

CITY OF LEXINGTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016

Prepared by:
Gary W. Swink, Finance Director

**CITY OF LEXINGTON, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

INTRODUCTORY SECTION

	<u>Page</u>
Letter of Transmittal	1-4
GFOA Certificate of Achievement	5
Organizational Chart	6
List of Elected and Appointed Officials	7

FINANCIAL SECTION

Independent Auditors' Report	8-10
Management's Discussion and Analysis	11-20

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	1	21
Statement of Activities	2	22
Fund Financial Statements:		
Balance Sheet - Governmental Funds	3	23
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4	24
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	5	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities ...	6	26
Statement of Net Position - Proprietary Fund	7	27
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	8	28
Statement of Cash Flows - Proprietary Fund.....	9	29
Statement of Fiduciary Net Position - Fiduciary Funds.....	10	30
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	11	31
Notes to the Financial Statements		32-90
Required Supplementary Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:		
General Fund.....	12	91
Notes to the Budgetary Comparison Schedules.....		92
Schedule of OPEB Funding Progress	13	93

**CITY OF LEXINGTON, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION: (Continued)

	<u>Exhibit</u>	<u>Page</u>
Required Supplementary Information: (Continued)		
Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)	14	94
Schedule of Components of and Changes in Net Pension Liability and Related Ratios	15	95
Schedule of Employer Contributions	16	96
Notes to Required Supplementary Information.....	17	97
 Other Supplementary Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual:		
Capital Projects Fund	18	98
Agency Funds:		
Combining Statement of Fiduciary Net Position.....	19	99
Statement of Changes in Assets and Liabilities.....	20	100
Discretely Presented Component Unit - School Board:		
Balance Sheet	21	101
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	22	102
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual.....	23	103
Discretely Presented Nonmajor Component Units:		
Balance Sheet	24	104
Statement of Revenues, Expenditures, and Changes in Fund Balances	25	105
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	26	106
	 <u>Schedule</u>	 <u>Page</u>
Supporting Schedules:		
Schedule of Revenues - Budget and Actual - Governmental Funds	1	107-111
Schedule of Expenditures - Budget and Actual - Governmental Funds	2	112-115

**CITY OF LEXINGTON, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS (CONTINUED)

STATISTICAL SECTION:

	<u>Table</u>	<u>Page</u>
Financial Trends:		
Net Position by Component.....	1	116
Changes in Net Position	2	117-119
Governmental Activities Tax Revenues by Source	3	120
Fund Balances of Governmental Funds	4	121
Changes in Fund Balances of Governmental Funds	5	122-123
General Governmental Expenditures by Function	6	124
General Governmental Revenues by Source	7	125
Revenue Capacity:		
Assessed Value and Estimated Actual Value of Taxable Property	8	126
Property Tax Rates.....	9	127
Principal Taxpayers	10	128
Property Tax Levies and Collections	11	129
Debt Capacity:		
Ratios of Outstanding Debt by Type.....	12	130
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita.....	13	131
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures	14	132
Direct and Overlapping Government Activities Debt	15	133
Computation of Legal Debt Margin	16	134
Demographic and Economic Information:		
Demographic and Economic Statistics	17	135
Principal Employers.....	18	136
Operating Information:		
Full-time Equivalent City Government Employees by Function	19	137
Operating Indicators by Function	20	138
Capital Asset Statistics by Function.....	21	139
Other Statistical Information:		
Schedule of Joint Services Contract Billing	22	140

CITY OF LEXINGTON, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS (CONTINUED)

COMPLIANCE SECTION

	<u>Page</u>
Compliance:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	141-142

INTRODUCTORY SECTION



November 15, 2016

The Honorable Mayor, Members of City Council and
Citizens of the City of Lexington, Virginia

State law requires that every local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Robinson, Farmer, Cox Associates, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Lexington's financial statements for the year ended June 30, 2016. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet requirements of the Federal Single Audit Act of 1984 and the Single Audit Amendments of 1996, and the related Uniform Guidance. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD & A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD & A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

Lexington was incorporated as a town in 1841 and became a City on January 1, 1966. Lexington is located in the Shenandoah Valley of Virginia near the intersection of two major interstates, I-81 and I-64, and is the home of two of Virginia's highly respected education institutions, Washington and Lee University and Virginia Military Institute. The historic core of the City is a Nationally Registered Historic District. The Virginia Horse Center, a facility with permanent stabling for the 750 horses, is located three miles from Lexington.

The City of Lexington operates under the mayor-council form of government. Policy making and legislative authority are vested in the governing council (Council) consisting of the mayor and six other members, all of whom are elected at large. Council members serve four-year terms, with three members elected every two years. The mayor is elected for a four-year term. The council appoints Lexington's City Manager, who in turn appoints its department heads.

The City of Lexington provides a full range of services, including police and fire protection; emergency medical response and transport services; refuse collection; snow and leaf removal; traffic control; on-and-off street parking; building inspections; licenses and permits; the construction and maintenance of streets and other infrastructure; and recreational and cultural activities. In conjunction with other agencies within the City, library and transit services are provided. Water distribution services and wastewater collection services are provided by the City. The water treatment plant and wastewater treatment plant, both owned by the Maury Service Authority (MSA) are operated as departments of the City under a contractual relationship; however, the City was notified by the MSA that these contracts would not be renewed past June 30, 2016. The water and wastewater functions are included as an integral part of the City of Lexington's financial statement. The City operates an independent school system; therefore, the financial results of the school system are reported as a separate component unit. City Council appoints a five-member School Board to administer the City school operations, which consist of an elementary and a middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement.

This report includes one other separate component unit. Component units are legally separate units for which the primary government is financially accountable. The City's Industrial Development Authority is reported as a component unit. The Authority is authorized to be a conduit for tax exempt financing for various eligible purposes within the community. The Authority operates under the guidance of seven directors appointed by City Council.

The City provides financial services in a trustee capacity to the Rockbridge Area Recreation Organization (RARO), Rockbridge Area Tourism (Tourism), and Central Dispatch. As a result, these funds are presented as agency funds and are not included in the City's government-wide financial statements.

Services of the Rockbridge Regional Jail, Rockbridge Regional Library, Rockbridge Area Social Services, Rockbridge Area Network Authority, Regional Transit System, Maury Service Authority, Central Shenandoah Juvenile Detention Home, and The Rockbridge Regional Public Safety Communications Center have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Local Economy

The City of Lexington is in the county seat of Rockbridge County, a rural area located in the Shenandoah Valley region of Virginia. Its historic significance, including the fact that Lexington is the burial site of both General Robert E. Lee and General "Stonewall" Jackson, and its natural beauties are two attributes that make Lexington a tourist destination. This fact and the location of the two colleges in Lexington are closely linked with the City's economy.

Local Economy (Continued)

Lexington and Rockbridge County entered a Revenue Sharing Agreement in 1986 wherein Lexington is precluded from extending its boundaries through annexation in exchange for a sharing of a portion of revenues realized by the County from economic growth. The annual payment to the City provides a source of revenue, with growth potential, to supplement revenues realized from property taxation.

Unemployment has remained relatively high since 2008, but improved somewhat in fiscal year 2016. Other indicators of economic activity (sales taxes, meal taxes, and lodging taxes) exhibited improvement during fiscal year 2016.

An extremely high percentage of the City's real property assessment (63%) is tax-exempt. This high level of tax-exempt property presents the City challenges in raising revenues sufficient to cover obligations.

Major Initiatives During the Past Year

During fiscal year 2015 the City began construction of a replacement elementary school, which opened in October 2016. A major initiative during fiscal year 2016 was the planning for major improvements to the City's water and sewer infrastructure.

Future Plans

Lexington has major capital and infrastructure needs which will need to be addressed in the future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Capital projects estimated to cost \$18.8 million over the next five years include water and wastewater utility improvements, storm water management improvements, bridge repairs, street improvements and improvements to municipal facilities.

Relevant Financial Policies

Lexington maintains strict budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the general fund, capital projects fund, enterprise fund and the separate school component unit, are included in the annual appropriated budget. The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund except for the two legally separate discretely presented component units. The governing body of each of these component units approves, recommends and controls the annual appropriations made for their respective budgets. City Council approves annual appropriations and quarterly amends appropriations for all funds of the City, excluding those that are fiduciary in nature.

The City of Lexington has a policy requiring the minimum levels of unassigned fund balance in the General Fund at each fiscal year end to be at least 20% of general operating revenues. At June 30, 2016, the unassigned fund balance exceeded the required minimum by approximately \$4.5 million. At June 30, 2015, the unassigned fund balance exceeded the required minimum by \$4.8 million.

Awards and Acknowledgments

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 of Lexington for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the twenty-second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

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

The preparation of this report on a timely basis could not be accomplished without the skill, effort, and dedication of the staffs of the Finance Department, Commissioner of Revenue, and the Office of the Treasurer. I wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Appreciation is also extended to the staff of Robinson, Farmer, Cox, Associates. Lastly, I would like to thank the Mayor, members of the City Council, and the rest of City administration for support for maintaining high standards of professionalism in the management of the City's finances.

Respectfully submitted,



Gary Swink
Director of Finance/Assistant City Manager



Government Finance Officers Association

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

Presented to

**City of Lexington
Virginia**

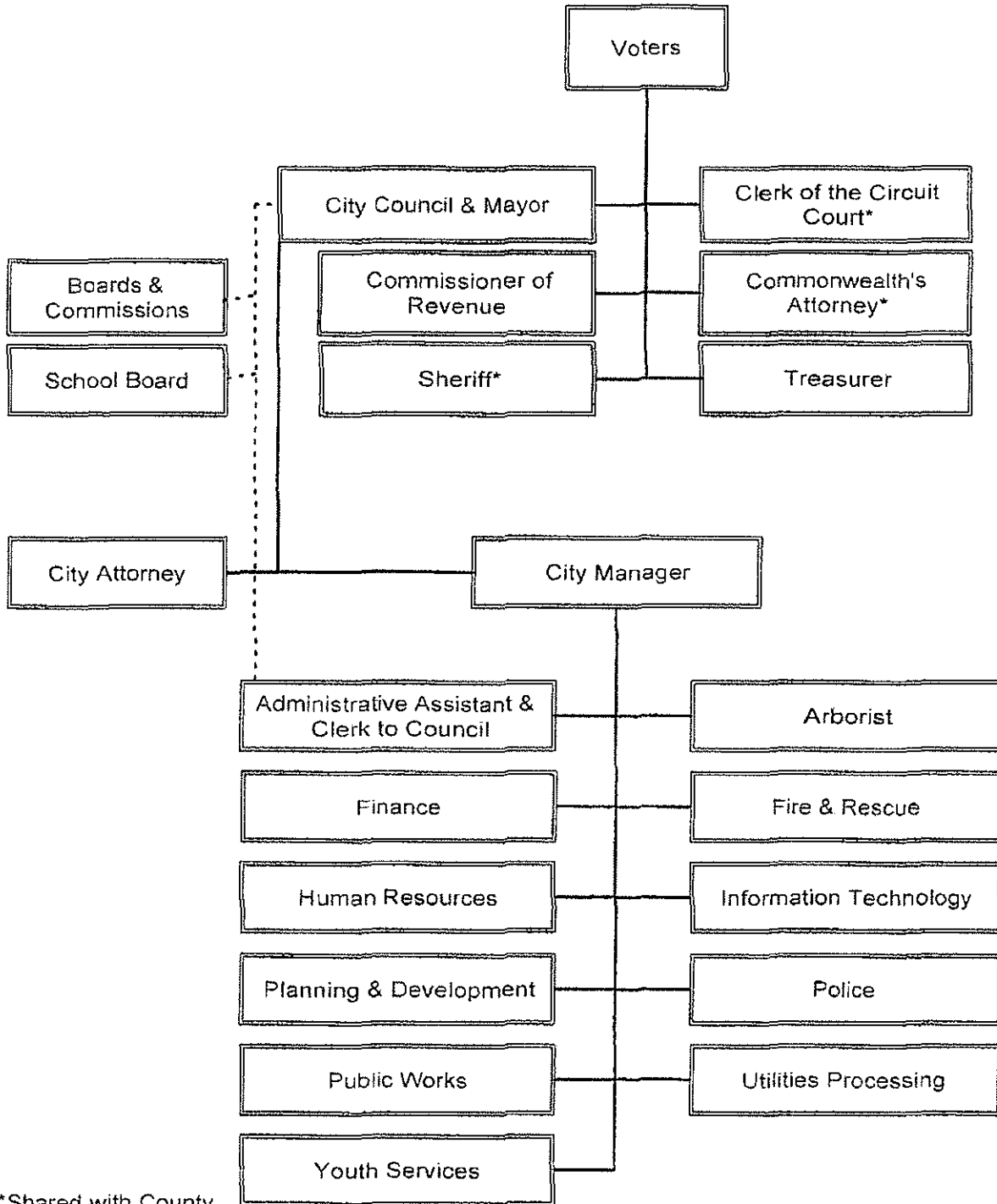
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

CITY OF LEXINGTON

Organizational Chart



*Shared with County

.....Appointing authority only

CITY OF LEXINGTON, VIRGINIA

CITY COUNCIL

Mimi M. Elrod, Mayor

Marilyn Alexander
Camille Wright Miller
David G. Sigler

Frank W. Friedman
J. Patrick Rhamey, Jr.
Charles “Chuck” Smith

CITY SCHOOL BOARD

Leslie Straughan, Chair

Richard Cruze, Jr., Vice Chair
Leonard Stewart

Owen Collins
Jeannie VanNess

OTHER OFFICIALS

City Manager Noah A. Simon
City Treasurer Pat DeLaney
Commissioner of Revenue Karen T. Roundy
Finance Director..... Gary W. Swink
City Attorney..... Laurence A. Mann
Chief of Police Alfred S. Thomas
Fire and Rescue Chief Ty Dickerson
Director of Planning and Development Arne Glaeser
Director of Utilities Processing..... Richard Allen
Director of Public Works Michael Kennedy
Superintendent of Schools Scott Jefferies

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
the City Council
Lexington, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As described in Note 23 to the financial statements, in 2016, the City adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, 79 Certain External Investment Pools and Pool Participants, 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding, on pages 11-20, 91-92, and 93-97, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lexington, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is 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 6, 2016, on our consideration of City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lexington, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 6, 2016

Management's Discussion and Analysis

As management of the City of Lexington, we offer readers of the City of Lexington's financial statements this narrative overview and analysis of the financial activities of the City of Lexington for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets and deferred outflows of resources of the City of Lexington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$27,547,941 (*net position*). A total of \$11,281,535 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, the unassigned fund balance for the general fund is \$7,924,727 or 52% of total general fund expenditures of \$15,179,215 in the year ended June 30, 2016.
- The City of Lexington's total outstanding debt decreased by \$1,242,072 during the current fiscal year due to principal repayments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lexington's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Lexington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, judicial administration, public safety, highways and streets, sanitation, parks, cemeteries, health and welfare, education, recreation and cultural and community development. The business-type activity of the City is a water and sewer operation managed for the Maury Service Authority with the City responsible for water and sewer distribution to its customers.

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

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 of Lexington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

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

The City of Lexington maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, the cemetery trust fund all of which are considered to be major funds,

as well as the discretely presented component unit – School Board. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lexington adopts an annual appropriated budget for its general fund, school fund, and capital projects fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budget.

Proprietary Funds

The City of Lexington maintains one proprietary fund. An *enterprise fund* is used to report the functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer utility fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's water and sewer services.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* in the statistical section.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27,547,941 at the close of the most recent fiscal year. Information on net position over the last ten years may be found in Table 1 of the statistical section of this report.

A portion of the City's net position reflects its unrestricted net position of \$11,281,535. The City's investment in capital assets (e.g., land, buildings, improvements, machinery, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets that are still outstanding, was \$14,566,754. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's governmental activities net position increased \$3,225,340 for the fiscal year ending June 30, 2016. This increase is attributable primarily to increased revenues and effective control of expenditures.

