and fire fighters. Employees hired *before* July 1, 2012, and employees hired on *or after* July 1, 2012, have different pension provisions and employee contribution rates as follows:

<u>General Employees Pension Plan – Normal Retirement Benefit</u>		
	Before July 1, 2012	On or after July 1, 2012
Normal Retirement Age	Age 65 with 5 years of service	Age 65 with 5 years of service
Early Retirement Age	Age 55 with 5 years of service Age 50 with 30 years of service	Age 60 with 5 years of service Age 60 with 30 years of service
Vesting	5 years of service	5 years of service
Employee Contribution for Pension and OPEB Plans	None	3% of base salary
Pension Benefit Formula	Average Final Compensation (AFC) x 1.6% x years of creditable service	Average Final Compensation (AFC) x 1.6% x years of creditable service
Years to Calculate AFC	3 years	5 years

<u>Public Safety Pension Plan – Normal Retirement Benefit</u>		
	Before July 1, 2012	On or after July 1, 2012
Normal Retirement Age	Age 60	Age 60
Early Retirement Age	Age 55 with 5 years of service Age 50 with 25 years of service	Age 55 with 5 years of service Age 50 with 25 years of service
Vesting	5 years of service	5 years of service
Employee Contribution for Pension and OPEB Plans	None	3% of base salary
Pension Benefit Formula	Average Final Compensation (AFC) x 1.6% x years of creditable service	Average Final Compensation (AFC) x 1.6% x years of creditable service
Years to Calculate AFC	3 years	5 years
Social Security Supplement	1% of Average Final Compensation (AFC) x years of creditable service paid until Social Security retirement age with 20 years of service. Payable until full retirement age, as in effect on July 1, 2005.	1% of Average Final Compensation (AFC) x years of creditable service with 20 years of hazardous duty service. Supplement amount is limited to estimated unreduced primary social security benefit. Payable until full retirement age, as in effect on July 1, 2005.

Membership in the City's Pension Plan consists of the following at June 30, 2013, the date of the most recent actuarial valuation:

	<u>Members</u>
Retirees and beneficiaries currently receiving benefits	499
Vested terminated employees	405
Current employees:	
Vested	544
Nonvested	228
Total	<u><u>1,676</u></u>

Summary of significant accounting policies – basis of accounting and valuation of investments. The Pension Trust financial statements are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with provisions of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the Pension Trust Statement of Net Position date. Securities without an established market value are reported at estimated fair value.

Funding policy. The contribution requirements of plan members and the City are established and may be amended by City Council. Plan members hired before July 1, 2012 are not required to contribute. Plan members hired on or after July 1, 2012 must contribute 3% of base pay (annual covered salary) for Pension and Other postemployment benefits (OPEB) plans. The City's contribution rates are actuarially determined and consist of current costs plus amortization of prior service costs. The contribution rates for 2013 are based on the July 1, 2011, actuarial report. The general employee contribution rate is 14.59% and the public safety contribution rate is 24.49%.

Annual pension cost. The City has traditionally contributed the annual required contribution (ARC) and thus has never actually had or been required to report a net pension obligation (NPO). In accordance with GAAP, the City calculated the potential for a NPO and reaffirmed that none existed at June 30, 2013.

The Pension Plan's Annual Required Contribution (ARC), percentage of ARC contributed, and Net Pension Obligation are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage of ARC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2013	\$ 5,701,673	100 %	\$ -
2012	5,890,831	100	-
2011	5,109,912	100	-

Funded status and funding progress. As of June 30, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 129,978,376
Actuarial value of plan assets	79,188,241
Unfunded actuarial accrued liability (UAAL)	<u>\$ 50,790,135</u>
Funded ratio (actuarial value of plan assets/AAL)	60.9%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 33,540,553
UAAL as a percentage of covered payroll	151.4%

The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

Actuarial methods and assumptions. The annual required contribution (ARC) for the plan was determined as part of the July 1, 2011 actuarial valuation using the following methods and assumptions:

<u>Method</u>	<u>Assumption</u>
Actuarial cost method	Projected Unit Credit
Amortization method	Level % of pay with contributions increasing 4% per year
Remaining amortization period	25
Asset valuation method	4 year smoothed market
Inflation rate	3.0%
Investment return	4.5%
Projected salary increases	Range 2.5% - 5.0%
Cost of living adjustment	None

City of Charlottesville Defined Contribution Pension Plan

Effective July 1, 2001, the City established a defined contribution plan (the “DC Plan”) for its employees. The DC Plan is administered by ICMA-RC. All eligible employees were given a one-time option to switch from the City of Charlottesville Supplementary Retirement or Pension Plan to the DC Plan. If an employee elected to switch, their benefit was frozen under the Pension Plan. A total of 159 employees elected to participate at the DC Plan’s inception. Plan provisions and contribution rates for City and employees are established and may be amended by City Council.

All new hires are given a one-time option to choose either the Pension Plan or the DC Plan when they are hired. Under the DC Plan, the city contribution rate is 8% of the employee’s base salary to their individual account, which is administered by a third party. There is no employee contribution required. DC Plan contributions vest ratably over a three year period. Employees determine how their account balance is invested from a range of available options. At June 30, 2013, there were 209 active City employees and a total of 324 participants, including terminated employees enrolled in the DC Plan. During the year, the City contributed a total of \$683,934 for active employees. Total net assets available for benefits at June 30, 2013, were \$7,454,968.

There is also a separate defined contribution plan for senior management to which the City contributes. For the year ended June 30, 2013, a total of \$531,869 was contributed for 14 active City employees. The city contribution rate is 29.83% of eligible compensation.

School Board Component Unit – Virginia Retirement System (VRS)

Plan Description. The School Board participates in the VRS, an agent and cost-sharing multiple-employer defined benefit pension plan. Professional employees are included in a statewide teacher cost-sharing pool and non-professional employees have a separate plan. All full-time, salaried permanent employees must participate in VRS. Title 5.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. Effective July 1, 2010, there are two retirement plans in effect. Plan 1 members hired into covered positions prior to July 1, 2010. Plan 2 are members hired on or after July 1, 2010. Under Plan 1, employees are eligible for unreduced benefits at age 65 with 5 years of service, or as early as age 50 if they have at least 30 years of service. Under Plan 2, employees are eligible for unreduced retirement benefits at the normal retirement age for social security with 5 years of service, or when age and service added together equal 90 (e.g. 60 with 30 years of service credit). VRS issues a publicly available comprehensive annual financial report, which may be obtained in writing from VRS at P.O. Box 2500, Richmond, VA 23218-2500 or download from the VRS website at www.varetire.org.

Funding Policy. Plan members are required by Title 5.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rates for teacher cost-sharing pool for the fiscal year ended June 30, 2013, was 13.96% of annual covered payroll. The School Board's required contribution, equal to ARC, was as follows:

<u>Year Ended</u>	<u>Contribution Dollars</u>	<u>Contribution Percentage</u>
June 30, 2013	\$ 4,820,615	13.96 %
June 30, 2012	4,092,371	12.21
June 30, 2011	3,046,139	9.81

Annual pension cost and actuarial assumptions. For the non-professional plan, the School Board's contribution rate for the fiscal year ending June 30, 2013, was 10.2% of annual covered payroll. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the Entry Age Normal actuarial cost method. The assumptions included a 7% investment return, projected salary increased between 3.75% and 5.6% per year based on age and 2.5% cost of living adjustment. The inflation rate is 2.5%. The asset valuation method is modified market value of assets. The annual required contribution was \$174,104, which was 100% contributed.