**City of Lexington's Summary Statement of Net Position
as of June 30, 2016 and 2015
(In Thousands)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current & other assets	\$17,905	\$23,332	\$3,570	\$2,846	\$21,475	\$26,178	\$1,801	\$1,416
Capital assets	<u>38,722</u>	<u>30,551</u>	<u>3,283</u>	<u>3,207</u>	<u>42,005</u>	<u>33,758</u>	<u>1,270</u>	<u>1,234</u>
Total assets	<u>\$56,627</u>	<u>\$53,883</u>	<u>\$6,853</u>	<u>\$6,053</u>	<u>\$63,480</u>	<u>\$59,936</u>	<u>\$3,071</u>	<u>\$2,650</u>
Deferred outflows of resources	\$ 1,920	\$1,992	\$ 124	\$ 130	\$ 2,044	\$ 2,122	366	\$ 373
Long-term liabilities outstanding	\$33,256	\$34,428	\$ 799	\$803	\$ 34,055	\$35,231	\$ 4,447	\$4,301
Other liabilities	<u>2,688</u>	<u>1,521</u>	<u>133</u>	<u>128</u>	<u>2,821</u>	<u>1,649</u>	<u>480</u>	<u>874</u>
Total liabilities	<u>\$35,944</u>	<u>\$35,949</u>	<u>\$ 932</u>	<u>\$931</u>	<u>\$ 36,876</u>	<u>\$36,880</u>	<u>\$ 4,927</u>	<u>\$5,175</u>
Deferred inflows of resources	\$ 964	\$1,156	\$ 137	\$ 228	\$ 1,101	\$ 1,384	\$ 435	\$ 687
Net position:								
Net Investment in capital assets	\$11,283	\$7,406	\$3,283	\$3,207	\$14,566	\$10,613	\$1,270	\$1,234
Restricted	1,700	1,724	---	---	1,700	1,724	---	---
Unrestricted	<u>8,656</u>	<u>9,640</u>	<u>2,625</u>	<u>1,817</u>	<u>11,281</u>	<u>11,457</u>	<u>(3,196)</u>	<u>(4073)</u>
Total net position	<u>\$21,639</u>	<u>\$18,770</u>	<u>\$5,908</u>	<u>\$5,024</u>	<u>\$27,547</u>	<u>\$23,794</u>	<u>\$(1,926)</u>	<u>\$(2839)</u>

An additional portion of the City's primary government net position (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the primary government's *unrestricted net position* (\$11,281,535) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City's primary government is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

Governmental activities for the City's primary government represent 79% of the City's net position. Over the past fiscal year, the City revenues and expenses for both governmental and business-type activities as well as the School Board component units are as follows:

City of Lexington's Changes in Net Position as of June 30, 2016 and 2015 (In Thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:								
Program Revenues:								
Chgs. for svcs.	\$1,218	\$1,260	\$6,376	\$5,790	\$7,594	\$7,050	\$ 217	\$ 228
Operating grants and contributions	1,158	1,490	---	---	1,158	1,490	3,253	3,162
Capital grants and contributions	26	149	130	---	156	149	---	---
General revenues								
Property taxes	6,621	6,434	---	---	6,621	6,434	---	---
Other taxes	4,211	3,601	---	---	4,211	3,601	---	---
Grants and contributions not restricted to specific programs	911	914	---	---	911	914	---	---
Other	2,741	2,735	---	---	2,741	2,735	2,966	2,874
Transfers	178	148	-178	-148	---	---	---	---
Total revenues	<u>\$17,064</u>	<u>\$16,731</u>	<u>\$6,328</u>	<u>\$5,642</u>	<u>\$23,392</u>	<u>\$22,373</u>	<u>\$6,436</u>	<u>\$6,264</u>
Expenses:								
General Gov't.	\$1,125	\$1,250	\$ ---	\$ ---	\$1,125	\$1,250	\$ ---	\$ ---
Judicial Admin.	353	310	---	---	353	310	---	---
Public Safety	3,141	3,211	---	---	3,141	3,211	---	---
Public Works	3,153	3,515	---	---	3,153	3,515	---	---
Health & Welfare	510	667	---	---	510	667	---	---
Education	3,230	3,191	---	---	3,230	3,191	6,239	6,263
Parks, Rec. & Cultural	725	645	---	---	725	645	---	---
Community Development	713	727	---	---	713	727	---	---
Interest on Debt	889	870	---	---	889	870	---	---

Water & Sewer Utility	---	---	5,443	5,280	5,443	5,280	---	---
Total Expenses	\$ 13,839	\$14,386	\$5,443	\$5,280	\$19,282	\$19,666	\$6,239	\$6,263
Changes in net position	3,225	2,345	885	362	4,110	2,65	197	1
Net position beginning of year	*18,414	*16,482	5,024	*4,662	*23,438	*21,144*	-\$2,123	*-2,840
Net position end of year	\$21,639	\$18,827	\$5,909	\$5,024	\$27,548	\$ 23,794	-\$1,926	\$-2,839

* Restated

Governmental Revenues

- Property tax collections were up 3%, or \$187,405. City Council raised the real estate tax rate of \$1.03/\$100 of assessed value to \$1.09/\$100 of assessed value to support the FY 2106 budgetary needs. The tax rate on personal property remained at \$4.25/\$100 value.
- Other local taxes increased by \$609,925, or 17%. Local sales taxes increased by \$32,564 or 3%. Restaurant food taxes increased by \$387,420, or 36% while hotel and motel taxes increased by 28%, or \$108,801. The lodging and meals tax rate both increased by 1%. Business, professional, and occupation licenses increased by \$76,626, or 12%.
- Revenues from the use of money and property increased by \$35,970.
- Payments from the School Board to the Capital Fund in FY2016 related to the elementary school project was \$75,000.
- The City's major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of total Revenue</u>
General property taxes	\$6,680,922	38%
Other local taxes	4,210,771	24%
Charges for services	1,097,361	6%
Miscellaneous	2,517,917	14%
Recovered costs	475,889	3%
Intergovernmental	2,170,134	12%

Governmental Expenses

- The general governmental expenses declined by \$82,488 due to reduced operating expenses.
- Public safety expenses decreased by \$116,784, or 3%.
- Public works expenses decreased by \$85,545, or 3%.
- Health and welfare costs declined by \$157,111, primarily as a result of lower public assistance costs.
- Education costs increased by \$4,577,820, primarily due to construction costs of building a replacement elementary school.
- Debt service cost increased by \$513,623 as a result of bonds for the elementary school.

Business-Type Activities

The increase in net position for business-type activities was \$884,880, or 18% from the prior fiscal year, with an end of the year balance of \$5,908,895.

Other Significant Items to Note Include:

- A \$120,000 loan repayment was transferred to the general fund.
- Charges for water and sewer services increased by 15.9%, which included a rate increase of 15%.
- Revenues for contractual operation of the water and wastewater plants decreased by \$14,396, or .8%.
- Expenses increased by 3% over the prior year, as planning was completed for infrastructure improvements in future years.

Financial Analysis of the City's Funds

As noted earlier, the City uses a fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular use.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13,553,891, a decrease of \$6,441,093 in comparison with the prior year, as restated. The decrease is due to expenditure of bond funds for a new elementary school. A total of \$785,516 is committed for the City's future equipment replacement purchases. The City committed fire department funds totaling \$110,863 to be used exclusively for the specific needs of the fire and rescue department, subject to City Council's appropriation. A total of \$336,982 is assigned for the carryover of committed projects not completed as of June 30, 2016 in the General Fund. A total of \$350,843 is committed for other capital project needs. A total of \$7,924,727 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been approved for cemetery maintenance or other miscellaneous ongoing projects not completed as of June 30, 2016.

The general fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,924,727, a decrease of \$198,085 in comparison with the prior year. As a measure of the adequacy of this fund balance, it may be useful to compare unassigned fund balance, to total fund expenditures and other uses of financing sources. The unassigned fund balance represents 52% or approximately six (6) months worth of total general fund expenditures and other uses of financing sources.

The City annually updates a five-year capital improvement plan and appropriates the funds necessary to support the ensuing fiscal year's capital projects. Capital projects for the water and sewer enterprise fund and the separate component units of the school, regional tourism, and recreation organization funds are appropriated within each respective fund. However, the City capital projects dependent upon general fund financial resources are appropriated in a separate capital project governmental fund.

At the end of the current fiscal year, the committed fund balance of the capital projects fund, including carryover commitments for June 30, 2016 was \$350,843, a decrease of \$657,463.

The permanent fund balance decreased by \$24,804 for the year to \$1,699,652 as a result of investment results.

Proprietary Funds

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

Unrestricted net position of the utility fund (water and sewer services) at the end of the year amounted to \$2,625,603, an increase of \$808,754 or 45% in comparison with the prior year. This increase is due primarily to increased charges for water and sewer services and an unrestricted contribution.

Governmental Fund Budgetary Highlights

Differences between the original budget of \$24,076,492 and the final amended budget of \$36,930,648 reflects an increase in appropriation of \$12,854,156. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 15 to FY 16 \$12,584,904 for ongoing projects or activities that could not be completed by June 30, 2015. Much of the carryover totaling \$10,308,788 is for capital projects related to a new elementary school. Other large amounts carried over for capital projects were for park improvements, storm water drainage projects, and facility improvements.
- Other significant budget amendments included:
 - an additional \$325,000 was appropriated for furniture and storm water management associated with the Waddell Elementary School project.
 - an additional appropriation of \$35,357 from transient occupancy taxes to support The Virginia Horse Center's debt service.
 - \$93,750 designated for inflow and infiltration reductions in the utility infrastructure.
 - \$51,015 for federal grant programs at the schools.
 - \$67,500 earmarked for development of a financial plan for financing utility infrastructure improvements.

Final Budget Compared to Actual Results

The most significant differences between estimated revenues and actual revenues were as follows:

	<u>Estimated Revenues</u>	<u>Actual Revenues</u>	<u>Difference</u>
General Property Taxes	\$ 6,581,500	\$ 6,680,922	\$ 99,422
Other Local Taxes	3,642,000	4,210,771	568,771
Charges for Services	1,167,945	1,097,361	-70,584
Miscellaneous	2,428,580	2,510,002	81,422
Intergovernmental	2,672,098	1,925,652	-746,446
Recovered Costs	429,710	473,606	43,896

Actual expenditures were \$1,987,384 less than budgeted for the year.

Capital Asset and Debt Administration

Capital assets

The City's investments in capital assets for its governmental, (including schools) and business-type activities as of June 30, 2016 amounts to \$42,864,233 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and infrastructure. The increase in capital assets for the current fiscal year was 22%.

City of Lexington's Capital Assets (net of depreciation in thousands)

	<u>Primary Government</u>				<u>Component Units</u>			
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$2,913	\$2,912	\$ ---	\$ ---	\$2,913	\$2,912	\$ 5	\$ 5
Buildings	16,314	16,639	---	---	16,314	16,639	1,242	1,202
Improvements other than buildings	684	763	26	27	710	790	---	---
Infrastructure	3,423	3,513	2,616	2,509	6,039	6,022	---	---
Machinery & Equip.	2,769	2,652	632	642	3,401	3,294	23	27
Construction in Progress	<u>12,619</u>	<u>4,071</u>	<u>9</u>	<u>29</u>	<u>12,628</u>	<u>4,100</u>	<u>---</u>	<u>---</u>
Totals	<u>\$38,722</u>	<u>\$30,550</u>	<u>\$3,283</u>	<u>\$3,207</u>	<u>\$42,005</u>	<u>\$33,757</u>	<u>\$1,270</u>	<u>\$1,234</u>

Additional information on the City of Lexington’s capital assets can be found in Note 12 to the financial statements.

Long-term debt

**City of Lexington’s Outstanding Debt
General Obligation Bonds**

	<u>2016</u>	<u>2015</u>
Governmental activities	\$28,598,858	\$29,840,933
Business-type activities	<u>0</u>	<u>0</u>
TOTAL	<u>\$28,598,858</u>	<u>\$29,840,929</u>

The City’s total general obligation debt decreased by \$1,242,072 or 4% during the current fiscal year. State statutes’ limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Lexington is \$54,167,000 which is significantly in excess of the City’s outstanding general obligation debt.

Additional information on the City of Lexington’s long-term debt can be found in Notes 8 and 9 to the financial statements. Also, additional information can be found in the statistical section under Tables 12 through 16.

Economic Factors and Next Year’s Budgets and Rates

As of June 2016, the unemployment rate for the City of Lexington was 8.2%. This exceeds both the national and state unemployment rates, but was down slightly from the previous year.

Sixty-three percent of the City’s assessed real estate values are tax exempt now. No change in the real estate, personal property, meals, or transient occupancy taxes rates were implemented in support of the FY 2017 Budget. The FY 2017 Budget does not anticipate using any fund balance to covert FY2017 expenditures. Additional funding of \$500,000 for future capital expenditures is included in the Budget.

The water and sewer utility fund rates were increased an average of 9% for the 2017 budget year, in anticipation of capital projects included in the 2017-2021 Capital Improvement Plan. A bond issuance is planned to provide additional funding for these projects.

Contacting the City’s Financial Management

This financial report is designed to provide a general overview of the City of Lexington’s finances for all those with an interest in the government’s finances. Questions concerning any of the information should be addressed to the Office of the Finance Director, 300 E. Washington Street, City of Lexington, Virginia 24450.

Basic Financial Statements

City of Lexington, Virginia
Statement of Net Position
June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 3,325,438	\$ 381,458	\$ 3,706,896	\$ 831,182	\$ 110,037
Investments	9,867,932	2,500,000	12,367,932	500,000	226,606
Receivables (net of allowance for uncollectibles):					
Taxes receivable	780,343	-	780,343	-	-
Accounts receivable	420,603	688,239	1,108,842	-	-
Due from other governmental units	254,690	-	254,690	216,076	-
Due from others	337,819	-	337,819	-	-
Long-term receivable	1,101,290	-	1,101,290	-	-
Prepaid items	117,557	-	117,557	29,553	-
Restricted assets:					
Permanently restricted:					
Cash and cash equivalents	412,747	-	412,747	-	-
Investments	1,286,905	-	1,286,905	-	-
Net OPEB asset	-	-	-	60,501	-
Net Pension asset	-	-	-	163,540	-
Capital assets (net of accumulated depreciation):					
Land	2,912,496	-	2,912,496	4,550	-
Buildings	16,313,519	-	16,313,519	1,241,941	-
Improvements other than buildings	684,153	25,611	709,764	-	-
Machinery and equipment	2,769,084	632,196	3,401,280	23,164	-
Infrastructure	3,423,366	2,616,604	6,039,970	-	-
Construction in progress	12,619,401	8,881	12,628,282	-	-
Total assets	<u>\$ 56,627,343</u>	<u>\$ 6,852,989</u>	<u>\$ 63,480,332</u>	<u>\$ 3,070,507</u>	<u>\$ 336,643</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	\$ 1,468,742	\$ -	\$ 1,468,742	\$ -	\$ -
Pension contributions subsequent to measurement date	451,657	124,103	575,760	365,738	-
Total deferred outflows of resources	<u>\$ 1,920,399</u>	<u>\$ 124,103</u>	<u>\$ 2,044,502</u>	<u>\$ 365,738</u>	<u>\$ -</u>
LIABILITIES					
Accounts payable	\$ 1,538,776	\$ 60,092	\$ 1,598,868	\$ 18,933	\$ 47,511
Payroll liabilities	271,349	38,045	309,394	53,764	-
Contracts payable	-	-	-	377,208	-
Accrued interest payable	242,713	-	242,713	-	-
Unearned revenue	-	-	-	30,070	-
Deposits held in escrow	5,560	34,600	40,160	-	-
Unearned grant revenue	630,445	-	630,445	-	-
Long-term liabilities:					
Due within one year	1,397,753	-	1,397,753	18,741	-
Due in more than one year	31,858,344	798,609	32,656,953	4,428,224	-
Total liabilities	<u>\$ 35,944,940</u>	<u>\$ 931,346</u>	<u>\$ 36,876,286</u>	<u>\$ 4,926,940</u>	<u>\$ 47,511</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	\$ 489,999	\$ -	\$ 489,999	\$ -	\$ -
Items related to measurement of net pension liability	473,757	136,851	610,608	342,207	-
Change in proportionate share of pension liability	-	-	-	93,000	-
Total deferred inflows of resources	<u>\$ 963,756</u>	<u>\$ 136,851</u>	<u>\$ 1,100,607</u>	<u>\$ 435,207</u>	<u>\$ -</u>
NET POSITION					
Net investment in capital assets	\$ 11,283,462	\$ 3,283,292	\$ 14,566,754	\$ 1,269,655	\$ -
Restricted:					
Nonexpendable - perpetual cemetery care	1,699,652	-	1,699,652	-	-
Unrestricted (deficit)	8,655,932	2,625,603	11,281,535	(3,195,557)	289,132
Total net position	<u>\$ 21,639,046</u>	<u>\$ 5,908,895</u>	<u>\$ 27,547,941</u>	<u>\$ (1,925,902)</u>	<u>\$ 289,132</u>

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

City of Lexington, Virginia
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position									
	Program Revenues					Primary Government			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	School Board	Industrial Development Authority	
PRIMARY GOVERNMENT:										
Governmental activities:										
General government administration	\$ 1,124,491	\$ 70,627	\$ 311,622	\$ -	\$ -	\$ (742,242)	\$ -	\$ -	\$ -	\$ -
Judicial administration	353,210	58,464	73,984	-	-	(220,762)	-	-	-	-
Public safety	3,141,121	412,490	232,178	-	-	(2,496,453)	-	-	-	-
Public works	3,153,031	582,869	410,890	-	-	(2,159,272)	-	-	-	-
Health and welfare	509,676	11,005	121,594	-	-	(377,077)	-	-	-	-
Education	3,230,181	-	-	-	-	(3,230,181)	-	-	-	-
Parks, recreation, and cultural	725,258	82,658	4,750	-	-	(637,850)	-	-	-	-
Community development	713,217	-	3,530	25,640	-	(684,047)	-	-	-	-
Interest on long-term debt	888,634	-	-	-	-	(888,634)	-	-	-	-
Total governmental activities	\$ 13,838,819	\$ 1,218,113	\$ 1,158,548	\$ 25,640	\$ -	\$ (11,436,518)	\$ -	\$ (11,436,518)	\$ -	\$ -
Business-type activities:										
Utility Fund	\$ 5,442,847	\$ 6,375,727	\$ -	\$ 130,000	\$ -	\$ -	\$ 1,062,880	\$ -	\$ -	\$ -
Total primary government	\$ 19,281,666	\$ 7,593,840	\$ 1,158,548	\$ 155,640	\$ -	\$ (11,436,518)	\$ 1,062,880	\$ (10,373,638)	\$ -	\$ -
COMPONENT UNITS:										
School Board	\$ 6,239,249	\$ 217,147	\$ 3,252,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,769,277)	\$ -
Industrial Development Authority	246,170	-	-	-	-	-	-	-	-	(246,170)
Total component units	\$ 6,485,419	\$ 217,147	\$ 3,252,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,769,277)	\$ (246,170)
General revenues:										
General property taxes					\$ 6,621,188	\$ -	\$ 6,621,188	\$ -	\$ -	\$ -
Other local taxes:										
Local sales and use taxes					1,041,144	-	1,041,144	-	-	-
Consumers' utility taxes					309,542	-	309,542	-	-	-
Business license taxes					716,749	-	716,749	-	-	-
Restaurant food taxes					1,461,197	-	1,461,197	-	-	-
Hotel and motel room taxes					490,754	-	490,754	-	-	-
Other local taxes					191,385	-	191,385	-	-	-
Unrestricted revenues from use of money and property					148,036	-	148,036	-	4,531	3,226
Miscellaneous					748,063	-	748,063	-	4,097	45,288
Revenue sharing payments					1,769,854	-	1,769,854	-	-	-
Payments from the City of Lexington/School Board					75,000	-	75,000	-	2,957,922	182,357
Grants and contributions not restricted to specific programs					910,946	-	910,946	-	-	-
Transfers					178,000	(178,000)	-	-	-	-
Total general revenues and transfers					\$ 14,661,858	\$ (178,000)	\$ 14,483,858	\$ -	\$ 2,966,550	\$ 230,871
Change in net position					\$ 3,225,340	\$ 884,880	\$ 4,110,220	\$ -	\$ 197,273	\$ (15,299)
Net position - beginning, as restated					18,413,706	5,024,015	23,437,721		(2,123,175)	304,431
Net position - ending					\$ 21,639,046	\$ 5,908,895	\$ 27,547,941	\$ -	\$ (1,925,902)	\$ 289,132