Funded status and funding progress. As of July 1, 2011, the most recent actuarial date, the funded status of the non-professional plan was as follows. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

Actuarial accrued liability (AAL)	\$	10,414,500
Actuarial value of plan assets		9,561,359
Unfunded actuarial accrued liability (UAAL)	\$	853,141
Funded ratio (actuarial value of plan assets/AAL)		91.8%
Covered payroll (annual payroll of active employees covered by the plan)	\$	1,932,343
UAAL as a percentage of covered payroll		44.2%

12. OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

City of Charlottesville

Plan description. The City provides medical, dental and life insurance coverage for eligible Pension Plan members that elect to participate. Vested employees who separate service with the City before pension benefits are received are not eligible for OPEB benefits. The City administers the plan as part of the City's benefit program. City Council may amend benefits for current and future retirees and are responsible for the management of the assets. The OPEB Trust is considered a part of the City's Reporting Entity and is included in the City's financial statements as the Pension Trust Fund (Exhibits F-1 and F-2). There is no separately issued City other postemployment benefits report.

<u>Pension Plan Members – Medical, Dental and Life Insurance Benefits</u>		
	<u>Before July 1, 2012</u>	<u>On or after July 1, 2012</u>
Medical and Dental coverage	Must have 5 years of creditable service. Under Age 65: Can continue to participate in Health Care Program Over Age 65: Participates in program that provide Medicare Supplementary Insurance and certain wellness benefits	Must have 10 years of creditable service. Under Age 65: Can continue to participate in Health Care Program. Health and dental coverage end at Medicare eligibility age.
Life Insurance	Must have 5 years of creditable service. Two times annual salary reduced 2% per month until benefit reaches the final annual salary.	Must have 10 years of creditable service. Two times annual salary reduced 25% per year until benefit reaches 50% of final annual salary

Membership in the City's OPEB Plan consists of the following at June 30, 2013, the date of the most recent actuarial valuation:

	<u>Members</u>
Retirees and beneficiaries currently receiving benefits	415
Current employees:	
Vested	<u>1,007</u>
Total	<u><u>1,422</u></u>

Summary of significant accounting policies – basis of accounting and valuation of investments. The Pension Trust financial statements are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with provisions of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the Pension Trust Statement of Net Position date. Securities without an established market value are reported at estimated fair value.

Funding policy. The contribution requirements for current and future OPEB Plan members are established and may be amended by City Council. The city contribution is determined annually by City Council. Pension Plan members hired before December 3, 2002, received 100% of the city contribution towards the cost of medical and dental insurance. For Pension Plan Members hired on or after December 3, 2002, the city contribution toward the cost of medical and dental insurance is pro-rated based on vesting requirements and years of creditable service. OPEB Plan members must pay for family members at their own expense. Surviving spouses of OPEB Plan members may elect to continue health care benefits at their own expense. Life insurance is provided at no direct cost to the plan members. DC Plan senior management is eligible for the same OPEB benefits as Pension Plan members. The City contribution rates for 2013 are based on the July 1, 2011, actuarial report. The contribution rate is 17.07%.

DC Plan members may be eligible for access to continue medical and dental benefits. The City does not pay any of the costs. The DC Plan member is not eligible for life insurance benefits.

Annual OPEB cost. The City has traditionally contributed the annual required contribution (ARC) and thus has never actually had or been required to report a net pension obligation (NPO). In accordance with GAAP, the City calculated the potential for a NPO (asset) and reaffirmed that none existed at June 30, 2013.

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Cost Contributed</u>	<u>Net OPEB Asset</u>
2013	\$ 5,536,057	100.2 %	\$ (708,822)
2012	5,039,276	100.2	(699,150)
2011	4,202,983	100.2	(689,610)

<u>Annual Required Contribution (ARC)</u>	<u>Interest on Net OPEB Asset</u>	<u>Adjustment to the ARC</u>	<u>Increase in Net OPEB Asset</u>	<u>Net OPEB Asset June 30, 2013</u>
\$ 5,545,729	\$ 52,436	\$ 42,764	\$ 9,672	\$ (708,822)

Funded status and funding progress. As of July 1, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$	79,921,809
Actuarial value of plan assets		17,671,272
Unfunded actuarial accrued liability (UAAL)	\$	62,250,537
Funded ratio (actuarial value of plan assets/AAL)		22.1%
Covered payroll (annual payroll of active employees covered by the plan)	\$	33,540,553
UAAL as a percentage of covered payroll		185.6%

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The valuation is based on a closed group. Current employees and retirees only are considered; no provision is made for future hires.

The annual required contribution (ARC) was determined as part of the July 1, 2011, actuarial valuation using the following methods and assumptions:

<u>Method</u>	<u>Assumption</u>
Actuarial cost method	Projected Unit Credit
Amortization method	Level % of pay with contributions increasing 4% per year
Remaining amortization period	30
Asset valuation method	4 year smoothed market
Inflation rate	3.0%
Investment return	4.5%
Projected salary increases	Range 2.5% - 6.0%
Cost of living adjustment	None
Healthcare cost trend rate	Medical trend 5.0-8.0% Dental trend 5.0%

School Board Component Unit – Post-Employment Medical Plan Subsidy

Plan Description. The medical plan subsidy covers all full-time employees who have met all requirements of the Virginia Retirement System (VRS) that are eligible for full, unreduced retirement benefit if they have 30 years of service credit and have at least 10 consecutive years in a full-time salaried position as of the date of retirement. The retirees are not eligible for Medicare coverage (age 65) at retirement date. Medical benefit subsidies on or before March 15, 2006, is a monthly benefit fixed at \$250 payable to the earlier of: a) is age 65; b) is 60 monthly payments; and c) is the death of the retiree. Employees who retire after June 30, 2010, and have 10 or more consecutive years of service will receive one of the following annual allotments to assist with paying for individual health insurance with Charlottesville City Schools: Category A: \$4,000 for all full-time employees and Category B: \$2,000 for all part-time

employees. Employees who are eligible for full retirement and are not eligible for or who do not choose health insurance coverage will receive a one-time payment of \$5,000 (full-time) or \$2,500 (part-time). There are no life insurance benefits. At June 30, 2012, there were 537 active employees under age 65 and 52 retirees for a total plan participation of 589 employees.

Funding Policy. The School Board is assumed to make contributions to the medical plan equal to the cost of the benefits (claim payments plus administrative fees not covered by the retiree contribution). The plan is funded on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation. The OPEB obligation, as determined by an actuarial valuation performed at June 30, 2012, is as follows for fiscal year ended June 30, 2013.

Annual OPEB cost	\$ 213,825
Less employer contributions	<u>238,800</u>
Decrease in net OPEB obligation	(24,975)
Net OPEB Obligations, June 30, 2012	<u>199,804</u>
Net OPEB Obligations, June 30, 2013	<u><u>\$ 174,829</u></u>

Funding status and funding progress. As of June 30, 2012, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,247,007
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 2,247,007</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (annual payroll of active employees covered by the plan)	N/A
UAAL as a percentage of covered payroll	N/A

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past experiences and new estimates are made about the future. The schedule of funding progress presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The following assumptions were used in the most recent actuarial report dated June 30, 2012:

<u>Method</u>	<u>Assumption</u>
Actuarial cost method	Projected Unit Credit
Remaining amortization period	28
Asset valuation method	Market Value
Investment return	4.0%
Healthcare cost trend rate	9% for 3 years; 8% for 6 years; 6% for 6 years and 5% thereafter

13. CONTINGENCIES

The City and School Board have received a number of Federal and State grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the City and School Board's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time. In the opinion of management, any further disallowances of current grant program expenditures, if any, would be immaterial.

14. REVENUE SHARING AGREEMENT

An Annexation and Revenue Sharing Agreement dated February 17, 1982, between the City of Charlottesville, Virginia and the County of Albemarle, Virginia was approved in a public referendum on May 18, 1982. The agreement requires the City and County annually to contribute portions of their respective real property tax bases and revenues to a Revenue and Economic Growth Sharing Fund. Distribution of the fund and the resulting net transfer of funds shall be made on each January 31 while this agreement remains in effect.

During the time this agreement is in effect, the City will not initiate any annexation procedures against the County. Also, pursuant to this agreement, a committee was created to study the desirability of combining the governments and the services presently provided by them.

This agreement became effective July 1, 1982, and remains in effect until:

1. The City and County are consolidated into a single political subdivision, or
2. The concept for independent cities presently existing in Virginia is altered by State law in such a manner that real property in the City becomes a part of the County's tax base, or
3. The City and County mutually agree to cancel or change the agreement.

During the fiscal year, the County paid \$17,520,948 to the City as a result of this agreement, which is recorded in intergovernmental revenues.

15. JOINT VENTURES

(a) Rivanna Water and Sewer Authority

The City is a participant with the Albemarle County Service Authority (ACSA) in a joint venture to provide water and wastewater treatment services to City residents and residents in certain areas of Albemarle County. The Rivanna Water and Sewer Authority (RWSA) was created for that purpose. RWSA is governed by a seven-member board composed of City Manager, City Director of Public Works, a Charlottesville City Councilor, an Albemarle County Executive, an Albemarle County Supervisor, and the Executive Director of ACSA, as well as a seventh member who is appointed by concurrent action of the City and County. The City and ACSA have agreed to purchase water and wastewater treatment services for all their customers solely from RWSA, at rates established to cover the operating and debt costs of RWSA, until June 30, 2013. For the year ended June 30, 2013, the City paid a total of \$11,257,121 to RWSA. Complete, audited financial statements for RWSA can be obtained at their administrative offices at 200 Franklin Street, Charlottesville, Virginia 22902.

(b) Rivanna Solid Waste Authority

The City is a participant with Albemarle County in a joint venture to provide drop off recycling services at the McIntire Recycling Center on McIntire Rd. The City and County also entered into a Cost Sharing Agreement for purposes of paying any of the post-closure care and corrective action costs related to the old Ivy Landfill in the event the Rivanna Solid Waste Authority would not have the financial resources to pay such costs. Although the City entered into a Local Government Guarantee on behalf of the Rivanna Solid Waste Authority, the Virginia Department of Environmental Quality (DEQ) has no legal recourse against the City under this

guarantee. The City's percentage of these shared costs is 35.5% of the total. The City share of the local guarantee for the 2012 calendar year and for fiscal year 2013 is \$2,346,297. Annual certificates must be filed every December 30th to DEQ. Complete, audited financial statements for RSWA can be obtained at their administrative offices at 200 Franklin Street, Charlottesville, Virginia 22902.

(c) Jefferson-Madison Regional Library

The City and several neighboring counties joined together to form a regional library system for the use of their respective residents. The Jefferson-Madison Regional Library (JMRL) is governed by an eleven-member board, four of whom are appointed by the City. The participating localities share the operating costs of JMRL on the basis of the prior year's book circulation. The City contributed \$1,438,251 to JMRL for the year ended June 30, 2013. Complete, audited financial statements for JMRL can be obtained at their administrative offices at 201 East Market Street, Charlottesville, Virginia 22902.

(d) Charlottesville – Albemarle Regional Jail

The City and Albemarle County share the costs of operating a regional jail. The Jail is governed by a seven-member board, three of whom are appointed by the City (with one member being ex-officio), three by the County, and one jointly appointed citizen. Under the terms of the operating agreement, either the City or the County can terminate the contract with sixty days' notice. The City and County share the costs of operating the Jail (net of any reimbursements from the Federal, State and other local governments) on the ratio of City and County prisoner days of utilization for the prior year. Any excesses or deficits are reimbursed after the end of each fiscal year. For the year ended June 30, 2013, the City's share of the costs of the Jail was \$4,306,748. Complete, audited financial statements for the Jail can be obtained at their administrative offices at Avon Street Extended, Charlottesville, Virginia 22902.

(e) Emergency Communications Center

The City, Albemarle County and the University of Virginia jointly participate in operating a centralized dispatching facility for law enforcement and emergency services. The Emergency Communications Center (the Center) is governed by an eight-member board, three of whom are ex-officio members from the City. The Center operates under the terms of an agreement whereby any participant may discontinue its participation with one year's written notice. The operating costs of the Center are shared by the three participants on the basis of population, numbers of calls for service and annual crime statistics. For the year ended June 30, 2013, the City's share of the costs of the Center was \$1,783,231. Complete, audited financial statements for the Center can be obtained at the County Office Building, 401 McIntire Road, Charlottesville, Virginia 22902.

(f) Charlottesville Albemarle Convention & Visitors Bureau

This is a regional program funded by the City, Albemarle County, Charlottesville Regional Chamber of Commerce and the University of Virginia and revenues generated by the Bureau. Its purpose is to promote tourism in the area. The Bureau is governed by a Management Committee composed of the City Manager, the County Executive, the President of the Charlottesville-Albemarle Chamber of Commerce and one ex-officio, non-voting member from the University of Virginia. The Chamber of Commerce contributes an amount based on its membership dues. The City and the County contributions are based on the year's sales tax and lodging tax for each compared to total. For the year ended June 30, 2013, the City contributed \$615,014 to the Bureau.

(g) Darden Towe Park

The City and County jointly own and operate a park, known as Darden Towe Park (the Park). The Park is governed by a supervisory committee, consisting of two ex-officio members each from the City and County. The operating costs of the Park are shared between the two based on the average of the populations of the two localities and the relative proportion of park usage by City and County residents. For the year ended June 30, 2013, the City's share of the Park's operating costs was \$64,008. Complete, audited financial statements for the Park can be obtained at the County Office Building, 401 McIntire Road, Charlottesville, Virginia 22902.