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

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2016

	General	Capital Projects	Permanent	Total
ASSETS				
Cash and cash equivalents	\$ 2,869,256	\$ 456,182	\$ -	\$ 3,325,438
Investments	8,617,932	1,250,000	-	9,867,932
Receivables (net of allowance for uncollectibles):				
Taxes receivable	780,343	-	-	780,343
Accounts receivable	420,603	-	-	420,603
Due from other governmental units	254,690	-	-	254,690
Due from others	337,819	-	-	337,819
Long-term receivable	1,101,290	-	-	1,101,290
Prepaid items	117,557	-	-	117,557
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	412,747	412,747
Investments	-	-	1,286,905	1,286,905
Total assets	<u>\$ 14,499,490</u>	<u>\$ 1,706,182</u>	<u>\$ 1,699,652</u>	<u>\$ 17,905,324</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 184,437	\$ 1,354,339	\$ -	\$ 1,538,776
Payroll liabilities	271,349	-	-	271,349
Deposits held in escrow	4,560	1,000	-	5,560
Unearned grant revenue	630,445	-	-	630,445
Total liabilities	<u>\$ 1,090,791</u>	<u>\$ 1,355,339</u>	<u>\$ -</u>	<u>\$ 2,446,130</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 804,013	\$ -	\$ -	\$ 804,013
Unavailable revenue - long-term receivable	1,101,290	-	-	1,101,290
Total deferred inflows of resources	<u>\$ 1,905,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,905,303</u>
Fund balances:				
Nonspendable	\$ 117,557	\$ -	\$ 180,562	\$ 298,119
Restricted	2,227,751	-	1,519,090	3,746,841
Committed	896,379	350,843	-	1,247,222
Assigned	336,982	-	-	336,982
Unassigned	7,924,727	-	-	7,924,727
Total fund balances	<u>\$ 11,503,396</u>	<u>\$ 350,843</u>	<u>\$ 1,699,652</u>	<u>\$ 13,553,891</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 14,499,490</u>	<u>\$ 1,706,182</u>	<u>\$ 1,699,652</u>	<u>\$ 17,905,324</u>

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

City of Lexington, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Position
 June 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 13,553,891

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

Land	\$ 2,912,496	
Buildings	16,313,519	
Improvements other than buildings	684,153	
Infrastructure	3,423,366	
Machinery and equipment	2,769,084	
Construction in progress	12,619,401	38,722,019

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Unavailable revenue - property taxes	\$ 314,014	
Unavailable revenue - long-term receivable	1,101,290	
Items related to measurement of net pension liability	(473,757)	941,547

Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.

451,657

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds	\$ (28,598,861)	
Accrued interest payable	(242,713)	
Net OPEB obligation	(41,872)	
Net pension liability	(2,764,650)	
Deferred charge on refunding	1,468,742	
Unamortized bond premium	(1,661,496)	
Unamortized bond discount	40,967	
Compensated absences	(230,185)	(32,030,068)

Net position of governmental activities

\$ 21,639,046

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

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General	Capital Projects	Permanent	Total
REVENUES				
General property taxes	\$ 6,680,922	\$ -	\$ -	\$ 6,680,922
Other local taxes	4,210,771	-	-	4,210,771
Permits, privilege fees, and regulatory licenses	62,288	-	-	62,288
Fines and forfeitures	58,464	-	-	58,464
Revenue from the use of money and property	115,234	-	32,802	148,036
Charges for services	1,097,361	-	-	1,097,361
Miscellaneous	2,510,002	7,915	-	2,517,917
Recovered costs	473,606	2,283	-	475,889
Intergovernmental:				
Local government	-	75,000	-	75,000
Commonwealth	1,922,841	143,842	-	2,066,683
Federal	2,811	25,640	-	28,451
Total revenues	<u>\$ 17,134,300</u>	<u>\$ 254,680</u>	<u>\$ 32,802</u>	<u>\$ 17,421,782</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,200,460	\$ -	\$ -	\$ 1,200,460
Judicial administration	353,210	-	-	353,210
Public safety	3,319,963	-	-	3,319,963
Public works	2,917,207	252,339	-	3,169,546
Health and welfare	509,789	-	-	509,789
Education	3,032,922	8,462,033	-	11,494,955
Parks, recreation, and cultural	518,820	67,155	75,231	661,206
Community development	724,805	4,902	-	729,707
Nondepartmental	459,377	-	-	459,377
Debt service:				
Principal retirement	1,242,072	-	-	1,242,072
Interest and other fiscal charges	900,590	-	-	900,590
Total expenditures	<u>\$ 15,179,215</u>	<u>\$ 8,786,429</u>	<u>\$ 75,231</u>	<u>\$ 24,040,875</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,955,085</u>	<u>\$ (8,531,749)</u>	<u>\$ (42,429)</u>	<u>\$ (6,619,093)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 178,000	\$ 7,874,286	\$ 17,625	\$ 8,069,911
Transfers out	(7,891,911)	-	-	(7,891,911)
Total other financing sources (uses)	<u>\$ (7,713,911)</u>	<u>\$ 7,874,286</u>	<u>\$ 17,625</u>	<u>\$ 178,000</u>
Net change in fund balances	\$ (5,758,826)	\$ (657,463)	\$ (24,804)	\$ (6,441,093)
Fund balances - beginning, as restated	17,262,222	1,008,306	1,724,456	19,994,984
Fund balances - ending	<u>\$ 11,503,396</u>	<u>\$ 350,843</u>	<u>\$ 1,699,652</u>	<u>\$ 13,553,891</u>

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

City of Lexington, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (6,441,093)

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

Capital outlays	\$ 9,222,980	
Depreciation expense	(841,590)	8,381,390

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

Property taxes	\$ (137,261)	
Change in deferred inflows related to the measurement of the net pension liability	313,818	176,557

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments:		
General obligation bonds		1,242,072

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.

Change in compensated absences	\$ 27,044	
Change in net OPEB obligation	(6,019)	
Change in net pension liability	(166,949)	
Change in deferred outflows related to pension payments subsequent to the measurement date	382	
Change in accrued interest payable	8,669	
Amortization of deferred charge on refunding	(72,387)	
Amortization of bond discount	(4,552)	
Amortization of bond premium	80,226	(133,586)

Change in net position of governmental activities		\$ 3,225,340
---	--	--------------

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

City of Lexington, Virginia
Statement of Net Position
Proprietary Fund
June 30, 2016

	Enterprise Fund
	Utility Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 381,458
Investments	2,500,000
Accounts receivable, net of allowance for uncollectibles	688,239
Total current assets	\$ 3,569,697
Noncurrent assets:	
Capital assets:	
Buildings	\$ 113,405
Less accumulated depreciation	(113,405)
Improvements other than buildings	77,717
Less accumulated depreciation	(52,106)
Machinery and equipment	1,077,202
Less accumulated depreciation	(445,006)
Infrastructure	4,958,637
Less accumulated depreciation	(2,342,033)
Construction in progress	8,881
Total capital assets	\$ 3,283,292
Total noncurrent assets	\$ 3,283,292
Total assets	\$ 6,852,989
 DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	\$ 124,103
 LIABILITIES	
Current liabilities:	
Accounts payable	\$ 60,092
Payroll liabilities	38,045
Deposits held in escrow	34,600
Total current liabilities	\$ 132,737
Noncurrent liabilities:	
Net pension liability	\$ 798,609
Total noncurrent liabilities	\$ 798,609
Total liabilities	\$ 931,346
 DEFERRED INFLOWS OF RESOURCES	
Items related to measurement of net pension liability	\$ 136,851
 NET POSITION	
Investment in capital assets	\$ 3,283,292
Unrestricted	2,625,603
Total net position	\$ 5,908,895

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

City of Lexington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2016

	Enterprise Fund
	Utility Fund
OPERATING REVENUES	
Charges for services:	
Water and sewer revenues	\$ 6,375,664
Miscellaneous	63
Total operating revenues	\$ 6,375,727
OPERATING EXPENSES	
Administration	\$ 285,499
Water treatment plant	585,630
Water treatment	5,927
Water distribution	989,783
Water storage	79
Water service connections	34,991
Water system improvements	345
Wastewater improvements	7,203
Wastewater collection	1,905,581
Wastewater service connections	1,091
MSA - Wastewater plant	1,102,808
Inflow and infiltration	1,432
Public works personnel	45,424
Miscellaneous	80,235
Internal services	199,910
Depreciation	196,909
Total operating expenses	\$ 5,442,847
Operating income (loss)	\$ 932,880
Income before transfers	\$ 932,880
Capital contributions and construction grants	\$ 130,000
Transfers out	(178,000)
Change in net position	\$ 884,880
Total net position - beginning	5,024,015
Total net position - ending	\$ 5,908,895

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

City of Lexington, Virginia
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016

	Enterprise Fund
	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 6,231,348
Payments to suppliers	(3,829,349)
Payments to and for employees	(1,500,445)
Net cash provided by (used for) by operating activities	\$ 901,554
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	\$ (204,127)
Net cash provided by (used for) by noncapital financing activities	\$ (204,127)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (273,034)
Capital contribution	130,000
Net cash provided by (used for) by capital and related financing activities	\$ (143,034)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale (purchase) of investments	\$ (300,000)
Net cash provided by (used for) investing activities	\$ (300,000)
Net increase (decrease) in cash and cash equivalents	\$ 254,393
Cash and cash equivalents - beginning	127,065
Cash and cash equivalents - ending	\$ 381,458
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ 932,880
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	\$ 196,909
(Increase) decrease in accounts receivable	(143,729)
(Increase) decrease in pension payments subsequent to the measurement date	6,254
Increase (decrease) in compensated absences	(53,113)
Increase (decrease) in accounts payable	(6,491)
Increase (decrease) in payroll liabilities	11,919
of the net pension liability	(90,651)
Increase (decrease) in net pension liability	48,226
Increase (decrease) deposits held in escrow	(650)
Total adjustments	\$ (31,326)
Net cash provided by (used for) operating activities	\$ 901,554

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

City of Lexington, Virginia
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2016

	<u>OPEB Trust</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 143,161	\$ 572,869
Accounts receivable	-	40,213
Total assets	<u>\$ 143,161</u>	<u>\$ 613,082</u>
LIABILITIES		
Accounts payable	\$ -	\$ 108,709
Accrued payroll and benefits	-	34,482
Amount held for others - Central Dispatch	-	132,397
Amount held for others - RARO	-	85,805
Amount held for others - Regional Tourism	-	251,689
Total liabilities	<u>\$ -</u>	<u>\$ 613,082</u>
NET POSITION		
Assets held in trust for OPEB benefits	\$ 143,161	\$ -
Total net position	<u>\$ 143,161</u>	<u>\$ -</u>

City of Lexington, Virginia
 Statement of Changes in Fiduciary Net Position - Fiduciary Funds
 For the Year Ended June 30, 2016

	OPEB Trust
ADDITIONS	
Investment earnings:	
Net investment income (loss)	\$ (1,485)
Total additions	\$ (1,485)
DEDUCTIONS	
Total deductions	\$ -
Change in net position	\$ (1,485)
Net position - beginning	144,646
Net position - ending	\$ 143,161

CITY OF LEXINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1-Summary of Significant Accounting Policies:

The financial statements of the City of Lexington, Virginia conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The City of Lexington, Virginia (government) is a municipal corporation governed by an elected seven-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City.

School Board - The Lexington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by City Council. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type. The School Board does not issue separate financial statements; therefore all of the School Board's financial information is presented within this Comprehensive Annual Financial Report.

Industrial Development Authority - Industrial Development Authority serves to promote industry and develop trade by inducing enterprises to locate and remain in Virginia. The City of Lexington appoints the seven directors to the governing board of the Authority. The City does not exercise direct control over the board or its annual budget, but does serve as fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. The Authority is presented as a governmental fund type and has been presented as a nonmajor component unit in this financial report. The Authority does not issue separate financial statements. All of the Authority's financial information is presented within this Comprehensive Annual Report.

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

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations -

The Rockbridge Regional Library, Rockbridge County Regional Jail Commission, Rockbridge Area Community Services Board, Rockbridge Social Services Board, Rockbridge Area Network Authority, Regional Transit System, Shenandoah Valley Juvenile Detention Home Commission, Rockbridge Area Regional IDA, and the Maury Service Authority are considered intergovernmental (joint) ventures and, therefore, their operations are not included in the City's financial report. The Cities of Lexington and Buena Vista and the County of Rockbridge provide financial support and appoint their governing Boards, in which is vested the administration and control over operations.

The Cities of Lexington and Buena Vista and the County of Rockbridge participate in the Solid Waste Authority of Rockbridge County which operates a regional landfill. The Authority is governed by a committee comprised of five members appointed by the participating jurisdictions. City Council appoints one member and has control over the budget and financing of the Authority only to the extent of representation by the committee member appointed; therefore, the Authority's operations are not included in this financial report.

B. Government-wide and fund 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 activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

B. Government-wide and fund financial statements (Continued)

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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.

Governmental fund financial statements are reported using the *current financial resources 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 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.

The City's fiduciary funds are presented in the fund financial statements. Since 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, these funds are not incorporated into the government-wide financial statements.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

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

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for and reported in other funds.

The *Capital Projects Fund* accounts for and reports financial resources that are restricted, committed or assigned to expenditure for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *Cemetery Trust Fund* (Permanent Fund) accounts for and reports resources that are restricted such that only earnings may be used for purposes that support the reporting government's programs (i.e. for the benefit of the government or its citizens). The Cemetery Trust Fund accounts for investments and related earnings which are used to offset the cost of City cemeteries.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment system and a water treatment plant and distribution system. The activities of the system are accounted for in the Utility Fund.

The government reports the following fiduciary funds:

Fiduciary Funds (Trust and Agency Funds) account for asset held by the City in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The OPEB Trust Fund is one of the fiduciary funds of the City. The Central Dispatch Fund, Regional Area Recreation Organization (RARO), and Regional Tourism (agency funds) are other fiduciary funds of the City. All of the fiduciary funds utilize the accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial 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 other charges between the government's water and sewer function 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.

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

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost in accordance with GASB 79. All other investments are reported at fair value.

2. Receivables and payables

Activity between funds that are 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). All other outstanding balances between funds are reported as "advances 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."

Advances between funds, as reported in the fund financial statements, are offset by non-spendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

3. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on June 5th and December 5th. Personal property taxes are pro-rated. The City bills and collects its own property taxes.

4. Inventory

Inventories are stated at the lower of cost or market using the specific identification method. The only significant governmental fund-type inventory is the inventory of rehabilitated properties in the General Fund. The costs of these properties are recorded as expenditures when purchased. Changes in inventory amounts are offset directly to fund balance.

5. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

6. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$60,266 at June 30, 2016 and is comprised solely of property taxes.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

C. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
 (Continued)

8. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental, business-type activities and discretely presented component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Infrastructure, buildings, improvements and construction projects in excess of \$20,000 per project are added to the City’s capital assets. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant, equipment, and infrastructure 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>
Buildings	20 - 50
Improvements other than buildings	10 - 15
Machinery and equipment	2 - 20
Infrastructure	50

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

9. Compensated Absences

Employees accumulate vacation and sick leave hours for subsequent use. In the governmental funds, compensated absences for vacation leave are reported only if matured (unused, reimbursable leave, still outstanding following an employee's termination, resignation, death, or retirement). In the primary government and the discretely presented nonmajor component units - RARO, Regional Tourism, and IDA Fund an employee can accumulate from 24 to 42 days of vacation, based on years of service, and unlimited sick leave. Compensated absences are accrued when incurred in governmental and proprietary funds and reported as a fund liability. In the discretely presented component unit - school board, an employee can accumulate up to 28 days of vacation and 200 days of sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation or retirement. Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it.

10. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

11. Fund equity

The City reports fund balance in accordance with GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. The classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used. The City of Lexington, Virginia evaluated its funds at June 30, 2016 and classified fund balance into the following five categories:

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as prepaid items and inventory or are required to be maintained intact (corpus of a permanent fund).

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

11. Fund Equity (Continued)

Restricted -amounts that are restricted by external parties such as creditors or imposed by grants, law or legislation.