16. RELATED ORGANIZATIONS

The City Council is responsible for making appointments for a variety of boards and commissions, some of which are governing boards for agencies that cooperate outside of the authority of city government. These boards include:

Albemarle – Charlottesville Regional Jail Authority
Blue Ribbon Commission on Sustainable Schools Funding
Board of Architectural Review
Building Code Board of Appeals
Charlottesville – Albemarle Airport Authority
Charlottesville – Albemarle Airport Commission
Charlottesville – Albemarle Commission on Children and Families
Charlottesville – Albemarle Regional Transportation Committee
Charlottesville Economic Development Authority
Charlottesville Redevelopment and Housing Authority
Charlottesville Youth Council
Citizen’s Advisory Panel
Community Development Block Grant Task Force
Housing Advisory Committee
Human Rights Commission
JAUNT (Jefferson Area United Transportation Board)
Jefferson Area Board of Aging Advisory Council (JABA)
Jefferson Area Board of Aging-Board of Directors (JABA)
Jefferson Area Community Criminal Justice Board
Jefferson-Madison Regional Library Board (JMRL)
Metropolitan Planning Organization Policy Board
Monticello Area Community Action Agency Board (MACAA)
Parks and Recreation Advisory Committee
Personnel Appeals Board
Piedmont Virginia Community College Board
Planning Commission/Entrance Corridor Review Board
PLACE Design Task Force
Region Ten Community Services Board
Regional Disability Service Board
Retirement Commission
Rivanna Solid Waste Advisory Committee
Rivanna Solid Waste Authority
Rivanna Water and Sewer Authority
Sister Cities Commission
Social Services Advisory Board
Thomas Jefferson Planning District Commission
Towing Advisory Board
Tree Commission
Vendor Appeals Board

17. RISK MANAGEMENT

The Risk Management Fund reports liabilities for claims when it is probable that a loss has been incurred, and also includes independent estimates for claims that have been incurred but not reported. Since these claims are estimates based on currently available information, they are reviewed periodically, and the reported liabilities are revised as necessary. The net asset balance of \$9,107,755 at June 30, 2013, is a reserve for future extraordinary claims.

Major risks retained by the City include:

Worker’s compensation - \$500,000 per claim and employee health care - \$125,000 per participant per year.
Other insurance policies have deductibles of \$25,000 or less per occurrence.

The following is a reconciliation between the current and prior years' claims liabilities:

	<u>2012-2013</u>	<u>2011-2012</u>
Accrued claims, July 1	\$ 2,464,524	\$ 2,870,576
Add claims incurred during the current fiscal year including changes in estimated claim payable	11,190,244	9,482,399
Less payments on claims	<u>(10,917,862)</u>	<u>(9,888,451)</u>
Accrued claims, June 30	<u>\$ 2,736,906</u>	<u>\$ 2,464,524</u>
Claims or judgments due within one year	\$ 2,659,321	\$ 2,415,385
Claims or judgments due in more than one year	<u>77,585</u>	<u>49,139</u>
Total	<u>\$ 2,736,906</u>	<u>\$ 2,464,524</u>

Public employee dishonesty coverage, Virginia Municipal League Insurance Program is as follows:

	<u>Amount</u>
Jason A. Vandever, Treasurer	\$ 1,000,000
Llezelle A. Dugger, Clerk of the Circuit Court	1,000,000
R. Lee Richards, Commissioner of the Revenue	1,000,000
James E. Brown, III, Sheriff	1,000,000
Maurice T. Jones, City Manager	1,000,000
Aubrey Watts, Jr., Chief Operating Officer/Chief Financial Officer	1,000,000
Bernard Wray, Director of Finance	1,000,000
Jennifer Luchard, Manager Procurement and Risk Management Services	1,000,000

During the normal course of business, the City and its employees have been named as defendants in claims for personal injuries, property damage and specific performances which are being defended by the City Attorney and associated counsel. It is the opinion of the City Attorney that the resolution of such litigation will not involve a substantial liability to the City, other than what is already accrued in the government-wide financial statements.

18. CAPITAL LEASES

The School Board entered into a capital lease to finance the acquisition of 2,082 Fujitsu Stylistic Q550 Computer Tablets with a down payment of \$111,705. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease commenced on September 29, 2011, for four (4) years ending October 31, 2014. At the end of the lease, there is an option to purchase the tablets or sign a new lease for updated technology.

The assets acquired through capital leases are as follows:

Asset:	
Furniture and equipment	\$ 1,973,451
Less: Accumulated depreciation	<u>(592,035)</u>
Total	<u>\$ 1,381,416</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, are as follows:

Year Ending June 30, 2013:	<u>Activities</u>
2014	\$ 493,362
2015	<u>493,363</u>
Total minimum lease payments	986,725
Less: amount representing interest	<u>(55,514)</u>
Present value of minimum lease payments	<u><u>\$ 931,211</u></u>

19. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

(a) Construction Commitments

The City has active construction projects as of June 30, 2013. The projects include construction of a new fire department, street and bridge construction, and school science labs. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
Streets Construction	\$ 17,885,894	\$ 21,241,876
Bridge Replacement	1,818,252	365,996
Fontaine Area Fire Station	11,430,107	2,270,251
Science Lab-Buford and CHS	285,102	1,091,994

The remaining commitment amounts of \$24,970,117 for the new fire department, street and bridge construction, and school science labs were encumbered at fiscal year end. As discussed in the required supplementary information, unexpended general fund appropriations lapse at the end of the fiscal year unless carried over by Council action. Budgets for special revenue funds and debt service funds are adopted on an annual basis. The capital projects fund budget is adopted on a project life basis.

(b) Encumbrances

As discussed in the required supplementary information, unexpended general fund appropriations lapse at the end of the fiscal year unless carried over by Council action. Budgets for special revenue funds and debt service funds are adopted on an annual basis. The capital projects fund budget is adopted on a project life basis. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$ 436,087
Capital Projects Fund	27,459,783
Social Services Fund	-
Nonmajor governmental funds	<u>2,203,870</u>
Total	<u><u>\$ 30,099,740</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual-Budget	Variance
	Original	Final	Basis (see note 1)	Positive (Negative)
REVENUES				
Taxes:				
Real estate	\$ 50,074,178	\$ 50,074,178	\$ 49,623,247	\$ (450,931)
Personal property	6,222,000	6,222,000	6,551,421	329,421
Public service corporation	1,296,916	1,296,916	1,327,063	30,147
Penalties and interest on delinquent taxes	350,000	350,000	392,696	42,696
Sales and use	9,894,000	9,894,000	9,901,299	7,299
Business license	6,528,000	6,528,000	6,880,942	352,942
Utilities	4,495,000	4,495,000	4,422,168	(72,832)
Communications	3,516,960	3,516,960	3,276,861	(240,099)
Meals	7,700,500	7,700,500	8,103,257	402,757
Lodging	2,819,000	2,819,000	2,932,367	113,367
Franchise	-	-	13,880	13,880
Tax on bank stock	1,150,000	1,150,000	851,638	(298,362)
Tax on wills and deeds	450,000	450,000	604,597	154,597
Rolling stock	17,324	17,324	11,860	(5,464)
Short-term rental	40,000	40,000	41,230	1,230
Cigarette	615,000	615,000	672,397	57,397
Recordation	232,043	232,043	107,318	(124,725)
Total taxes	95,400,921	95,400,921	95,714,241	313,320
Licenses and permits:				
Vehicle license fees	856,000	856,000	835,883	(20,117)
Dog licenses	15,000	15,000	17,308	2,308
Electrical, heating and mechanical permits	120,000	120,000	250,309	130,309
Building and plumbing permits	275,000	275,000	634,628	359,628
Erosion control fees	-	-	15,125	15,125
Sign permits	-	-	12,075	12,075
Other permits	481,000	481,000	699,561	218,561
Total licenses and permits	1,747,000	1,747,000	2,464,889	717,889
Intergovernmental revenues:				
Revenue from Federal government	-	10,368	12,842	2,474
Revenue from State agencies:				
State highway assistance	3,360,818	3,360,818	3,602,684	241,866
Reimbursement for constitutional officers	974,827	974,827	1,160,630	185,803
Police assistance	2,012,682	2,012,682	2,012,665	(17)
Trailer titling tax	1,200	1,200	3,474	2,274
PPTRA revenue	3,498,256	3,498,256	3,498,256	-
Other State assistance	166,000	178,258	160,871	(17,387)
Revenue from other local governments:				
Revenue sharing - Albemarle County	17,520,948	17,520,948	17,520,948	-
Fire Department operations	710,000	750,000	826,856	76,856
Juvenile and Domestic Relations Court	111,598	111,598	111,598	-
Court revenue	350,000	350,000	372,975	22,975
Circuit Court reimbursement	-	-	87,812	87,812
University of Virginia service charge	25,000	25,000	33,577	8,577
Payment in lieu of taxes - CRHA	25,000	25,000	45,644	20,644
Other	439,601	437,601	580,272	142,671
Total intergovernmental revenues	29,195,930	29,256,556	30,031,104	774,548

(continued)

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual-Budget Basis (see note 1)	Variance Positive (Negative)
	Original	Final		
Charges for services:				
Recreation income	1,546,700	1,551,660	1,458,471	(93,189)
Parking meter receipts	100,000	100,000	99,697	(303)
Parking garage revenue	1,250,000	1,250,000	1,381,299	131,299
Solid waste collection fees	950,000	950,000	862,051	(87,949)
Tax abatement application fees	-	-	1,050	1,050
Other	2,248,605	2,272,622	1,928,813	(343,809)
Total charges for services	6,095,305	6,124,282	5,731,381	(392,901)
Fines:				
Parking fines	500,000	500,000	392,763	(107,237)
Miscellaneous revenues:				
Interest Income	450,000	450,000	239,096	(210,904)
Rent	306,664	306,664	282,562	(24,102)
Proceeds from drug seizures	-	13,138	20,537	7,399
Contributions	28,500	55,146	100,488	45,342
Refund of prior year expenditures	30,000	30,000	3,094	(26,906)
Indirect cost recovery	150,000	150,000	118,648	(31,352)
Other	331,206	517,713	284,945	(232,768)
Total miscellaneous revenues	1,296,370	1,522,661	1,049,370	(473,291)
Total revenues	134,235,526	134,551,420	135,383,748	832,328
EXPENDITURES - CURRENT				
General government:				
Legislative:				
Mayor and Council	210,874	226,874	226,453	421
Reserve for Council	90,000	359,098	253,255	105,843
First Cities	18,000	18,000	17,194	806
Sister Cities	15,000	50,369	9,681	40,688
Judicial:				
City Circuit Court	786,525	820,295	770,072	50,223
General District Court	28,815	31,280	23,760	7,520
Court Services Unit	9,275	9,275	9,273	2
Juvenile and Domestic Relations Court	243,077	243,077	239,217	3,860
Commonwealth's Attorney	1,042,577	1,078,036	931,236	146,800
City Sheriff	993,551	1,412,308	1,051,265	361,043
Executive:				
City Manager	1,353,866	1,725,978	1,365,879	360,099
Citywide Reserve	-	26,328	21,142	5,186
Legal:				
City Attorney	764,699	784,699	739,114	45,585
Financial administration:				
Commissioner of Revenue	1,120,176	1,120,176	1,092,251	27,925
Real Estate Assessor	764,999	793,056	774,198	18,858
Treasurer	1,219,121	1,219,465	1,078,899	140,566
Finance - Administration	1,301,029	1,380,984	1,378,299	2,685
Purchasing	323,153	336,986	336,403	583
Personnel Administration:				
Human Resources Department	1,053,029	1,089,529	996,933	92,596
Elections:				
Office of the Registrar	413,443	580,829	580,726	103
General government buildings and plant:				
Public Works - Administration	817,410	842,865	852,665	(9,800)
Custodial	475,778	475,778	466,430	9,348
Maintenance	839,649	2,272,003	1,362,445	909,558
Total general government	13,884,046	16,897,288	14,576,790	2,320,498

(continued)

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual-Budget Basis (see note 1)	Variance Positive (Negative)
	Original	Final		
Public Safety:				
Police Protection:				
Police Department	14,167,231	14,394,943	14,237,116	157,827
Drug investigation	78,000	268,191	198,126	70,065
Fire Protection:				
Fire Department	9,276,239	9,625,095	9,526,590	98,505
Volunteer Fire Company	15,201	15,201	13,972	1,229
Other Protection:				
Contribution - Charlottesville-Albemarle Regional Jail	4,454,367	4,454,367	4,306,748	147,619
Blue Ridge Juvenile Detention Center	925,000	925,000	790,413	134,587
Office of the Magistrate	8,750	8,750	8,043	707
Traffic Engineering	773,737	1,293,641	736,724	556,917
Contribution - Emergency Communications Center	1,783,231	1,783,231	1,783,231	-
Police Explorer Post #606	-	2,601	-	2,601
Total public safety	31,481,756	32,771,020	31,600,963	1,170,057
Community Services				
Highways and streets:				
Public Service - Administration	505,659	506,934	517,106	(10,172)
Streets and sidewalks	3,038,089	3,695,898	3,191,572	504,326
Public Works - Stormwater	487,367	681,617	496,652	184,965
Street lighting	802,383	802,383	708,338	94,045
Sanitation:				
Refuse collection and disposal	2,007,714	1,979,464	1,865,014	114,450
Contribution to Ivy Landfill	300,000	300,000	267,151	32,849
Transportation:				
Contribution to JAUNT	892,762	892,762	892,762	-
Total community services	8,033,974	8,859,058	7,938,595	920,463
Health and Welfare:				
Health:				
Thomas Jefferson Health Department	425,019	425,019	425,019	-
Region Ten Community Services Board	1,001,865	1,001,865	1,001,865	-
Contributions to community organizations	801,268	801,268	801,268	-
Welfare:				
Tax relief for the elderly	534,000	534,000	452,473	81,527
Rent relief for the elderly	10,000	10,000	13,658	(3,658)
Tax relief for the disabled	137,000	137,000	124,305	12,695
Rent relief for the disabled	85,000	85,000	141,823	(56,823)
Education Extension Program	34,052	41,407	41,407	-
Contributions to community organizations	2,042,082	2,067,426	2,010,686	56,740
Total health and welfare	5,070,286	5,102,985	5,012,504	90,481

(continued)