Committed -amounts that have been committed can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned -amounts that have been allocated by committee action where the government's intent is to use the funds for a specific purpose. The City of Lexington, Virginia considers this level of authority to be the City Council or any Committee granted such authority by the City Council.

Unassigned -amounts that have no restrictions placed upon them; positive amounts are only reported in the general fund.

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

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance / resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

12. Net Position

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

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

13. Net position flow assumption

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

14. Component Unit - School Board Capital Asset and Debt Presentation

By law, the School Board does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement to its capital assets. That responsibility lies with the local governing body who issues the debt on behalf of the School Board. However, the *Code of Virginia* requires the School Board to hold title to the capital assets (buildings and equipment) due to their responsibility for maintaining the asset.

In the Statement of Net Position, this scenario presents a dilemma for the primary government. Debt issued on behalf of the School Board is reported as a liability of the primary government, thereby reducing the net position of the primary government. The corresponding capital assets are reported as assets of the Component Unit - School Board (title holder), thereby increasing its net position.

During the 2002 Virginia General Assembly session, the legislature amended the *Code of Virginia* to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt. The legislation also allows local governments to elect not to acquire a tenancy in common by adopting a resolution to that effect.

The City concluded that, while joint tenancy would resolve a deficit in the primary government's net position, the continual computation process that would be required to allocate principal, interest, asset amount, and depreciation between the City and the School Board would be cumbersome and not provide any added benefit to the financial statements. Therefore, City Council adopted a resolution declining tenancy in common for current and future obligations.

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(Continued)

15. Pensions

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

16. Deferred Outflows/Inflows of Resources

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

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

Note 2-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2016, the City did not have any expenditures in excess of appropriations. Appropriations are not required for the permanent fund; therefore, none have been reported in the schedules.

B. Deficit fund equity

At June 30, 2016, there were no funds with deficit fund equity.

Note 3-Deposits and Investments:

Deposits:

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

Investments:

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

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2015 that are outside the cemetery trust fund established to invest perpetual care funds for two cemeteries owned by the City. The City's investments at June 30, 2016 were held in the City's name by the City's custodial bank; except \$39,497 of U.S. Treasuries, \$516,636 of Mutual Fund Bonds, and \$594,439 of Common Stocks, and \$136,334 of Other Funds where the underlying securities were uninsured and held by the investment's counterparty's trust department or agent but not in the name of the City. The Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

Note 3-Deposits and Investments: (Continued)

Credit Risk of Debt Securities

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

<u>City's Rated Debt Investments' Values</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
LGIP	\$ 10,640,181
SNAP	2,227,751

Concentration of Credit Risk

At June 30, 2016, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

The remainder of this page left blank intentionally.

Note 3-Deposits and Investments: (Continued)

Interest Rate Risk

Investment Type	Fair Value	Maturity Date	Call Options
Mutual Fund Bonds:			
Doubleline FDS TR Total Return	\$ 110,868	Upon demand	None
Ishares TR Barclays 3-7 yr	169,537	Upon demand	None
Pimco Fds Invt Grade Corp	155,725	Upon demand	None
Vanguard Mtg Backed Secs Index	80,506	Upon demand	None
LGIP	10,640,181	Upon demand	None
SNAP	2,227,751	Upon demand	None

Investment Maturities (in years)

Investment Type	Fair Value	Less Than 1 Year
Local Government Investment Pool	\$ 10,640,181	\$ 10,640,181
State Non-Arbitrage Pool	2,227,751	2,227,751

The City's investment policy encourages City officials to invest in funds that limit the City's credit risk, custodial credit risk, and interest rate risk.

External Investment Pools

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

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

Note 4-Fair Value Measurements:

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

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

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

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

Investment	6/30/2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 516,636	\$ 516,636	\$ -	\$ -
Common Stocks	594,439	594,439	-	-
U.S. Treasuries	39,497	39,497	-	-
Alternative Funds	136,333	136,333	-	-

Note 5-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	<u>Primary Government</u>	<u>Component Unit- School Board</u>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 177,827	\$ -
Communications sales and use tax	51,696	-
State sales tax	-	72,776
Categorical aid-shared expenses	12,427	-
Other categorical aid	-	102,000
Non-categorical aid	3,452	-
Virginia public assistance funds	9,288	-
<u>Federal Government:</u>		
School grants	-	41,300
	<u> </u>	<u> </u>
Totals	<u>\$ 254,690</u>	<u>\$ 216,076</u>

Note 6-Interfund Transfers:

Interfund transfers for the fiscal year ended June 30, 2016 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Primary Government:</u>		
General Fund	\$ 178,000	\$ 7,891,911
Capital Projects Fund	7,874,286	-
Cemetery Fund	17,625	-
Utility Fund	-	178,000
Total	<u>\$ 8,069,911</u>	<u>\$ 8,069,911</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 7-Long-Term Receivable:

The City entered into an agreement with the Counties of Rockbridge and Buena Vista, whereby debt was issued in the City’s name for the regional jail. Each locality is responsible for a percentage of the debt payments as they become due each year. As of June 30, 2016, the outstanding balance of the debt was \$1,312,091 and the long-term receivable balance was \$1,101,290.

Note 8-Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2016.

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General Obligation Bonds	\$ 29,840,933	\$ -	\$ (1,242,072)	\$ 28,598,861
Less: Discount on Issuance	(45,519)	-	4,552	(40,967)
Plus: Premiums on Issuance	1,741,722	-	(80,226)	1,661,496
Net OPEB Obligation	35,853	19,130	(13,111)	41,872
Net Pension Liability	2,597,701	1,547,846	(1,380,897)	2,764,650
Compensated Absences	257,229	37,263	(64,307)	230,185
Total	<u>\$ 34,427,919</u>	<u>\$ 1,604,239</u>	<u>\$ (2,776,061)</u>	<u>\$ 33,256,097</u>

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2017	\$ 1,264,533	\$ 869,780
2018	1,296,951	842,047
2019	1,329,436	809,477
2020	1,361,913	775,439
2021	1,394,596	738,719
2022-2026	7,549,531	3,127,699
2027-2031	5,781,901	2,353,178
2032-2036	5,990,000	1,317,486
2037-2040	2,630,000	197,504
Totals	<u>\$ 28,598,861</u>	<u>\$ 11,031,329</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 8-Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
General Obligation Bond	0.00%	11/13/2009	2026	\$ 8,410,000	\$ 5,441,768	\$ 494,708
VPSA Bond	0.00%	7/8/2010	2027	1,525,000	990,000	90,000
General Obligation Bond	2.01-4.83%	6/5/2013	2035	9,545,000	9,505,000	305,000
General Obligation Bond	2.52%	4/12/2013	2028	1,582,209	1,312,093	94,825
VPSA Bond	2.675-5.05%	5/15/2014	2040	11,615,000	11,350,000	280,000
Subtotal General Obligation Bonds					<u>\$ 28,598,861</u>	<u>\$ 1,264,533</u>
Plus: Premium on Issuance					\$ 1,661,496	\$ 80,226
Less: Discount on Issuance					(40,967)	(4,552)
Total General Obligation Bonds					<u>\$ 30,219,390</u>	<u>\$ 1,340,207</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 230,185	\$ 57,546
Net OPEB Obligation	n/a	n/a	n/a	n/a	41,872	-
Net Pension Liability	n/a	n/a	n/a	n/a	2,764,650	-
Total Other Obligations					<u>\$ 3,036,707</u>	<u>\$ 57,546</u>
Total Long-term Obligations					<u>\$ 33,256,097</u>	<u>\$ 1,397,753</u>

Compensated absences are liquidated by the City's general fund.

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 8-Long-Term Obligations: (Continued)

Primary Government-Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2016.

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Compensated Absences	\$ 53,113	\$ -	\$ (53,113)	\$ -
Net Pension Liability	750,383	447,118	(398,892)	798,609
Total	\$ 803,496	\$ 447,118	\$ (452,005)	\$ 798,609

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Other Obligations:						
Net Pension Liability	n/a	n/a	n/a	n/a	\$ 798,609	\$ -
Total Long-term Obligations					\$ 798,609	\$ -

Compensated absences are liquidated by the Utility Fund.

Note 9-Long-Term Obligations-Component Units:

Discretely Presented Component Unit-School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the Component-Unit School Board for the year ended June 30, 2016.

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Compensated Absences	\$ 51,196	\$ 36,568	\$ (12,799)	\$ 74,965
Net pension liability	4,250,000	122,000	-	4,372,000
Total	\$ 4,301,196	\$ 158,568	\$ (12,799)	\$ 4,446,965

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 9-Long-Term Obligations-Component Units: (Continued)

Discretely Presented Component Unit-School Board-Indebtedness: (Continued)

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Governmental Activities</u>	<u>Amount Due Within One Year</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 74,965	\$ 18,741
Net pension liability	n/a	n/a	n/a	n/a	4,372,000	-
 Total Long-term Obligations					<u>\$ 4,446,965</u>	<u>\$ 18,741</u>

Compensated absences are liquidated by the School Operating Fund.

The remainder of this page left blank intentionally.

Note 10-Pension Plan:

Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

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

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

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p>

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2016 was 13.58% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$575,760 and \$583,135 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

At June 30, 2016, the City reported a liability of \$3,563,259 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Retirement contributions as of June 30, 2015 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2015 and 2014, the City's proportion was 83.4641% and 83.4641%, respectively.

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - General Employees

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

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

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

Largest 10 - Non-LEOS:

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

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

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

Actuarial Assumptions - Public Safety Employees

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

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

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

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

Note 10-Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

Note 10-Pension Plan: (Continued)

Discount Rate

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Proportionate share of the City's Net Pension Liability	\$ 6,109,578	\$ 3,563,259	\$ 1,427,472

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 10-Pension Plan: (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$393,841. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 167,604
Net difference between projected and actual earnings on pension plan investments	-	443,004
Employer contributions subsequent to the measurement date	<u>575,760</u>	<u>-</u>
Total	<u>\$ 575,760</u>	<u>\$ 610,608</u>

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

\$575,760 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2017	\$ (227,743)
2018	(227,743)
2019	(234,699)
2020	79,577

Note 10-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Plan Description

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

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	13
Inactive members:	
Vested inactive members	0
Non-vested inactive members	0
Inactive members active elsewhere in VRS	<u>3</u>
Total inactive members	3
Active members	<u>0</u>
Total covered employees	<u><u>16</u></u>

Contributions

The Component Unit School Board’s contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 0.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board’s nonprofessional employees were \$0.00 and \$0.00 for the years ended June 30, 2016 and June 30, 2015, respectively, as there are currently no active members in the plan.

Note 10-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Net Pension Asset

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

Changes in Net Pension Liability (Asset)

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 329,574	\$ 496,700	\$ (167,126)
Changes for the year:			
Service cost	\$ -	\$ -	\$ -
Interest	21,938	-	21,938
Differences between expected and actual experience	16,718	-	16,718
Contributions - employer	-	-	-
Contributions - employee	-	12,850	(12,850)
Net investment income	-	22,550	(22,550)
Benefit payments, including refunds of employee contributions	(32,349)	(32,349)	-
Administrative expenses	-	(326)	326
Other changes	-	(4)	4
Net changes	<u>\$ 6,307</u>	<u>\$ 2,721</u>	<u>\$ 3,586</u>
Balances at June 30, 2015	<u>\$ 335,881</u>	<u>\$ 499,421</u>	<u>\$ (163,540)</u>

Note 10-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Component Unit School Board (nonprofessional) Net Pension Liability (Asset)	\$ (133,965)	\$ (163,540)	\$ (188,984)

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

For the year ended June 30, 2016, the Component Unit School Board (nonprofessional) recognized pension expense of \$(13,443). At June 30, 2016, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 14,207

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

\$0.00 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (nonprofessional)
2017	\$ (5,504)
2018	(5,504)
2019	(5,504)
2020	2,305

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional)

Plan Description

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

Contributions

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$365,738 and \$373,732 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of \$4,372,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.03474% as compared to 0.03517% at June 30, 2014.

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 10—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

For the year ended June 30, 2016, the school division recognized pension expense of \$296,000. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 60,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	93,000
Net difference between projected and actual earnings on pension plan investments	-	268,000
Employer contributions subsequent to the measurement date	<u>365,738</u>	<u>-</u>
Total	<u>\$ 365,738</u>	<u>\$ 421,000</u>

The remainder of this page left blank intentionally.

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

\$365,738 reported as deferred outflows of resources related to pensions resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (professional)</u>
2017	\$ (142,000)
2018	(142,000)
2019	(142,000)
2020	17,000
2021	(12,000)

Actuarial Assumptions

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

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

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

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions (Continued)

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 6,399,000	\$ 4,372,000	\$ 2,704,000

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11-Unearned and Deferred/Unavailable Revenue:

Unearned and deferred/unavailable revenue represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. These amounts consist of the following:

Unearned Revenue:

Primary Government:

Unearned Grants - Grant revenue collected by the City for various purposes that has not met the revenue criteria totaled \$630,445.

Discretely Presented Component Unit - School Board:

Unearned Revenue - Tuition revenue collected by the City for students from other localities to attend Lexington City Schools that has not met the revenue criteria totaled \$30,070.

Deferred/Unavailable Revenue - Primary Government:

	<u>Government-wide Statements</u>	<u>Balance Sheet</u>
	<u>Governmental Activities</u>	<u>Governmental Funds</u>
Unavailable long-term receivable	\$ -	\$ 1,101,290
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures	-	314,014
Tax assessments due after June 30	427,968	427,968
Prepaid property taxes due after June 30 but paid in advance by taxpayers	62,031	62,031
Total	<u>\$ 489,999</u>	<u>\$ 1,905,303</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 12-Capital Assets:

Capital asset activity for the year ended June 30, 2016 was as follows:

Primary Government:

	Restated Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,912,496	\$ -	\$ -	\$ 2,912,496
Construction in progress	4,071,279	8,716,817	(168,695)	12,619,401
Total capital assets not being depreciated	<u>\$ 6,983,775</u>	<u>\$ 8,716,817</u>	<u>\$ (168,695)</u>	<u>\$ 15,531,897</u>
Capital assets, being depreciated:				
Buildings	\$ 20,219,556	\$ 106,095	\$ -	\$ 20,325,651
Improvements other than buildings	1,513,139	-	-	1,513,139
Infrastructure	6,122,985	62,600	-	6,185,585
Machinery and equipment	6,553,115	506,163	(227,644)	6,831,634
Total capital assets being depreciated	<u>\$ 34,408,795</u>	<u>\$ 674,858</u>	<u>\$ (227,644)</u>	<u>\$ 34,856,009</u>
Accumulated depreciation:				
Buildings	\$ (3,790,570)	\$ (221,562)	\$ -	\$ (4,012,132)
Improvements other than buildings	(749,926)	(79,060)	-	(828,986)
Infrastructure	(2,610,186)	(152,033)	-	(2,762,219)
Machinery and equipment	(3,901,259)	(388,935)	227,644	(4,062,550)
Total accumulated depreciation	<u>\$ (11,051,941)</u>	<u>\$ (841,590)</u>	<u>\$ 227,644</u>	<u>\$ (11,665,887)</u>
Total capital assets being depreciated, net	<u>\$ 23,356,854</u>	<u>\$ (166,732)</u>	<u>\$ -</u>	<u>\$ 23,190,122</u>
Governmental activities capital assets, net	<u><u>\$ 30,340,629</u></u>	<u><u>\$ 8,550,085</u></u>	<u><u>\$ (168,695)</u></u>	<u><u>\$ 38,722,019</u></u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 12-Capital Assets: (Continued)

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities:</i>				
Capital assets, not being depreciated				
Construction in progress	\$ 29,357	\$ 273,035	\$ (293,511)	\$ 8,881
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	77,717	-	-	77,717
Infrastructure	4,740,419	218,218	-	4,958,637
Machinery and equipment	1,084,271	75,293	(82,362)	1,077,202
Total capital assets being depreciated	<u>\$ 6,015,812</u>	<u>\$ 293,511</u>	<u>\$ (82,362)</u>	<u>\$ 6,226,961</u>
Accumulated depreciation:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(51,078)	(1,028)	-	(52,106)
Infrastructure	(2,230,891)	(111,142)	-	(2,342,033)
Machinery and equipment	(442,629)	(84,739)	82,362	(445,006)
Total accumulated depreciation	<u>\$ (2,838,003)</u>	<u>\$ (196,909)</u>	<u>\$ 82,362</u>	<u>\$ (2,952,550)</u>
Total capital assets being depreciated, net	<u>\$ 3,177,809</u>	<u>\$ 96,602</u>	<u>\$ -</u>	<u>\$ 3,274,411</u>
Business-type activities capital assets, net	<u>\$ 3,207,166</u>	<u>\$ 369,637</u>	<u>\$ (293,511)</u>	<u>\$ 3,283,292</u>

The remainder of this page left blank intentionally.