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual-Budget	Variance
	Original	Final	Basis (see note 1)	Positive (Negative)
Parks, Recreation and Culture:				
Culture:				
Contribution to Jefferson - Madison Regional Library	1,438,251	1,438,251	1,438,251	-
Contributions to community organizations	198,191	198,991	199,200	(209)
Contributions to festivals	76,900	76,900	50,015	26,885
Recreation:				
Administration	885,568	1,030,270	1,028,207	2,063
Athletics	324,818	333,063	324,782	8,281
Aquatics	1,954,158	1,973,773	1,929,821	43,952
Recreation centers	1,166,173	1,307,826	1,267,567	40,259
Special activities	906,323	927,544	896,316	31,228
Therapeutic programs	346,125	400,590	332,614	67,976
First Tee	142,907	177,203	133,808	43,395
Parks:				
Park maintenance	3,582,191	4,097,855	3,747,487	350,368
Contribution to Towe Park operations	72,517	72,517	64,008	8,509
Total parks, recreation and culture	11,094,122	12,034,783	11,412,076	622,707
Education:				
Contribution to School Board component unit	37,321,064	37,321,064	37,321,064	-
School pupil transportation	2,392,261	2,444,743	2,443,783	960
School maintenance and energy management	3,342,071	3,394,895	3,314,896	79,999
Piedmont Virginia Community College	11,200	11,200	11,200	-
WVPT-TV	2,009	2,009	2,009	-
African American Teaching Fellows	5,250	5,250	5,250	-
Total education	43,073,855	43,179,161	43,098,202	80,959
Conservation and Development:				
Economic development:				
Office of Economic Development	699,991	868,062	741,133	126,929
Chamber of Commerce	1,260	1,260	1,260	-
Contribution to Convention and Visitors Bureau	615,014	615,014	615,014	-
Urban redevelopment and housing:				
Parking garages	258,403	258,703	243,269	15,434
Neighborhood Development Services Department	3,180,767	3,378,907	3,156,204	222,703
Historic Preservation Task Force	5,000	28,379	1,820	26,559
Thomas Jefferson Planning District	70,808	70,808	70,808	-
Albemarle Housing Improvement Program	95,546	95,546	95,546	-
Small Business Development Center	12,000	12,000	12,000	-
Total conservation and development	4,938,789	5,328,679	4,937,054	391,625
Other activities				
Virginia Municipal League	13,664	13,664	14,607	(943)
Employee Benefits	660,000	406,974	194,772	212,202
Corporate training program	35,000	62,464	41,883	20,581
Thomas Jefferson Soil & Water	10,300	10,300	10,300	-
Virginia Institute for Government	2,500	2,500	2,500	-
Alliance for Innovation	2,500	2,500	2,500	-
Streamwatch	10,000	10,000	10,000	-
National League of Cities	4,000	4,000	-	4,000
Total other activities	737,964	512,402	276,562	235,840
Total expenditures - budgetary basis	118,314,792	124,685,376	118,852,746	5,832,630
Less encumbrances at June 30, 2013	-	-	(435,987)	435,987
Total expenditures	118,314,792	124,685,376	118,416,759	6,268,617
Revenues over expenditures	15,920,734	9,866,044	16,966,989	7,100,945

(continued)

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual-Budget Basis (see note 1)	Variance Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
Transfers in:				
Transfer from Water Fund	708,548	708,548	708,548	-
Transfer from Sewer Fund	713,867	713,867	713,867	-
Transfer from Gas Fund	3,786,057	3,786,057	3,786,057	-
Transfer from Capital Projects Fund	-	143,723	150,000	6,277
Transfer from Risk Management Fund	250,000	250,000	250,000	-
Total transfers in:	5,458,472	5,602,195	5,608,472	6,277
Transfers out:				
Transfer to Capital Projects Fund	(4,400,000)	(7,739,465)	(7,739,465)	-
Transfer to Social Services Fund	(2,962,777)	(3,127,218)	(3,127,218)	-
Transfer to Grants Fund	-	(47,930)	(47,930)	-
Transfer to Community Attention Programs Fund	(322,724)	(368,990)	(368,990)	-
Transfer to Community Services Act Fund	(2,300,058)	(2,300,058)	(2,155,525)	144,533
Transfer to Transit Fund	(2,187,459)	(2,187,459)	(1,961,544)	225,915
Transfer to VA Juvenile Community Crime Control Act Fund	(108,415)	(108,415)	(108,415)	-
Transfer to Debt Service Fund	(8,975,125)	(9,242,514)	(9,242,514)	-
Total transfers out:	(21,256,558)	(25,122,049)	(24,751,601)	370,448
Total other financing sources (uses), net	(15,798,086)	(19,519,854)	(19,143,129)	376,725
Net change in fund balance	<u>\$ 122,648</u>	<u>\$ (9,653,810)</u>	(2,176,140)	<u>\$ 7,477,670</u>
Fund Balance - July 1, 2012			<u>40,082,388</u>	
Fund Balance - June 30, 2013			<u>\$ 37,906,248</u>	

See accompanying Note to Required Supplementary Information

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
SOCIAL SERVICES FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 9,644,584	\$ 9,665,816	\$ 8,624,926	\$ (1,040,890)
Miscellaneous	-	3,120	22,383	19,263
Total revenues	9,644,584	9,668,936	8,647,309	(1,021,627)
EXPENDITURES - Health and welfare	13,330,646	13,373,393	11,899,321	1,474,072
Other financing sources - transfers in	3,672,357	3,690,752	3,127,218	(563,534)
Net change in fund balance	(13,705)	(13,705)	(124,794)	(111,089)
Fund Balance, July 1, 2012	484,496	484,496	484,496	-
Fund Balance, June 30, 2013	\$ 470,791	\$ 470,791	\$ 359,702	\$ (111,089)

See accompanying Note to Required Supplementary Information

CITY OF CHARLOTTESVILLE, VIRGINIA

EXHIBIT I

**SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2013**

1. City Retirement Plan

Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Ratio (b-a)/c
June 30, 2013	\$ 79,188	\$ 129,978	\$ 50,790	60.9 %	\$ 33,541	151.4 %
June 30, 2012	74,148	127,229	53,081	58.3	32,563	163.0
June 30, 2011	74,778	123,363	48,585	60.6	31,590	153.8
June 30, 2010	73,226	120,093	46,867	61.0	31,174	150.3
June 30, 2009	68,976	115,533	46,557	59.7	31,968	145.6
June 30, 2008	84,507	111,925	27,418	75.5	30,388	90.2

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2013	\$ 5,701,673	100.0 %
June 30, 2012	5,890,831	100.0
June 30, 2011	5,109,912	100.0
June 30, 2010	4,872,461	100.0
June 30, 2009	4,570,157	100.0
June 30, 2008	5,917,199	100.0

2. City Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Ratio (b-a)/c
June 30, 2013	\$ 17,671	\$ 79,921	\$ 62,250	22.1 %	\$ 33,541	185.6 %
June 30, 2012	12,735	77,497	64,762	16.4 %	32,564	198.9
June 30, 2011	9,966	71,519	61,553	13.9	31,590	194.8

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2013	\$ 5,545,729	100.0 %
June 30, 2012	5,048,816	100.0
June 30, 2011	4,212,393	100.0

3. School Board Component Unit - Virginia Retirement System Plan for non-professional employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Ratio (b-a)/c
June 30, 2011	\$ 9,561	\$ 10,414	\$ 853	91.8 %	\$ 1,932	44.2 %
June 30, 2010	9,878	10,356	478	95.4	2,048	23.3
June 30, 2009	10,305	9,739	(566)	105.8	2,150	(26.3)
June 30, 2008	10,495	9,069	(1,426)	115.7	2,050	(69.6)
June 30, 2007	9,781	8,742	(1,039)	111.9	2,053	(50.6)
June 30, 2006	8,935	8,012	(923)	111.5	1,906	(48.4)

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2013	\$ 174,104	100.0 %
June 30, 2012	159,510	100.0
June 30, 2011	143,405	100.0
June 30, 2010	149,059	100.0
June 30, 2009	135,855	100.0
June 30, 2008	178,326	100.0

4. School Board Component Unit - Postemployment Medical Benefit Plan Subsidy

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Ratio (b-a)/c
June 30, 2012	\$ -	\$ 2,247	\$ 2,247	0.0 %	N/A	N/A %
June 30, 2010	-	2,639	2,639	0.0	N/A	N/A
June 30, 2008	-	1,417	1,417	0.0	N/A	N/A

Schedule of Employer Contributions - Estimated. Plan is funded on a pay-as-you-go basis

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2012	\$ 238,800	100.0 %
June 30, 2011	262,000	100.0
June 30, 2010	80,500	100.0

CITY OF CHARLOTTESVILLE, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2013

1. BUDGETARY ACCOUNTING

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. Accordingly, GAAP requires that governments include the original budget with the comparison of final budget and actual results.