Note 12-Capital Assets: (Continued)

Primary Government: (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 11,130
Public safety	276,555
Public works	253,914
Education	180,105
Parks, recreation, and culture	<u>119,886</u>
Total depreciation expense-governmental activities	<u>\$ 841,590</u>
Business-type activities:	
Water and Sewer Fund	<u>\$ 196,909</u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 12-Capital Assets: (Continued)

Discretely Presented Component Unit - School Board:

Capital asset activity for the School Board for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,550	\$ -	\$ -	\$ 4,550
Total capital assets not being depreciated	<u>\$ 4,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,550</u>
Capital assets, being depreciated:				
Buildings	\$ 4,193,860	\$ -	\$ -	\$ 4,193,860
Machinery and equipment	86,183	-	-	86,183
Total capital assets being depreciated	<u>\$ 4,280,043</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,280,043</u>
Accumulated depreciation:				
Buildings	\$ (2,812,252)	\$ (139,667)	\$ -	\$ (2,951,919)
Machinery and equipment	(58,689)	(4,330)	-	(63,019)
Total accumulated depreciation	<u>\$ (2,870,941)</u>	<u>\$ (143,997)</u>	<u>\$ -</u>	<u>\$ (3,014,938)</u>
Total capital assets being depreciated, net	<u>\$ 1,409,102</u>	<u>\$ (143,997)</u>	<u>\$ -</u>	<u>\$ 1,265,105</u>
School board capital assets, net	<u><u>\$ 1,413,652</u></u>	<u><u>\$ (143,997)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,269,655</u></u>

Depreciation expense was charged to functions of the Discretely Presented Component Unit - School Board as follows:

Education	<u>\$143,997</u>
-----------	------------------

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 13-Risk Management:

The City and its component unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City and its component unit - School Board participate with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City and its component unit - School Board pay the Virginia Municipal Group contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City and its component unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 14-Contingent Liabilities:

The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction and upgrades of its current wastewater treatment plant. The MSA's debt total \$6,654,633 as of June 30, 2016 and is scheduled to be completely retired by June of 2031. The City paid \$704,330 to the MSA in FY 16 for half of the debt service; the County of Rockbridge pays an equal assessment. An annual assessment of \$704,330 per year is scheduled through fiscal year ending June 30, 2018. The annual assessment will be reduced to \$161,504 for fiscal year ending June 30, 2019 thru June 30, 2031.

Note 15-Commitments:

At year end, the City had the following construction contract underway:

<u>Project</u>	<u>Total Contract Amount</u>	<u>Contract Amount Outstanding</u>
Waddell School Construction	\$ 12,534,041	\$ 1,992,420

Note 16-Surety Bonds:

Primary Government:

Virginia Municipal Liability Pool - Surety:	
Pat DeLaney, Treasurer	\$ 200,000
Wanda Floyd, Deputy Treasurer	200,000
Karen T. Roundy, Commissioner of Revenue	200,000
Alfred Thomas, Chief of Police	200,000

Note 17-Service Contracts:

Maury Service Authority: The Maury Service Authority (MSA) provides water filtration and potable water to the City and to Rockbridge County, which in turn sell these same services to their respective residents. The City manages and operates the two plants under separate contractual agreements with the MSA, and charges the MSA for administrative costs plus an agreed upon fee for services. The City bills the MSA quarterly for actual operating costs plus 5.0% for water plant administrative costs and 5.0% for wastewater treatment plant administrative costs.

In fiscal year 2016, the City paid the MSA \$1,765,196 for bulk purchases of water and sewer services, as well as a \$704,330 assessment for debt service. They also received \$1,827,424 from the MSA under the operating agreements described above.

Solid Waste Authority of Rockbridge County: The City of Lexington, along with other localities, participates in the Solid Waste Authority of Rockbridge County, which operates a regional landfill. Each participating jurisdiction is responsible through tipping fees for its proportionate share of operating costs. Each jurisdiction, after consultation with the committee, will determine tipping fees to be charged to waste generators within their jurisdiction. The tipping fee charged in 2016 was \$52.00/ton for refuse disposal at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and the County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,412,909 for high school student tuition in 2016.

Note 18-Annexation/Revenue Sharing:

In 1983, the City filed a petition with the Virginia Commission on Local Government to annex 6.8 square miles of land in the County of Rockbridge adjoining the City. The proposed annexation would have increased the City's size by approximately 542 residents and would have increased its tax base. Negotiations between the City and the County, in an effort to resolve the annexation issues, resulted in a revenue sharing agreement between the two jurisdictions. The voters of the County of Rockbridge in a special referendum approved the agreement on March 6, 1986, and both governing bodies have passed an ordinance adopting the agreement. During fiscal year 2016, the City received \$1,769,854 from the County representing the revenue sharing payment under this agreement.

Note 19-Litigation:

At June 30, 2016 there were no significant matters of litigation pending involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to the City.

Note 20-Other Postemployment Benefits - Health Insurance:

A. Plan Description

The Lexington Post-Retirement Medical Plan (LPRMP) is a single-employer defined benefit healthcare plan administered by the City. LPRMP provides health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 50 with 10 years of service or permanently, totally disabled and injured in the line of duty. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement or disability. The benefit provisions, including employer and employee contributions, are governed by City Council and can be amended through City Council action. The LPRMP does not issue a publicly available financial report.

B. Funding Policy

The Lexington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2016, the City contributed \$84,298 in total for current premiums and prefunding amounts.

For retirees of the City, 100 percent of premiums for both the employee and spouse are the responsibility of the retiree. Coverage under the plan ceases when the employee reaches age 65. For retirees of the School Board, the retiree pays the VRS Healthcare Credit plus the additional difference between the current Employee Premium and the Employer Subsidy at retirement, if any, for the retiree and 100 percent of premiums for a spouse. Coverage ceases at age 65 of the participant.

Note 20-Other Postemployment Benefits - Health Insurance: (Continued)

B. Funding Policy (Continued)

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

	City	School Board	Total
Annual required contribution	\$ 18,715	\$ 57,299	\$ 76,014
Interest on net OPEB obligation	2,689	(3,456)	(767)
Adjustment to annual required contribution	(2,274)	2,923	649
Annual OPEB cost (expense)	19,130	56,766	75,896
Contributions made	(13,111)	(71,187)	(84,298)
Increase in net OPEB obligation	6,019	(14,421)	(8,402)
Net OPEB obligation - beginning of year	35,853	(46,080)	(10,227)
Net OPEB obligation (asset) - end of year	<u>\$ 41,872</u>	<u>\$ (60,501)</u>	<u>\$ (18,629)</u>

C. Annual OPEB Cost and Net OPEB Obligation

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

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 19,130	69%	\$ 41,872
6/30/2015	18,874	101%	35,853
6/30/2014	18,341	81%	36,053

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2016	\$ 56,766	125%	\$ (60,501)
6/30/2015	55,904	101%	(46,080)
6/30/2014	55,853	119%	(45,512)

Note 20-Other Postemployment Benefits - Health Insurance: (Continued)

D. Funded Status and Funding Progress

As of June 30, 2016, based on projected balances from the July 1, 2013 actuarial valuation, the plan was 15.60% funded. The actuarial accrued liability (AAL) for benefits was \$839,858, and the actuarial value of assets was \$130,991, resulting in an unfunded actuarial accrued liability (UAAL) of \$708,867. The covered payroll (annual payroll of active employees covered by the plan) was \$2,993,355, and ratio of the UAAL to the covered payroll was 23.68%.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2013, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.50% investment rate of return per annum and an inflation rate of 2.50%. An annual healthcare cost trend rate of 8.50% initially, reduced by decrements of 0.5% until an ultimate rate of 5% is reached. The UAAL is being amortized as a level percentage of projected payroll over the remaining amortization period, which at June 30, 2013, was 30 years. Amortizations are open ended in that they begin anew at each valuation date.

CITY OF LEXINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 21-Fund Balance Classifications:

Fund balance classifications for the primary government are as follows:

	General Fund	Capital Projects Fund	Permanent Fund
Nonspendable:			
Prepays	\$ 117,557	\$ -	\$ -
Corpus	-	-	180,562
Total Nonspendable	<u>\$ 117,557</u>	<u>\$ -</u>	<u>\$ 180,562</u>
Restricted:			
School Construction	\$ 2,227,751	\$ -	\$ -
Perpetual cemetery care	-	-	1,519,090
Total Restricted	<u>\$ 2,227,751</u>	<u>\$ -</u>	<u>\$ 1,519,090</u>
Committed:			
Fire	\$ 110,863	\$ -	\$ -
Equipment replacement	785,516	-	-
Capital projects	-	350,843	-
Total Committed	<u>\$ 896,379</u>	<u>\$ 350,843</u>	<u>\$ -</u>
Assigned:			
Carryovers	\$ 336,982	\$ -	\$ -
Unassigned	<u>\$ 7,924,727</u>	<u>\$ -</u>	<u>\$ -</u>
Total Fund Balance	<u>\$ 11,503,396</u>	<u>\$ 350,843</u>	<u>\$ 1,699,652</u>

Fund balance classifications for the component units are as follows:

	School Board	Industrial Development Authority
Nonspendable:		
Prepays	\$ 29,553	\$ -
Committed:		
Special revenue funds	1,067,283	289,132
Total Fund Balance	<u>\$ 1,096,836</u>	<u>\$ 289,132</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 22-Restatement of Beginning Balances:

	General Fund	School Board
Fund Balance, as reported at June 30, 2015	\$ 18,644,518	495,728
Remove long term receivable revenue	(924,178)	-
Adjust due to/from component unit	(458,118)	399,939
Fund Balance as restated at June 30, 2015	<u>\$ 17,262,222</u>	<u>\$ 895,667</u>

	Governmental Activities	Component Unit
	Primary Government	School Board
Net Position as reported at June 30, 2015	\$ 18,827,308	\$ (2,839,110)
Fund balance adjustments above	(1,382,296)	399,939
Record prior year GASB 68 balance	-	135,890
Record jail debt receivable	1,178,817	-
Record prior year depreciation	(210,123)	180,106
Net Position as restated at June 30, 2015	<u>\$ 18,413,706</u>	<u>\$ (2,123,175)</u>

Note 23-Adoption of Accounting Principles:

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

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the City's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 4.

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

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the City's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

Note 23-Adoption of Accounting Principles: (Continued)

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

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

Note 24-Upcoming Pronouncements:

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

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

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

Note 24-Upcoming Pronouncements: (Continued)

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

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

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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

Required Supplementary Information

City of Lexington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 6,581,500	\$ 6,581,500	\$ 6,680,922	\$ 99,422
Other local taxes	3,642,000	3,642,000	4,210,771	568,771
Permits, privilege fees, and regulatory licenses	36,200	36,200	62,288	26,088
Fines and forfeitures	75,000	75,000	58,464	(16,536)
Revenue from the use of money and property	94,690	119,690	115,234	(4,456)
Charges for services	1,167,945	1,167,945	1,097,361	(70,584)
Miscellaneous	2,414,380	2,428,580	2,510,002	81,422
Recovered costs	429,710	429,710	473,606	43,896
Intergovernmental:				
Commonwealth	2,299,187	2,668,098	1,922,841	(745,257)
Federal	4,000	4,000	2,811	(1,189)
Total revenues	<u>\$ 16,744,612</u>	<u>\$ 17,152,723</u>	<u>\$ 17,134,300</u>	<u>\$ (18,423)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,261,294	\$ 1,226,601	\$ 1,200,460	\$ 26,141
Judicial administration	322,514	353,405	353,210	195
Public safety	3,894,001	3,960,124	3,319,963	640,161
Public works	3,517,378	3,936,835	2,917,207	1,019,628
Health and welfare	739,484	743,484	509,789	233,695
Education	3,055,653	3,055,653	3,032,922	22,731
Parks, recreation, and cultural	508,700	559,607	518,820	40,787
Community development	781,956	814,714	724,805	89,909
Nondepartmental	52,195	535,252	459,377	75,875
Debt service:				
Principal retirement	1,718,495	1,718,495	1,242,072	476,423
Interest and other fiscal charges	424,572	424,572	900,590	(476,018)
Total expenditures	<u>\$ 16,276,242</u>	<u>\$ 17,328,742</u>	<u>\$ 15,179,215</u>	<u>\$ 2,149,527</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 468,370</u>	<u>\$ (176,019)</u>	<u>\$ 1,955,085</u>	<u>\$ 2,131,104</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 120,000	\$ 178,000	\$ 178,000	\$ -
Transfers out	(512,500)	(537,500)	(7,891,911)	(7,354,411)
Total other financing sources (uses)	<u>\$ (392,500)</u>	<u>\$ (359,500)</u>	<u>\$ (7,713,911)</u>	<u>\$ (7,354,411)</u>
Net change in fund balances	\$ 75,870	\$ (535,519)	\$ (5,758,826)	\$ (5,223,307)
Fund balances - beginning, as restated	(75,870)	535,519	17,262,222	16,726,703
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,503,396</u>	<u>\$ 11,503,396</u>

**REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2016**

Note 1-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: the General Fund, the Capital Projects Fund, the Water and Sewer Utility Fund, and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation for each function level or division of expenditures. The City Manager is authorized to transfer budgeted amounts between departments of a function level of expenditures. The School Board is authorized to transfer budgeted amounts within the departments at the function level of a school system category of expense.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the General Capital Projects Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. The City commits fund balances for certain designated ongoing projects at fiscal year end. Appropriations are then made in the first quarter budget amendments of the following year for the commitment. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by project. Several supplemental appropriations were necessary during this fiscal year.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
11. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the City's accounting system.

City of Lexington, Virginia
 Schedule of OPEB Funding Progress
 June 30, 2016

Primary Government and Discretely Presented Component Unit - School Board:

Post-Retirement Medical Plan:

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2) / (3)	Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
7/1/2016	\$ 130,991	\$ 839,858	\$ 708,867	15.60%	\$ 2,993,355	23.68%
7/1/2015	121,852	824,902	703,050	14.77%	3,009,160	23.36%
7/1/2014	113,351	817,506	704,155	13.87%	2,965,029	23.75%

* Values are based in the July 1, 2013 actuarial valuation which includes projected estimates for the above years.

City of Lexington, Virginia
 Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)
 For the Year Ended June 30, 2016

Date (1)	Proportion of the Net Pension Liability (Asset) (NPLA) (2)	Proportionate Share of the NPLA (3)	Covered Payroll (4)	Proportionate Share of the NPLA as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (Asset) (6)
Primary Government - City Retirement Plan					
2015	83.4641%	\$ 3,563,259	\$ 4,312,572	82.62%	82.87%
2014	83.4641%	3,610,518	4,326,786	83.45%	83.25%
Component Unit School Board (professional)					
2015	0.03474%	\$ 4,372,000	\$ 2,586,134	169.06%	70.68%
2014	0.03517%	4,250,000	2,585,154	164.40%	70.88%

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

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

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

	2015	2014
Total pension liability		
Service cost	\$ -	\$ -
Interest	21,938	22,650
Changes of benefit terms	-	-
Differences between expected and actual experience	16,718	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(32,349)	(33,291)
Net change in total pension liability	\$ 6,307	\$ (10,641)
Total pension liability - beginning	329,574	340,215
Total pension liability - ending (a)	<u>\$ 335,881</u>	<u>\$ 329,574</u>
Plan fiduciary net position		
Contributions - employer	\$ -	\$ -
Contributions - employee	12,850	-
Net investment income	22,550	70,087
Benefit payments, including refunds of employee contributions	(32,349)	(33,291)
Administrative expense	(326)	(402)
Other	(4)	4
Net change in plan fiduciary net position	\$ 2,721	\$ 36,398
Plan fiduciary net position - beginning	496,700	460,302
Plan fiduciary net position - ending (b)	<u>\$ 499,421</u>	<u>\$ 496,700</u>
School Division's net pension liability (asset) - ending (a) - (b)	\$ (163,540)	\$ (167,126)
Plan fiduciary net position as a percentage of the total pension liability	148.69%	150.71%
Covered payroll (1)	\$ -	\$ -
School Division's net pension liability as a percentage of covered payroll	100.00%	100.00%

(1) There are no active employees on the component unit school board's nonprofessional VRS plan.

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

City of Lexington, Virginia
Schedule of Employer Contributions
For the Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2016	\$ 575,760	\$ 575,760	\$ -	\$ 4,274,309	13.47%
2015	581,632	581,632	-	4,312,572	13.49%
Component Unit School Board (nonprofessional) (a)					
2011	\$ -	\$ -	\$ -	\$ 72,812	0.00%
2010	-	-	-	80,172	0.00%
2009	-	-	-	76,172	0.00%
2008	171	171	-	74,409	0.23%
2007	161	161	-	69,869	0.23%
Component Unit School Board (professional)					
2016	\$ 365,738	\$ 365,738	\$ -	\$ 2,619,420	13.96%
2015	373,732	373,732	-	2,586,134	14.45%
2014	301,429	301,429	-	2,585,154	11.66%
2013	298,490	298,490	-	2,559,949	11.66%
2012	152,921	152,921	-	2,415,814	6.33%
2011	89,914	89,914	-	2,287,888	3.93%
2010	152,470	152,470	-	2,439,520	6.25%
2009	216,971	216,971	-	2,462,781	8.81%
2008	233,205	233,205	-	2,264,126	10.30%
2007	202,274	202,274	-	2,198,630	9.20%

(a) There have not been active employees on the component unit school board nonprofessional plan since 2011. Therefore, data after this time period is not presented.

Schedule is intended to show information for 10 years. Because the primary government participates with various employers and their information is presented on the cost-sharing basis beginning in 2015, data prior to this period is not available. However, information will be presented as it becomes available.

City of Lexington, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

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

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

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Component Unit School Board - Professional Employees

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

Other Supplementary Information

CAPITAL PROJECTS FUND

MAJOR GOVERNMENTAL FUNDS

Capital Projects Fund - This fund is used to account for and report the acquisition, construction, and renovation of major capital facilities and other capital assets. These expenditures are financed from grants, the proceeds of certain City general obligation bonds, and from City general resources.