The City's budget process begins in December with the preparation of estimated revenue forecasts. Departmental budget requests are submitted to the City Manager in early January. By early March the Manager's proposed budget is presented to City Council. A series of City Council work sessions and public hearings are held. The budget is formally adopted by April 15.

An annual operating budget is adopted for the General Fund and the Social Services Fund. Within the General Fund, budgets are legally adopted at the departmental level. The City Manager is authorized to transfer the budget for personnel cost (salaries and fringe benefits) between departments if necessary; however, any other revisions that alter the total expenditures of any department or agency must be approved by City Council. Unexpended appropriations lapse at the end of the fiscal year unless carried over by Council action. Budgets for special revenues funds and the Debt Service Fund are adopted on an annual basis. The Capital Projects Fund budget is adopted on a project life basis.

The budgets are integrated into the accounting system and the budgetary data, as presented in the Required Supplementary Information for all major funds with annual budgets, compares the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedules for the General and Social Services Funds present actual expenditures in accordance with GAAP on a basis consistent with legally adopted budgets as amended. Original, final budget and actual revenues and expenditures, including encumbrances, for the General Fund and Social Services Fund are presented on Exhibits G and H, respectively.

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Appendix B

CITY OF CHARLOTTESVILLE, VIRGINIA

Proposed Form of Opinion of Bond Counsel

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PROPOSED FORM OF OPINION OF BOND COUNSEL

City Council of the City of
Charlottesville
Charlottesville, Virginia

Dear Councilmembers:

CITY OF CHARLOTTESVILLE, VIRGINIA,
GENERAL OBLIGATION PUBLIC IMPROVEMENT AND
REFUNDING BONDS, SERIES 2014, \$15,995,000

At your request we have examined into the validity of an issue of Fifteen Million Nine Hundred Ninety-Five Thousand Dollars (\$15,995,000) principal amount of General Obligation Public Improvement and Refunding Bonds, Series 2014 (the “Bonds”), of the City of Charlottesville, Virginia (the “City”). The Bonds are dated May 27, 2014, are issued in fully registered form in the denomination of \$5,000 each or any integral multiple thereof and are numbered from R-2014-1 upwards in order of issuance. The Bonds mature on July 15 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest from their date payable on January 15, 2015 and semiannually thereafter on January 15 and July 15 of each year, at the rates per annum set forth opposite such years, to wit:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2015	\$1,180,000	5.00%	2025	\$655,000	3.00%
2016	1,165,000	2.00	2026	655,000	3.00
2017	1,160,000	5.00	2027	655,000	3.00
2018	1,145,000	2.00	2028	655,000	3.00
2019	1,135,000	5.00	2029	655,000	3.00
2020	740,000	2.00	2030	655,000	3.00
2021	740,000	2.125	2031	655,000	3.00
2022	740,000	2.50	2032	650,000	3.125
2023	735,000	2.50	2033	645,000	3.25
2024	735,000	5.00	2034	640,000	3.25

The Bonds maturing on and after July 15, 2025 shall be subject to redemption at the option of the City prior to their stated maturities on or after July 15, 2024 upon the terms and conditions and at the prices stated therein.

The Bonds recite that they are issued for the purpose of providing funds to pay the costs of various public improvement projects of and for the City and to refund and defease certain outstanding issues of general obligation bonds of the City, under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991) and a resolution and other proceedings of the Council of the City duly adopted and taken under the Public Finance Act of 1991.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) certified copies of the aforementioned resolution and other proceedings of the Council of the City in connection with the authorization, issuance, sale and delivery of the Bonds, (iii) such other papers, instruments, documents and proceedings as we have deemed to be necessary or advisable and (iv) a specimen Bond of such issue.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia, and the City Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

We are further of the opinion that, for any Bonds having original issue discount (a "Discount Bond"), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.

It is also our opinion that, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update our opinion after the issue date of the Bonds to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express no opinion relating thereto.

Very truly yours,

Appendix C

CITY OF CHARLOTTESVILLE, VIRGINIA

Continuing Disclosure Certificate

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PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Certificate”), dated May 27, 2014, is executed and delivered in connection with the issuance by the City of Charlottesville, Virginia (the “Issuer”), of \$15,995,000 principal amount of City of Charlottesville, Virginia, General Obligation Public Improvement and Refunding Bonds, Series 2014, dated May 27, 2014 (the “Bonds”), and pursuant to a resolution adopted by the Council of the Issuer on April 21, 2014 (the “Resolution”). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the Issuer agrees as follows:

ARTICLE I

Definitions

SECTION 1.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) financial information and operating data with respect to the City for each fiscal year, including financial information and operating data of the type contained in the Official Statement under the headings “SECTION ONE: THE ISSUE – Separate Authorities – Rivanna Solid Waste Authority” and “– Commitments and Contingencies”, “SECTION FOUR: CITY INDEBTEDNESS AND CAPITAL PLANS – Issuance and Authorization of Bonded Indebtedness” (including the table “LEGAL DEBT MARGIN” therein), “– Debt Information” (including the tables “NET TAX-SUPPORTED DEBT SERVICE REQUIREMENTS”, “DEBT SERVICE REQUIREMENTS OF GAS UTILITY”, “DEBT SERVICE REQUIREMENTS OF WATER UTILITY”, “DEBT SERVICE REQUIREMENTS OF WASTEWATER UTILITY”, “DEBT SERVICE REQUIREMENTS OF STORMWATER UTILITY” and “KEY DEBT RATIOS – 2004 – 2013” therein), “– Capital Improvements Program” (including the table “CAPITAL IMPROVEMENTS PROGRAM – 2014-15 Budget and Projected Plan” therein), “SECTION FIVE: FINANCIAL INFORMATION – Five-Year Summary of General Fund Revenues, Expenditures and Fund Balance” (including the tables “SUMMARY OF GENERAL FUND ACCOUNTS – FISCAL YEARS 2009 THROUGH 2013” and “JUNE 30 FUND BALANCE – 2009 through 2013” therein), “– Statement of General Fund Accounts” (including the tables “GENERAL FUND – Comparison of 2014 Budget and 2013 Actual Results” and “GENERAL FUND – Statement of Revenues and Transfers Compared to Fiscal Year 2013 Budget for Years Ending June 30, 2013 and 2012” therein), “– 2013-2014 Operating Budget (Current Year)”, “– Projected 2013-2014 Results”, “– 2014-2015 Operating Budget (Next Year)”, “– General Fund Revenues”, “– Real Estate and Personal Property Taxes” (including the tables “REAL AND PERSONAL PROPERTY TAX LEVIES AND COLLECTIONS – 2004-2013”, “TWENTY LARGEST REAL ESTATE TAXPAYERS (as of January 2014)”, “ESTIMATED VALUE OF TAX-EXEMPT PROPERTY – Calendar Year 2013”, “ASSESSED AND ESTIMATED MARKET VALUE OF TAXABLE PROPERTY – 2004-2013” and “DIRECT PROPERTY TAX RATES (PER \$100 OF ASSESSED VALUE) – 2004-2013” therein), “– Local Sales Tax” (including the table “CITY SALES TAX REVENUES – 2009-2013” therein), “– Utility Taxes” (including the table “CITY UTILITY TAX REVENUES – 2009-2013” therein), “– Restaurant Meals Tax”, “– Business and Professional License Taxes” (including the table “BUSINESS AND PROFESSIONAL LICENSE TAXES – 2009-2013” therein), “– Other Taxes”, “– City-County Revenue Sharing Agreement”, “– Revenue from the Commonwealth”, “– Charges for Services, Fines and Forfeitures, and Miscellaneous Revenues and Operating Transfers” (including the Table “GENERAL FUND – Sources of Revenues – Fiscal Year Ended June 30, 2013” therein), “– Expenditures – Costs of General City Government” and “– Transfers to Other Operating Funds”, “– Gas Fund Financial Information” (including the tables “GAS FUND – Statement of Revenues, Expenses and Changes in Fund Net Position – Fiscal Years Ended June 30, 2013 and 2012” and “GAS FUND – Statement of Net Position – June 30, 2013 and 2012” therein), “– Water Fund Financial Information” (including the tables “WATER FUND – Statement of Revenues, Expenses and Changes in Fund Net Position – Fiscal Years Ended June 30, 2013 and 2012” and “WATER FUND – Statement of Net Position – June 30, 2013 and 2012” therein), “– Sewer Fund Financial Information” (including