City of Lexington, Virginia
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ -	\$ 3,000	\$ 7,915	\$ 4,915
Recovered costs	-	-	2,283	2,283
Intergovernmental:				
Local government	-	-	75,000	75,000
Commonwealth	-	225,000	143,842	(81,158)
Federal	-	-	25,640	25,640
Total revenues	\$ -	\$ 228,000	\$ 254,680	\$ 26,680
EXPENDITURES				
Current:				
General government administration	\$ -	\$ 406,500	\$ -	\$ 406,500
Public works	196,855	338,932	252,339	86,593
Education	10,000	10,568,788	8,462,033	2,106,755
Parks, recreation, and cultural	12,500	444,418	67,155	377,263
Community development	-	144,310	4,902	139,408
Total expenditures	\$ 219,355	\$ 11,902,948	\$ 8,786,429	\$ 3,116,519
Excess (deficiency) of revenues over (under) expenditures	\$ (219,355)	\$ (11,674,948)	\$ (8,531,749)	\$ 3,143,199
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 500,000	\$ 525,000	\$ 7,874,286	\$ 7,349,286
Total other financing sources (uses)	\$ 500,000	\$ 525,000	\$ 7,874,286	\$ 7,349,286
Net change in fund balances	\$ 280,645	\$ (11,149,948)	\$ (657,463)	\$ 10,492,485
Fund balances - beginning	(280,645)	11,149,948	1,008,306	(10,141,642)
Fund balances - ending	\$ -	\$ -	\$ 350,843	\$ 350,843

City of Lexington, Virginia
Combining Statement of Fiduciary Net Position - Agency Funds
June 30, 2016

	Agency Funds			Total
	Central Dispatch	RARO	Regional Tourism	
ASSETS				
Cash and cash equivalents	\$ 228,833	\$ 80,532	\$ 263,504	\$ 572,869
Accounts receivable	4,572	33,740	1,901	40,213
Total assets	<u>\$ 233,405</u>	<u>\$ 114,272</u>	<u>\$ 265,405</u>	<u>\$ 613,082</u>
LIABILITIES				
Accounts payable	\$ 83,370	\$ 20,644	\$ 4,695	\$ 108,709
Accrued payroll and benefits	17,638	7,823	9,021	34,482
Amount held for others - Central Dispatch	132,397	-	-	132,397
Amount held for others - RARO	-	85,805	-	85,805
Amount held for others - Regional Tourism	-	-	251,689	251,689
Total liabilities	<u>\$ 233,405</u>	<u>\$ 114,272</u>	<u>\$ 265,405</u>	<u>\$ 613,082</u>

City of Lexington, Virginia
 Agency Funds
 Statement of Changes in Assets and Liabilities
 For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash and cash equivalents	\$ 665,057	\$ 80,532	\$ 172,720	\$ 572,869
Accounts receivable	42,498	6,123	8,408	40,213
Due from other governmental units	23,817	-	23,817	-
Total assets	<u>\$ 731,372</u>	<u>\$ 86,655</u>	<u>\$ 204,945</u>	<u>\$ 613,082</u>
LIABILITIES				
Accounts payable	\$ 254,813	\$ 17,900	\$ 164,004	\$ 108,709
Accrued payroll and benefits	26,336	8,146	-	34,482
Due to other governmental units	58,179	5,307	29,003	34,483
Amount held for others - Central Dispatch	104,757	10,002	-	114,759
Amount held for others - RARO	21,410	56,571	-	77,981
Amount held for others - Regional Tourism	265,877	-	23,209	242,668
Total liabilities	<u>\$ 731,372</u>	<u>\$ 97,926</u>	<u>\$ 216,216</u>	<u>\$ 613,082</u>

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund accounts for and reports the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the General Fund.

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2016

		School Operating Fund
ASSETS		
Cash and cash equivalents	\$	831,182
Investments		500,000
Due from other governmental units		216,076
Prepaid items		29,553
Total assets		\$ 1,576,811
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$	18,933
Payroll liabilities		53,764
Contracts payable		377,208
Deferred revenue		30,070
Total liabilities	\$	479,975
Fund balances:		
Nonspendable	\$	29,553
Committed		1,067,283
Total fund balances	\$	1,096,836
Total liabilities and fund balances	\$	1,576,811
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above	\$	1,096,836
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	4,550
Buildings		1,241,941
Machinery and equipment		23,164
		1,269,655
The net OPEB asset is not an available resource and, therefore, is not reported in the funds.		60,501
The net pension asset is not an available resource and, therefore, is not reported in the funds.		163,540
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability/asset	\$	(342,207)
Change in proportionate share of pension liability/asset		(93,000)
		(435,207)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		365,738
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	\$	(74,965)
Net pension liability		(4,372,000)
		(4,446,965)
Net position of governmental activities		\$ (1,925,902)

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2016

		School Operating Fund
REVENUES		
Revenue from the use of money and property	\$	4,531
Charges for services		217,147
Miscellaneous		4,097
Recovered costs		13,106
Intergovernmental:		
Local government		2,957,922
Commonwealth		2,979,003
Federal		273,822
Total revenues	\$	6,449,628
EXPENDITURES		
Current:		
Education	\$	6,248,459
Total expenditures	\$	6,248,459
Excess (deficiency) of revenues over (under) expenditures	\$	201,169
Net change in fund balances	\$	201,169
Fund balances - beginning		895,667
Fund balances - ending	\$	1,096,836
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:		
Net change in fund balances - total governmental funds - per above	\$	201,169
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Depreciation expense		(143,997)
OPEB costs are recognized as expenditures in the fund statements, but are deferred in the government-wide statements.		14,421
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows related to the measurement of the net pension liability/asset	\$	320,029
Change in deferred inflows related to the change in proportionate share of the net pension liability/asset		(37,000)
		283,029
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.		
Change in compensated absences	\$	(23,769)
Change in net pension liability		(122,000)
Change in net pension asset		(3,586)
Change in deferred outflows related to pension payments subsequent to the measurement date		(7,994)
		(157,349)
Change in net position of governmental activities	\$	197,273

City of Lexington, Virginia
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2016

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 4,600	\$ 4,600	\$ 4,531	\$ (69)
Charges for services	240,000	240,000	217,147	(22,853)
Miscellaneous	1,000	1,000	4,097	3,097
Recovered costs	10,000	10,000	13,106	3,106
Intergovernmental:				
Local government	3,055,653	3,055,653	2,957,922	(97,731)
Commonwealth	3,005,638	3,005,638	2,979,003	(26,635)
Federal	243,704	294,719	273,822	(20,897)
Total revenues	<u>\$ 6,560,595</u>	<u>\$ 6,611,610</u>	<u>\$ 6,449,628</u>	<u>\$ (161,982)</u>
EXPENDITURES				
Current:				
Education	\$ 6,559,695	\$ 6,958,842	\$ 6,248,459	\$ 710,383
Total expenditures	<u>\$ 6,559,695</u>	<u>\$ 6,958,842</u>	<u>\$ 6,248,459</u>	<u>\$ 710,383</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 900</u>	<u>\$ (347,232)</u>	<u>\$ 201,169</u>	<u>\$ 548,401</u>
Net change in fund balances	\$ 900	\$ (347,232)	\$ 201,169	\$ 548,401
Fund balances - beginning, as restated	(900)	347,232	895,667	548,435
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,096,836</u>	<u>\$ 1,096,836</u>

DISCRETELY PRESENTED NONMAJOR COMPONENT UNIT

NON MAJOR GOVERNMENTAL FUND

The following discretely presented component unit has been determined by the management of the City of Lexington to be nonmajor.

Industrial Development Authority - This component unit consists of a single General Fund which accounts for the promotion of industry and develop trade by inducing enterprises to locate and remain in Virginia.

City of Lexington, Virginia
Balance Sheet
Discretely Presented Nonmajor Component Unit
June 30, 2016

	<u>Industrial Development Authority</u>
ASSETS	
Cash and cash equivalents	\$ 110,037
Investments	226,606
Total assets	<u>\$ 336,643</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 47,511
Total liabilities	<u>\$ 47,511</u>
 Fund balances:	
Committed	\$ 289,132
Total fund balances	<u>\$ 289,132</u>
Total liabilities and fund balances	<u>\$ 336,643</u>

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Unit
For the Year Ended June 30, 2016

	<u>Industrial Development Authority</u>
REVENUES	
Revenue from the use of money and property	\$ 3,226
Miscellaneous	45,288
Intergovernmental:	
Local government	182,357
Total revenues	<u>\$ 230,871</u>
EXPENDITURES	
Current:	
Parks, recreation, and cultural	\$ 182,357
Community development	63,813
Total expenditures	<u>\$ 246,170</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (15,299)</u>
Net change in fund balances	\$ (15,299)
Fund balances - beginning	304,431
Fund balances - ending	<u><u>\$ 289,132</u></u>

City of Lexington, Virginia
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Discretely Presented Nonmajor Component Unit
 For the Year Ended June 30, 2016

	Industrial Development Authority			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ 3,226	\$ 3,226
Miscellaneous	-	-	45,288	45,288
Intergovernmental:				
Local government	-	-	182,357	182,357
Total revenues	\$ -	\$ -	\$ 230,871	\$ 230,871
EXPENDITURES				
Current:				
Parks, recreation, and cultural	\$ -	\$ -	\$ 182,357	\$ (182,357)
Community development	-	-	63,813	(63,813)
Total expenditures	\$ -	\$ -	\$ 246,170	\$ (246,170)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (15,299)	\$ (15,299)
Net change in fund balances	\$ -	\$ -	\$ (15,299)	\$ (15,299)
Fund balances - beginning	-	-	304,431	304,431
Fund balances - ending	\$ -	\$ -	\$ 289,132	\$ 289,132

Supporting Schedules

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,635,000	\$ 5,635,000	\$ 5,513,974	\$ (121,026)
Real and personal public service corporation taxes	190,500	190,500	202,451	11,951
Personal property taxes	681,000	681,000	889,914	208,914
Penalties	38,000	38,000	41,036	3,036
Interest	37,000	37,000	33,547	(3,453)
Total general property taxes	<u>\$ 6,581,500</u>	<u>\$ 6,581,500</u>	<u>\$ 6,680,922</u>	<u>\$ 99,422</u>
Other local taxes:				
Local sales and use taxes	\$ 975,000	\$ 975,000	\$ 1,041,144	\$ 66,144
Consumers' utility taxes	305,000	305,000	309,542	4,542
Consumption taxes	22,000	22,000	25,420	3,420
Business license taxes	600,000	600,000	716,749	116,749
Bank stock taxes	100,000	100,000	112,371	12,371
Taxes on recordation and wills	32,000	32,000	53,594	21,594
Hotel and motel room taxes	383,000	383,000	490,754	107,754
Restaurant food taxes	1,225,000	1,225,000	1,461,197	236,197
Total other local taxes	<u>\$ 3,642,000</u>	<u>\$ 3,642,000</u>	<u>\$ 4,210,771</u>	<u>\$ 568,771</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 5,200	\$ 5,200	\$ 6,647	\$ 1,447
Building permits	25,000	25,000	47,181	22,181
Excavation permits	1,000	1,000	1,325	325
Permits and other licenses	5,000	5,000	7,135	2,135
Total permits, privilege fees, and regulatory licenses	<u>\$ 36,200</u>	<u>\$ 36,200</u>	<u>\$ 62,288</u>	<u>\$ 26,088</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 25,000	\$ 25,000	\$ 26,134	\$ 1,134
Parking fines	40,000	40,000	24,570	(15,430)
Courthouse fees	10,000	10,000	7,760	(2,240)
Total fines and forfeitures	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 58,464</u>	<u>\$ (16,536)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 44,690	\$ 69,690	\$ 71,376	\$ 1,686
Revenue from use of property	50,000	50,000	43,858	(6,142)
Total revenue from use of money and property	<u>\$ 94,690</u>	<u>\$ 119,690</u>	<u>\$ 115,234</u>	<u>\$ (4,456)</u>
Charges for services:				
Charges for finance	\$ 68,000	\$ 68,000	\$ 67,527	\$ (473)
Charges for public safety	12,470	12,470	11,485	(985)
Charges for youth services	8,500	8,500	11,005	2,505
Charges for public works	46,000	46,000	38,295	(7,705)
Charges for grave openings	37,300	37,300	38,855	1,555
Charges for rescue services	400,000	400,000	338,717	(61,283)
Charges for burial spaces	27,500	27,500	35,250	7,750
Charges for recreation	59,200	59,200	68,164	8,964

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for sanitation and waste removal	\$ 166,375	\$ 166,375	\$ 151,851	\$ (14,524)
Charges for landfill fees	330,000	330,000	318,618	(11,382)
Charges for community activity support	7,000	7,000	8,215	1,215
Charges for farmer's market	3,000	3,000	6,279	3,279
Charges for other services	2,600	2,600	3,100	500
Total charges for services	<u>\$ 1,167,945</u>	<u>\$ 1,167,945</u>	<u>\$ 1,097,361</u>	<u>\$ (70,584)</u>
Miscellaneous:				
Miscellaneous	\$ 650,780	\$ 664,980	\$ 740,148	\$ 75,168
County revenue sharing	1,763,600	1,763,600	1,769,854	6,254
Total miscellaneous	<u>\$ 2,414,380</u>	<u>\$ 2,428,580</u>	<u>\$ 2,510,002</u>	<u>\$ 81,422</u>
Recovered costs:				
Joint services fire and rescue	\$ 300,000	\$ 300,000	\$ 315,000	\$ 15,000
Joint services jail	128,350	128,350	128,711	361
Parking Garage	1,360	1,360	12,073	10,713
Insurance	-	-	15,105	15,105
Other recovered costs	-	-	2,717	2,717
Total recovered costs	<u>\$ 429,710</u>	<u>\$ 429,710</u>	<u>\$ 473,606</u>	<u>\$ 43,896</u>
Total revenue from local sources	<u>\$ 14,441,425</u>	<u>\$ 14,480,625</u>	<u>\$ 15,208,648</u>	<u>\$ 728,023</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 50	\$ 50	\$ 255	\$ 205
Mobile home titling tax	100	100	75	(25)
Motor vehicle rental tax	4,400	4,400	2,062	(2,338)
State recordation tax	10,800	10,800	14,429	3,629
Communications tax	322,000	322,000	311,965	(10,035)
Personal property tax relief funds	581,419	581,419	581,419	-
Other noncategorical aid	750	750	741	(9)
Total noncategorical aid	<u>\$ 919,519</u>	<u>\$ 919,519</u>	<u>\$ 910,946</u>	<u>\$ (8,573)</u>
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 191,000	\$ 191,000	\$ 191,280	\$ 280
Commissioner of revenue	75,595	75,595	75,609	14
Treasurer	59,533	59,533	59,506	(27)
Registrar/electoral board	26,500	26,500	32,665	6,165
Total shared expenses	<u>\$ 352,628</u>	<u>\$ 352,628</u>	<u>\$ 359,060</u>	<u>\$ 6,432</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid:				
Street maintenance	\$ 667,000	\$ 1,032,080	\$ 410,890	\$ (621,190)
Welfare payments	150,273	150,273	19,046	(131,227)
Comprehensive services	101,667	101,667	101,667	-
VJCCCA grant	72,050	72,050	72,054	4
Fire program grant	20,000	23,831	17,384	(6,447)
Four for life	3,800	3,800	4,046	246
Arts grant	4,750	4,750	4,750	-
DOF grant	-	-	3,530	3,530
DMV grant	7,500	7,500	11,968	4,468
Emergency management grant	-	-	7,500	7,500
Total other categorical aid	<u>\$ 1,027,040</u>	<u>\$ 1,395,951</u>	<u>\$ 652,835</u>	<u>\$ (743,116)</u>
Total categorical aid	<u>\$ 1,379,668</u>	<u>\$ 1,748,579</u>	<u>\$ 1,011,895</u>	<u>\$ (736,684)</u>
Total revenue from the Commonwealth	<u>\$ 2,299,187</u>	<u>\$ 2,668,098</u>	<u>\$ 1,922,841</u>	<u>\$ (745,257)</u>
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ -	\$ -	\$ 881	\$ 881
Department of justice grants	500	500	1,930	1,430
Criminal justice services grant	3,500	3,500	-	(3,500)
Total categorical aid	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 2,811</u>	<u>\$ (1,189)</u>
Total revenue from the federal government	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 2,811</u>	<u>\$ (1,189)</u>
Total General Fund	<u>\$ 16,744,612</u>	<u>\$ 17,152,723</u>	<u>\$ 17,134,300</u>	<u>\$ (18,423)</u>
Capital Projects Fund:				
Revenue from local sources:				
Miscellaneous:				
Miscellaneous	\$ -	\$ 3,000	\$ 7,915	\$ 4,915
Recovered costs:				
Other recovered costs	\$ -	\$ -	\$ 2,283	\$ 2,283
Intergovernmental:				
Revenue from local governments:				
Contribution from City of Lexington, Virginia - School Board	\$ -	\$ -	\$ 75,000	\$ 75,000
Total revenue from local sources	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 85,198</u>	<u>\$ 82,198</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
Capital Projects Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Stormwater local assistance grant	\$ -	\$ 225,000	\$ 143,842	\$ (81,158)
Revenue from the federal government:				
Categorical aid:				
TEA - 21 grant	\$ -	\$ -	\$ 25,640	\$ 25,640
Total Capital Projects Fund	\$ -	\$ 228,000	\$ 254,680	\$ 26,680
Permanent Fund				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 32,802	\$ 32,802
Total Primary Government	\$ 16,744,612	\$ 17,380,723	\$ 17,421,782	\$ 41,059
Discretely Presented Component Units:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 300	\$ 300	\$ 836	\$ 536
Revenue from the use of property	4,300	4,300	3,695	(605)
Total revenue from use of money and property	\$ 4,600	\$ 4,600	\$ 4,531	\$ (69)
Charges for services:				
Cafeteria sales	\$ 60,000	\$ 60,000	\$ 41,287	\$ (18,713)
Tuition and payments from other divisions	180,000	180,000	175,860	(4,140)
Total charges for services	\$ 240,000	\$ 240,000	\$ 217,147	\$ (22,853)
Miscellaneous:				
Other miscellaneous	\$ 1,000	\$ 1,000	\$ 4,097	\$ 3,097
Recovered costs:				
Other recovered costs	\$ 10,000	\$ 10,000	\$ 13,106	\$ 3,106
Total revenue from local sources	\$ 255,600	\$ 255,600	\$ 238,881	\$ (16,719)
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 3,055,653	\$ 3,055,653	\$ 2,957,922	\$ (97,731)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 571,856	\$ 571,856	\$ 572,136	\$ 280
Basic school aid	1,647,760	1,647,760	1,623,163	(24,597)
Gifted and talented	16,668	16,668	16,488	(180)
Remedial education	30,074	30,074	29,751	(323)
Special education	193,127	193,127	191,050	(2,077)
Textbook payment	11,428	11,428	24,901	13,473
Vocational standards of quality payments	34,785	34,785	34,410	(375)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Discretely Presented Component Units: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Social security fringe benefits	\$ 101,455	\$ 101,455	\$ 100,364	\$ (1,091)
Retirement fringe benefits	200,374	200,374	198,218	(2,156)
Group life insurance instructional	6,522	6,522	6,452	(70)
State lottery payments	23,436	23,436	9,588	(13,848)
Early reading intervention	5,222	5,222	5,222	-
Homebound education	67	67	62	(5)
Salary supplement	27,438	27,438	27,096	(342)
At risk payments	8,765	8,765	8,683	(82)
Mentor teacher program	678	678	210	(468)
National Board Certified	2,500	2,500	2,500	-
Technology	102,000	102,000	102,000	-
School food	1,554	1,554	1,174	(380)
English as a second language	16,360	16,360	12,611	(3,749)
Other state funds	3,569	3,569	12,924	9,355
Total categorical aid	<u>\$ 3,005,638</u>	<u>\$ 3,005,638</u>	<u>\$ 2,979,003</u>	<u>\$ (26,635)</u>
Total revenue from the Commonwealth	<u>\$ 3,005,638</u>	<u>\$ 3,005,638</u>	<u>\$ 2,979,003</u>	<u>\$ (26,635)</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 45,404	\$ 60,475	\$ 68,037	\$ 7,562
Title VI-B - Special education, grants to states	15,300	15,300	15,775	475
Title VI-B - Silver grant	134,000	134,000	117,221	(16,779)
National School lunch program	49,000	49,000	52,354	3,354
Title II, part D	-	33,173	19,049	(14,124)
Title III	-	2,771	1,386	(1,385)
Total categorical aid	<u>\$ 243,704</u>	<u>\$ 294,719</u>	<u>\$ 273,822</u>	<u>\$ (20,897)</u>
Total revenue from the federal government	<u>\$ 243,704</u>	<u>\$ 294,719</u>	<u>\$ 273,822</u>	<u>\$ (20,897)</u>
Total School Operating Fund	<u>\$ 6,560,595</u>	<u>\$ 6,611,610</u>	<u>\$ 6,449,628</u>	<u>\$ (161,982)</u>
Industrial Development Authority:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 3,226	\$ 3,226
Miscellaneous revenue:				
Other miscellaneous	\$ -	\$ -	\$ 45,288	\$ 45,288
Total revenue from local sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,514</u>	<u>\$ 48,514</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ -	\$ -	\$ 182,357	\$ 182,357
Total Industrial Development Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,871</u>	<u>\$ 230,871</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government:				
General Fund:				
General government administration:				
Legislative:				
City council	\$ 47,904	\$ 1,711	\$ 47,655	\$ (45,944)
General and financial administration:				
City manager	\$ 186,724	\$ 186,724	\$ 178,690	\$ 8,034
Director of finance	240,652	240,652	213,095	27,557
City attorney	94,064	105,564	92,465	13,099
Commissioner of revenue	245,460	245,460	239,573	5,887
Assessment board	2,500	2,500	2,497	3
Treasurer	179,808	179,808	168,903	10,905
Human Resources	74,057	74,057	67,938	6,119
Information technology	134,115	134,115	124,902	9,213
Total general and financial administration	<u>\$ 1,157,380</u>	<u>\$ 1,168,880</u>	<u>\$ 1,088,063</u>	<u>\$ 80,817</u>
Board of elections:				
Electoral board and officials	\$ 56,010	\$ 56,010	\$ 64,742	\$ (8,732)
Total general government administration	<u>\$ 1,261,294</u>	<u>\$ 1,226,601</u>	<u>\$ 1,200,460</u>	<u>\$ 26,141</u>
Judicial administration:				
Courts:				
Judicial services	\$ 243,480	\$ 274,371	\$ 274,371	\$ -
VJCCCA services	79,034	79,034	78,839	195
Total judicial administration	<u>\$ 322,514</u>	<u>\$ 353,405</u>	<u>\$ 353,210</u>	<u>\$ 195</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,729,348	\$ 1,742,939	\$ 1,635,008	\$ 107,931
Contributions to Central Dispatch	282,308	375,470	279,727	95,743
Total law enforcement and traffic control	<u>\$ 2,011,656</u>	<u>\$ 2,118,409</u>	<u>\$ 1,914,735</u>	<u>\$ 203,674</u>
Fire and rescue services:				
Fire department	\$ 1,630,191	\$ 1,599,131	\$ 1,209,701	\$ 389,430
Fire department - reserve activity	11,000	11,000	4,751	6,249
Total fire and rescue services	<u>\$ 1,641,191</u>	<u>\$ 1,610,131</u>	<u>\$ 1,214,452</u>	<u>\$ 395,679</u>
Correction and detention:				
Juvenile probation and detention	\$ 112,703	\$ 119,017	\$ 109,750	\$ 9,267
Special services	128,451	112,567	81,026	31,541
Total correction and detention	<u>\$ 241,154</u>	<u>\$ 231,584</u>	<u>\$ 190,776</u>	<u>\$ 40,808</u>
Total public safety	<u>\$ 3,894,001</u>	<u>\$ 3,960,124</u>	<u>\$ 3,319,963</u>	<u>\$ 640,161</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 419,236	\$ 419,236	\$ 277,175	\$ 142,061
Public works labor pool	301,592	301,592	281,152	20,440
Equipment operations	275,093	275,093	358,872	(83,779)
Pavement Maintenance	259,894	624,974	32,395	592,579
Snow Removal	125,736	125,736	115,908	9,828
Traffic	232,087	232,087	217,463	14,624
Parking Garage	14,346	14,346	15,733	(1,387)
Community activity support	64,279	64,279	53,223	11,056
Right of way improvements	5,000	5,000	-	5,000
Public works administration	207,304	207,304	219,701	(12,397)
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 1,904,567</u>	<u>\$ 2,269,647</u>	<u>\$ 1,571,622</u>	<u>\$ 698,025</u>
Sanitation and waste removal:				
Solid waste management	<u>\$ 1,055,335</u>	<u>\$ 1,055,335</u>	<u>\$ 916,770</u>	<u>\$ 138,565</u>
Maintenance of general buildings and grounds:				
General properties	\$ 153,514	\$ 153,514	\$ 127,027	\$ 26,487
Park maintenance	209,205	209,205	181,231	27,974
Cemeteries maintenance	151,512	151,512	105,065	46,447
Dam maintenance	43,245	97,622	15,492	82,130
Total maintenance of general buildings and grounds	<u>\$ 557,476</u>	<u>\$ 611,853</u>	<u>\$ 428,815</u>	<u>\$ 183,038</u>
Total public works	<u>\$ 3,517,378</u>	<u>\$ 3,936,835</u>	<u>\$ 2,917,207</u>	<u>\$ 1,019,628</u>
Health and welfare:				
Health:				
Health and welfare	\$ 661,768	\$ 661,768	\$ 433,906	\$ 227,862
Youth services administration	77,716	81,716	75,883	5,833
Total health and welfare	<u>\$ 739,484</u>	<u>\$ 743,484</u>	<u>\$ 509,789</u>	<u>\$ 233,695</u>
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	<u>\$ 3,055,653</u>	<u>\$ 3,055,653</u>	<u>\$ 3,032,922</u>	<u>\$ 22,731</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 389,759	\$ 425,116	\$ 202,918	\$ 222,198
Municipal swimming pool	118,941	134,491	133,545	946
Contribution to IDA - component unit	-	-	182,357	(182,357)
Total parks, recreation, and cultural	<u>\$ 508,700</u>	<u>\$ 559,607</u>	<u>\$ 518,820</u>	<u>\$ 40,787</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning and development	\$ 355,848	\$ 375,848	\$ 337,452	\$ 38,396
Housing program	53,950	53,950	5,516	48,434
City Arborist	38,348	38,348	35,720	2,628
Community development contributions	333,810	346,568	346,117	451
Total community development	<u>\$ 781,956</u>	<u>\$ 814,714</u>	<u>\$ 724,805</u>	<u>\$ 89,909</u>
Nondepartmental:				
Nondepartmental	\$ 52,195	\$ 535,252	\$ 459,377	\$ 75,875
Debt service:				
Principal retirement	\$ 1,718,495	\$ 1,718,495	\$ 1,242,072	\$ 476,423
Interest and other fiscal charges	424,572	424,572	900,590	(476,018)
Total debt service	<u>\$ 2,143,067</u>	<u>\$ 2,143,067</u>	<u>\$ 2,142,662</u>	<u>\$ 405</u>
Total General Fund	<u>\$ 16,276,242</u>	<u>\$ 17,328,742</u>	<u>\$ 15,179,215</u>	<u>\$ 2,149,527</u>
Capital Projects Fund:				
General government administration:				
General and financial administration:				
City hall improvements	\$ -	\$ 406,500	\$ -	\$ 406,500
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Nelson street bridge	\$ -	\$ -	\$ 218	\$ (218)
Randolph street utility line	-	15,000	20,058	(5,058)
Courthouse square lot improvement	-	20,000	-	20,000
Miscellaneous storm drainage projects	-	85,577	69,882	15,695
Downtown improvement	25,000	25,000	5,627	19,373
Lewis St sidewalk	-	21,500	15,429	6,071
Bridge repairs	25,000	25,000	13,000	12,000
Sidewalks	40,275	40,275	22,030	18,245
Courthouse parking garage	106,580	106,580	106,095	485
Total public works	<u>\$ 196,855</u>	<u>\$ 338,932</u>	<u>\$ 252,339</u>	<u>\$ 86,593</u>
Capital projects:				
WES-Replace	\$ -	\$ 10,558,788	\$ 8,450,700	\$ 2,108,088
Downing building improvement	10,000	10,000	11,333	(1,333)
Total education	<u>\$ 10,000</u>	<u>\$ 10,568,788</u>	<u>\$ 8,462,033</u>	<u>\$ 2,106,755</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Jordan's point park trail connection	\$ -	\$ 399,792	\$ 25,393	\$ 374,399
Brewbaker field	12,500	16,951	14,650	2,301
Skateboard park	-	3,000	-	3,000
Sarah's run footbridge	-	24,675	27,112	(2,437)
Total parks and recreation	<u>\$ 12,500</u>	<u>\$ 444,418</u>	<u>\$ 67,155</u>	<u>\$ 377,263</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Primary Government: (Continued)				
Capital Projects Fund: (Continued)				
Community development				
Planning and community development				
Thompson's knoll housing project	\$ -	\$ 144,310	\$ 4,902	\$ 139,408
Total Capital Projects Fund	<u>\$ 219,355</u>	<u>\$ 11,902,948</u>	<u>\$ 8,786,429</u>	<u>\$ 3,116,519</u>
Permanent Fund:				
Parks, recreation, and cultural:				
Parks and recreation:				
Cemetery	\$ -	\$ -	75,231	\$ (75,231)
Total Primary Government	<u>\$ 16,495,597</u>	<u>\$ 29,231,690</u>	<u>\$ 24,040,875</u>	<u>\$ 5,190,815</u>
Discretely Presented Component Units:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration, attendance, and health	\$ 383,614	\$ 383,614	\$ 389,411	\$ (5,797)
Instruction costs:				
Classroom instruction	\$ 5,467,856	\$ 5,792,003	\$ 5,206,744	\$ 585,259
School food services:				
Administration of school food program	\$ 174,084	\$ 174,084	\$ 161,989	\$ 12,095
Operating costs:				
Operation and maintenance of school plant	\$ 534,141	\$ 609,141	\$ 490,315	\$ 118,826
Total education	<u>\$ 6,559,695</u>	<u>\$ 6,958,842</u>	<u>\$ 6,248,459</u>	<u>\$ 710,383</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 6,559,695</u>	<u>\$ 6,958,842</u>	<u>\$ 6,248,459</u>	<u>\$ 710,383</u>
Industrial Development Authority:				
Parks, recreation, and cultural:				
Leisure services contributions	\$ -	\$ -	\$ 182,357	\$ (182,357)
Community development:				
Economic development	\$ -	\$ -	\$ 63,813	\$ (63,813)
Total Industrial Development Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,170</u>	<u>\$ (246,170)</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Lexington, Virginia's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	116
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	126
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	130
<i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	135
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	137
<i>These shedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

Table 1

City of Lexington, Virginia
 Net Position by Component
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$ 9,404	\$ 11,611	\$ 6,086	\$ 7,378	\$ 6,955	\$ 7,401	\$ 7,464	\$ 9,090	\$ 10,004	\$ 11,283
Restricted	1,522	1,434	1,269	1,314	1,479	1,403	1,576	1,729	1,724	1,700
Unrestricted	7,113	4,219	7,682	9,977	9,721	8,880	10,038	8,804	7,099	8,656
Total governmental activities net position	\$ 18,039	\$ 17,264	\$ 15,037	\$ 18,669	\$ 18,155	\$ 17,684	\$ 19,078	\$ 19,623	\$ 18,827	\$ 21,639
Business-type activities										
Net investment in capital assets	\$ 1,635	\$ 1,812	\$ 1,864	\$ 1,921	\$ 2,036	\$ 2,769	\$ 2,660	\$ 2,869	\$ 3,207	\$ 3,283
Unrestricted	546	561	627	834	1,204	2,066	2,419	2,700	1,817	2,626
Total business-type activities	\$ 2,181	\$ 2,373	\$ 2,491	\$ 2,755	\$ 3,240	\$ 4,835	\$ 5,079	\$ 5,569	\$ 5,024	\$ 5,909
Primary Government										
Net investment in capital assets	\$ 11,039	\$ 13,423	\$ 7,950	\$ 9,299	\$ 8,991	\$ 10,170	\$ 10,124	\$ 11,959	\$ 13,211	\$ 14,566
Restricted for perpetual care	1,522	1,434	1,269	1,314	1,479	1,403	1,576	1,729	1,724	1,700
Unrestricted	7,659	4,780	8,309	10,811	10,925	10,946	12,457	11,504	8,916	11,282
Total primary government net position	\$ 20,220	\$ 19,637	\$ 17,528	\$ 21,424	\$ 21,395	\$ 22,519	\$ 24,157	\$ 25,192	\$ 23,851	\$ 27,548

City of Lexington, Virginia
 Changes in Net Position
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government administration	\$ 1,121	\$ 1,299	\$ 1,252	\$ 1,292	\$ 1,222	\$ 1,394	\$ 1,203	\$ 2,155	\$ 1,250	\$ 1,124
Judicial administration	1,281	3,252	2,813	258	264	254	285	299	310	353
Public Safety	2,178	2,425	2,684	2,586	2,569	2,739	2,945	3,491	3,211	3,141
Public Works	2,362	3,005	3,063	2,971	3,046	2,564	3,210	3,566	3,515	3,153
Health and welfare	569	628	565	652	751	736	680	816	667	510
Education	1,893	2,187	2,553	1,874	3,008	2,559	2,873	2,369	3,191	3,230
Parks, recreation and cultural	518	672	871	600	530	589	572	745	645	725
Community development	811	759	706	716	1,196	1,108	782	718	726	713
Non-departmental	-	-	10	-	-	-	-	-	-	-
Interest on long-term debt	725	615	584	562	602	563	734	597	870	889
Total governmental activities expenses	\$ 11,458	\$ 14,842	\$ 15,101	\$ 11,511	\$ 13,188	\$ 12,506	\$ 13,284	\$ 14,756	\$ 14,385	\$ 13,838
Business-type activities:										
Utility fund	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254	\$ 5,252	\$ 5,333	\$ 5,280	\$ 5,443
Total business-type activities	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254	\$ 5,252	\$ 5,333	\$ 5,280	\$ 5,443
Total primary government expenses	\$ 15,769	\$ 19,320	\$ 19,598	\$ 16,021	\$ 17,912	\$ 17,760	\$ 18,536	\$ 20,089	\$ 19,665	\$ 19,281