the tables “SEWER FUND – Statement of Revenues, Expenses and Changes in Fund Net Position – Fiscal Years Ended June 30, 2013 and 2012” and “SEWER FUND – Statement of Net Position – June 30, 2013 and 2012” therein”, “– Employee Retirement Plans” and “Post-Employment Benefits Other Than Pensions”, and information contained in Appendix A to the Official Statement (“Independent Auditors’ Report” and “General Purpose Financial Statements of the City of Charlottesville, Virginia, For the Year Ended June 30, 2013”) and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(d) and (e) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 1.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however*, that, pursuant to Section 4.2(a) and (e) hereof, the Issuer may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. Notice of any such modification required pursuant to Section 4.2(a) hereof shall include a reference to the specific federal or State law or regulation requiring such accounting principles or other description thereof.

(3) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board or any successor to the duties and responsibilities of either of them.

(5) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934 or any successor thereto or to the functions of the MSRB contemplated by this Certificate.

(6) “Notice Event” means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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 of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Bondholders, if material;

- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Issuer;

Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

- (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(7) “Official Statement” means the Official Statement, dated May 13, 2014, of the Issuer relating to the Bonds.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(9) “SEC” means the United States Securities and Exchange Commission.

(10) “Unaudited Financial Statements” means the same as Audited Financial Statements, except the same shall not have been audited.

(11) “Underwriters” means the underwriters of the Bonds, for whom Stifel Nicolaus & Company, Inc. is serving as representative.

ARTICLE II

The Undertaking

SECTION 2.1. Purpose. This Certificate is being executed and delivered solely to assist the Underwriters in complying with paragraph (b)(5) of the Rule.

SECTION 2.2. Annual Financial Information. The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with the fiscal year beginning July 1, 2013, by no later than nine (9) months after the end of the respective fiscal year, to the MSRB.

(a) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

SECTION 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the Issuer shall provide Audited Financial Statements, when and if available, to the MSRB.

SECTION 2.4. Notice Events. If a Notice Event occurs, the Issuer shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to the MSRB.

(a) Any notice of defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

SECTION 2.5. Additional Information. Nothing in this Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Certificate. If the Issuer chooses to do so, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

SECTION 2.6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other federal and State laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Certificate without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 2.7. No Previous Non-Compliance. The Issuer represents that, in the previous five years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III

Operating Rules

SECTION 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet website (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section 3.1 shall not apply to notices of Notice Events pursuant to Section 2.4 hereof.

SECTION 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time.

SECTION 3.3. Dissemination Agents. The Issuer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Issuer under this Certificate and revoke or modify any such designation.

SECTION 3.4. Transmission of Notices, Documents and Information. Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the

MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(a) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 3.5. Fiscal Year. The Issuer's current fiscal year is July 1-June 30, and the Issuer shall promptly notify the MSRB of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than twelve (12) calendar months.

ARTICLE IV

Effective Date; Termination, Amendment and Enforcement

SECTION 4.1. Effective Date; Termination. This Agreement shall be effective upon the issuance of the Bonds.

(a) The Issuer's obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(b) This Certificate, or any provision hereof, shall be null and void in the event that the Issuer (i) shall have received an opinion of Counsel, addressed to the Issuer, to the effect that those provisions of the Rule which require this Certificate, or any such provision, as the case may be, do not or no longer apply to the Bonds, whether because such provisions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) the Issuer shall have delivered copies of such opinion to the MSRB.

SECTION 4.2. Amendment. This Certificate may be amended, by written certificate of the City Manager of the Issuer, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (ii) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (iii) the Issuer shall have received an opinion of Counsel, addressed to the Issuer, to the same effect as set forth in clause (ii) above, (iv) the Issuer shall have received an opinion of Counsel, addressed to the Issuer or a determination by a person, in each case unaffiliated with the Issuer (such as Bond Counsel), addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the holders of the Bonds and (v) the Issuer shall have delivered copies of such opinions (and determination, if any) and amendment to the MSRB.

(a) This Certificate may be amended, by written certificate of the City Manager of the Issuer, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Certificate which is applicable to this Certificate, (ii) the Issuer shall have received an opinion of Counsel, addressed to the Issuer, to the effect that performance by the Issuer under this Certificate as so amended will not result in a violation of the Rule and (iii) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Certificate may be amended, by written certificate of the City Manager of the Issuer, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) the Issuer shall have received an opinion of Counsel, addressed to the Issuer, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of the Staff of the SEC, and (ii) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(c) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the Issuer in preparing financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 4.3. Benefit; Third-Party Beneficiaries; Enforcement. The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that the beneficial owners of the Bonds shall be third-party beneficiaries of this Certificate. The provisions of this Certificate shall create no rights in any person or entity except as provided in subsection (a) and subsection (b) of this Section 4.3.

(a) The obligations of the Issuer to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The rights of the holders of the Bonds to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Certificate. In consideration of the third-party beneficiary status of beneficial owners of the Bonds pursuant to subsection (a) of this Section 4.3, beneficial owners shall be deemed to be holders of the Bonds for purposes of this subsection (b).

(b) This Certificate shall be construed and interpreted in accordance with the laws of the Commonwealth of Virginia, without regard to its conflicts of laws rules, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the Commonwealth of Virginia; *provided, however,* that, to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date first above written.

CITY OF CHARLOTTESVILLE, VIRGINIA

By: _____
Title: City Manager

Appendix D

CITY OF CHARLOTTESVILLE, VIRGINIA

Description of The Depository Trust Company And Book-Entry System

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DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE 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 and interest on the Bonds to The Depository Trust Company (“DTC”), New York, New York, its nominee, Participants, defined below, or Beneficial Owners, defined below, confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and among DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds 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 will be issued in the aggregate principal amount of maturity of the Bonds 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 the 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 3.5 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 (“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 U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“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.

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 (“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 and 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 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.

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 within an issue 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and the payment of redemption prices of, 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 Issuer or the Registrar and Paying Agent 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, the Issuer or the Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Registrar and Paying Agent, 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 Issuer or to the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer 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.

The information in this Appendix D concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.