City of Lexington, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Program Revenues										
Governmental activities:										
Charges for services:										
General government administration	\$ 60	\$ 52	\$ 57	\$ 68	\$ 58	\$ 61	\$ 65	\$ 66	\$ 71	\$ 71
Judicial administration	-	106	124	95	104	103	108	86	82	58
Public Safety	274	386	410	465	415	462	730	606	498	412
Public Works	407	349	365	384	370	429	384	400	519	583
Health and welfare	3	3	5	4	4	8	8	8	9	11
Parks, recreation and cultural	84	93	88	97	98	88	81	76	80	83
Community development	1	2	2	-	-	-	-	-	-	-
Operating grants and contributions	1,332	1,327	1,188	1,327	1,256	1,003	1,608	1,732	1,490	1,158
Capital grants and contributions	136	100	61	120	126	9	93	13	150	26
Total governmental activities program revenues	\$ 2,297	\$ 2,418	\$ 2,300	\$ 2,560	\$ 2,431	\$ 2,163	\$ 3,077	\$ 2,987	\$ 2,899	\$ 2,402
Business-type activities:										
Charges for services:										
Utility fund	\$ 4,206	\$ 4,669	\$ 4,615	\$ 4,733	\$ 5,209	\$ 5,649	\$ 5,605	\$ 5,611	\$ 5,790	\$ 6,376
Capital grants and contributions	-	-	-	40	-	-	10	-	-	130
Total business-type activities program revenues	\$ 4,206	\$ 4,669	\$ 4,615	\$ 4,773	\$ 5,209	\$ 5,649	\$ 5,615	\$ 5,611	\$ 5,790	\$ 6,506
Total primary government program revenues	\$ 6,503	\$ 7,087	\$ 6,915	\$ 7,333	\$ 7,640	\$ 7,812	\$ 8,692	\$ 8,598	\$ 8,689	\$ 8,908
Net (expense)/revenue:										
Governmental activities	\$ (9,161)	\$ (12,424)	\$ (12,801)	\$ (8,951)	\$ (10,757)	\$ (10,343)	\$ (10,207)	\$ (11,769)	\$ (11,486)	\$ (11,436)
Business-type activities	(105)	191	118	263	485	395	363	278	510	1,063
Total primary government net expense	\$ (9,266)	\$ (12,233)	\$ (12,683)	\$ (8,688)	\$ (10,272)	\$ (9,948)	\$ (9,844)	\$ (11,491)	\$ (10,976)	\$ (10,373)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	\$ 3,990	\$ 4,141	\$ 4,337	\$ 4,607	\$ 4,309	\$ 4,770	\$ 5,384	\$ 5,372	\$ 6,434	\$ 6,621
Local sales and use taxes	749	795	791	773	786	818	852	860	1,009	1,041
Taxes on recordation and wills	75	61	47	49	50	44	60	47	30	54
Motor vehicle licenses taxes	64	65	63	28	-	-	-	-	-	-

City of Lexington, Virginia
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Revenues and Other Changes in Net Position (Continued)										
Governmental activities: (Continued)										
Taxes: (Continued)										
Consumer utility taxes	\$ 399	\$ 310	\$ 312	\$ 312	\$ 313	\$ 305	\$ 309	\$ 313	\$ 315	\$ 310
Business licenses taxes	552	608	603	534	513	548	631	603	640	717
Restaurant food taxes	580	597	634	620	645	709	890	927	1,074	1,461
Hotel and motel room taxes	203	207	204	205	217	233	246	254	382	491
Communications taxes	158	369	335	337	-	-	-	-	-	-
Other local taxes	135	66	72	141	164	134	133	141	151	137
Unrestricted grants and contributions	613	638	573	603	938	1,181	688	924	914	911
Unrestricted revenues from use of money and property	1,204	797	222	169	188	144	304	261	112	148
Payments from the City of Lexington School Board	-	-	-	-	-	-	-	435	149	75
Miscellaneous	1,999	2,995	2,382	2,279	2,120	2,185	2,335	2,323	2,474	2,518
Transfers	-	-	-	-	-	(1,200)	120	(213)	148	178
Gain on sale of assets	-	-	-	1,926	-	-	-	-	-	-
Total governmental activities	\$ 10,721	\$ 11,649	\$ 10,575	\$ 12,583	\$ 10,243	\$ 9,871	\$ 11,952	\$ 12,247	\$ 13,832	\$ 14,662
Business-type activities:										
Unrestricted revenues from use of money and property	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers	-	-	-	-	-	1,200	(120)	213	(148)	(178)
Total business-type activities	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1,200	\$ (120)	\$ 213	\$ (148)	\$ (178)
Total primary government	\$ 10,721	\$ 11,649	\$ 10,575	\$ 12,584	\$ 10,243	\$ 11,071	\$ 11,832	\$ 12,460	\$ 13,684	\$ 14,484
Change in Net Position										
Governmental activities	\$ 1,560	\$ (775)	\$ (2,226)	\$ 3,632	\$ (514)	\$ (472)	\$ 1,745	\$ 478	\$ 2,346	\$ 3,226
Business-type activities	(105)	191	118	264	485	1,595	243	491	362	885
Total primary government	\$ 1,455	\$ (584)	\$ (2,108)	\$ 3,896	\$ (29)	\$ 1,123	\$ 1,988	\$ 969	\$ 2,708	\$ 4,111

Table 3

City of Lexington, Virginia
 Governmental Activities Tax Revenues by Source
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax (1)	Business License Tax	Communications Sales and Use Tax (1)	Motor Vehicle License Tax	Bank Stock Tax	Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (1)	Total
2015-16	\$ 6,680,922	\$ 1,041,144	\$ 309,542	\$ 716,749	\$ -	\$ -	\$ 112,371	\$ 53,594	\$ 490,754	\$ 1,461,197	\$ 25,420	\$ 10,891,693
2014-15	6,480,784	1,008,580	314,963	640,123	-	-	124,082	30,455	381,953	1,073,777	26,913	10,081,630
2013-14	5,777,828	860,344	312,675	603,382	-	-	113,372	46,790	254,137	927,288	27,050	8,922,866
2012-13	5,253,894	852,197	308,964	631,105	-	-	107,265	59,632	245,797	889,734	26,265	8,374,853
2011-12	4,806,977	818,287	305,319	548,373	-	-	108,258	44,183	233,214	708,829	25,583	7,599,023
2010-11	4,400,432	785,995	312,810	513,546	-	-	136,218	50,127	217,279	644,721	27,617	7,088,745
2009-10	4,448,766	772,970	312,122	534,270	336,598	27,786	112,451	49,360	205,527	620,422	28,255	7,448,527
2008-09	4,438,289	791,395	312,078	602,665	335,199	62,657	44,386	46,559	204,461	633,501	27,963	7,499,153
2007-08	4,144,128	794,444	310,248	607,520	368,921	65,470	39,413	61,427	207,005	596,602	27,416	7,222,594
2006-07	3,914,166	749,153	398,743	552,145	158,198	63,592	50,363	74,877	202,549	580,080	84,681	6,828,547

(1) The state began a 5% communications sales and use tax on January 1, 2007. This tax was recorded as a local tax beginning in that fiscal year. Beginning in the 2010-11 fiscal year the City has been informed that the tax should be recorded as revenues from the Commonwealth. The state collects the Telephone utility taxes, local E-911 taxes, and cable television system franchise fees and redistributes .076958% of the total collections based on a pre-certified calculation of each jurisdiction's allocation percentage as reported to the State Auditor of Public Accounts for revenue collections for each fiscal year.

City of Lexington, Virginia
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2007	2008	2009	2010	2011 (1)	2012	2013	2014	2015	2016
General Fund										
Reserved	\$ 8,573,394	\$ 8,690,276	\$ 6,842,571	\$ 8,902,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	104,062	147,003	61,688	3,829	3,943	117,557
Nonspendable	-	-	-	-	-	-	1,493,396	12,006,641	9,556,723	2,227,751
Restricted	-	-	-	-	1,205,144	1,392,938	775,143	752,075	757,277	896,379
Committed	-	-	-	-	247,525	409,701	170,495	251,578	203,763	336,982
Assigned	-	-	-	-	7,206,302	5,080,601	5,817,394	7,157,866	8,122,812	7,924,727
Unassigned	-	-	-	-	-	-	-	-	-	-
Total general fund	\$ 8,573,394	\$ 8,690,276	\$ 6,842,571	\$ 8,902,100	\$ 8,763,033	\$ 7,030,243	\$ 8,318,116	\$ 20,171,989	\$ 18,644,518	\$ 11,503,396
All other governmental funds										
Reserved, reported in:										
Permanent Fund	\$ 1,521,393	\$ 1,434,253	\$ 1,268,677	\$ 1,314,149	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Capital Projects	8,912,026	3,033,371	224,876	185,226	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Permanent Fund	-	-	-	-	180,562	180,562	180,562	180,562	180,562	180,562
Restricted	-	-	-	-	1,194,752	1,221,878	1,395,556	1,547,928	1,543,894	1,519,090
Permanent Fund	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	271,289	1,132,511	982,052	999,423	1,008,306	350,843
Capital Projects	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 10,433,419	\$ 4,467,624	\$ 1,493,553	\$ 1,499,375	\$ 1,646,603	\$ 2,534,951	\$ 2,558,170	\$ 2,727,913	\$ 2,732,762	\$ 2,050,495

(1) The City implemented GASB 54 during the fiscal year ended June 30, 2011.

City of Lexington, Virginia
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
General property taxes	\$ 3,914	\$ 4,144	\$ 4,438	\$ 4,449	\$ 4,400	\$ 4,807	\$ 5,254	\$ 5,778	\$ 6,481	\$ 6,681
Other local taxes	2,914	3,078	3,061	3,000	2,688	2,792	3,121	3,145	3,601	4,211
Licenses and permits	180	108	79	100	56	94	255	187	82	62
Fines and forfeitures	104	106	124	95	100	103	108	86	82	59
Use of money & property	1,204	797	222	169	188	144	304	261	112	148
Charges for services	829	777	848	918	894	954	1,013	969	1,096	1,097
Miscellaneous	1,999	2,995	2,382	2,279	2,120	2,185	2,335	2,323	2,474	2,518
Recovered costs	208	255	180	179	155	221	235	415	433	476
Intergovernmental	2,082	2,065	1,821	2,050	2,320	2,193	2,388	3,105	2,703	2,170
Total revenues	\$ 13,434	\$ 14,325	\$ 13,155	\$ 13,239	\$ 12,921	\$ 13,493	\$ 15,013	\$ 16,269	\$ 17,064	\$ 17,422
Expenditures										
General government administration	\$ 1,025	\$ 1,141	\$ 1,175	\$ 1,204	\$ 1,168	\$ 1,364	\$ 1,258	\$ 2,096	\$ 1,289	\$ 1,200
Judicial administration	1,385	3,252	4,389	259	266	256	285	299	310	353
Public safety	2,340	2,377	2,689	2,540	2,490	2,715	3,111	3,799	3,375	3,320
Public works	2,140	2,630	3,002	2,624	2,719	2,224	2,917	3,134	3,184	2,917
Health and Welfare	569	628	565	652	751	736	680	816	669	510
Education	1,893	1,484	2,553	1,873	2,858	2,379	2,711	2,215	3,012	3,033
Parks, recreation and cultural	487	1,310	1,539	533	448	508	669	474	530	594
Community development	768	757	697	711	1,194	1,100	1,579	714	737	725
Nondepartmental	36	193	95	-	-	-	(5)	20	7	459
Capital outlay(1)	2,164	4,794	-	8,437	1,164	520	843	1,388	3,992	8,786
Debt service:										
Principal	748	1,000	689	1,328	835	840	850	987	965	1,242
Interest	681	608	574	560	534	495	529	450	664	901
Bond Issuance Costs	-	-	-	115	-	-	200	130	-	-
Total Expenditures	\$ 14,236	\$ 20,174	\$ 17,967	\$ 20,836	\$ 14,427	\$ 13,137	\$ 15,627	\$ 16,522	\$ 18,734	\$ 24,040
Excess (deficiency) of revenues over (under) expenditures	\$ (802)	\$ (5,849)	\$ (4,812)	\$ (7,597)	\$ (1,506)	\$ 356	\$ (614)	\$ (253)	\$ (1,670)	\$ (6,618)

City of Lexington, Virginia
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Other financing sources (uses)										
Transfers in	\$ 399	\$ 970	\$ 1,640	\$ 85	\$ 177	\$ 1,100	\$ 540	\$ 580	\$ 3,474	\$ 8,070
Transfers out	(399)	(970)	(1,650)	(95)	(193)	(2,300)	(420)	(460)	(3,327)	(7,892)
Refunding general obligation bonds issued	-	-	-	-	-	-	9,545	-	-	-
General obligation bonds issued	-	-	-	8,410	1,530	-	1,582	11,615	-	-
Premium on bonds issued	-	-	-	-	-	-	1,408	475	-	-
Discount on bonds issued	-	-	-	(787)	-	-	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-	-	(10,730)	-	-	-
Sale of capital assets	-	-	-	2,049	-	-	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	(10)	\$ 9,662	\$ 1,514	\$ (1,200)	\$ 1,925	\$ 12,210	\$ 147	\$ 178
Net change in fund balances	\$ (802)	\$ (5,849)	\$ (4,822)	\$ 2,065	\$ 8	\$ (844)	\$ 1,311	\$ 11,957	\$ (1,523)	\$ (6,440)
Debt service as a percentage of noncapital expenditures	11.8%	10.5%	7.0%	15.4%	10.3%	10.6%	9.5%	9.6%	11.1%	14.5%

(1) Capital outlay has been reclassified as a separate item for calculation of debt service as a percentage of noncapital expenditures.

City of Lexington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety (2)	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural (2)	Community Development (2)	Capital Outlay and Non-departmental	Debt Service (3)	Total
2015-16	\$ 1,200,460	\$ 353,210	\$ 3,319,963	\$ 2,917,207	\$ 509,789	\$ 6,248,459	\$ 594,051	\$ 788,618	\$ 9,245,806	\$ 2,142,662	\$ 27,320,225
2014-15	1,299,415	309,949	3,473,764	3,306,441	669,108	9,609,873	938,158	1,309,780	385,346	1,629,039	22,930,873
2013-14	2,095,873	298,767	4,988,524	3,291,126	815,818	6,028,885	922,446	1,366,217	346,841	1,567,448	21,721,945
2012-13	1,258,495	284,745	4,050,943	2,916,722	679,526	5,892,438	1,074,043	2,009,488	972,864	1,578,715	20,717,979
2011-12	1,368,474	255,637	3,698,111	2,527,005	736,376	5,715,144	878,752	1,540,627	131,567	1,334,738	18,186,431
2010-11	1,177,305	266,021	3,394,205	2,726,651	750,685	5,413,345	881,224	1,535,543	1,778,862	1,369,051	19,292,892
2009-10	1,204,011	258,442	3,931,851	2,652,364	652,146	5,619,260	1,263,941	1,079,782	7,638,873	2,002,705	26,303,375
2008-09	1,174,738	4,388,867	3,528,376	3,001,609	565,015	5,686,236	1,907,914	1,047,911	359,516	1,263,770	22,923,952
2007-08	1,296,758	3,230,809	3,219,052	6,496,448	628,278	5,852,973	1,698,457	1,045,409	192,983	1,607,612	25,268,779
2006-07	1,040,800	1,384,967	3,691,711	3,713,453	569,253	5,403,947	913,248	1,069,282	35,975	1,429,796	19,252,432

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contribution from Primary Government to Discretely Presented Component Units.

(3) Included bond issuance costs.

City of Lexington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property				Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
					Charges for Services	Property	Use of Money	Charges for Services				
2015-16	\$ 6,680,922	\$ 4,210,771	\$ 62,288	\$ 58,464	\$ 155,793	\$ 1,314,508	\$ 2,567,302	\$ 488,995	\$ 5,347,959	\$ 20,887,002		
2014-15	6,480,784	3,600,846	82,094	82,296	117,913	1,433,070	2,523,031	1,136,904	5,728,830	21,185,768		
2013-14	5,777,828	3,145,038	186,917	86,086	275,322	1,300,508	2,365,705	2,073,946	5,655,511	20,866,861		
2012-13	5,253,894	3,120,959	254,912	107,569	313,113	1,377,050	2,379,972	1,800,565	5,378,773	19,986,807		
2011-12	4,806,977	2,792,046	94,381	102,896	149,060	1,311,018	2,344,704	1,677,147	5,477,318	18,755,547		
2010-11	4,400,432	2,688,313	55,990	99,749	191,010	1,233,914	2,163,175	1,486,532	5,474,333	17,793,448		
2009-10	4,448,766	2,999,761	100,173	95,052	172,102	1,269,175	2,309,581	1,525,785	6,066,781	18,987,176		
2008-09	4,438,289	3,060,864	79,233	124,101	225,741	1,210,743	2,402,114	1,573,645	5,400,599	18,515,329		
2007-08	4,144,128	3,078,466	108,095	106,274	803,145	1,133,526	3,022,196	1,492,906	5,514,358	19,403,094		
2006-07	3,914,166	2,914,381	180,066	103,998	1,210,016	1,105,553	2,026,288	1,667,106	5,528,163	18,649,737		

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contributions from Primary Government to Discretely Presented Component Units.

Table 8

City of Lexington, Virginia
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year Ended June 30,	Real Property		Personal Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a percentage of Actual Value
	Residential Property	Commercial Property	Motor Vehicles	Other					
2016	\$ 408,387	\$ 1,061,175	\$ 37,414	\$ 6,374	\$ 927,890	\$ 585,460	\$ 13.251	\$ 1,513,350	38.69%
2015	405,556	1,061,707	35,559	6,172	927,491	581,503	12.579	1,508,994	38.54%
2014	458,760	737,321	33,222	5,317	610,000	624,620	10.395	1,234,620	50.59%
2013	456,949	737,275	31,662	3,524	609,984	619,426	9.825	1,229,410	50.38%
2012	456,974	735,119	29,596	3,429	609,918	615,200	9.186	1,225,117	50.22%
2011	457,743	733,849	28,783	3,575	609,459	614,491	9.045	1,223,951	50.21%
2010	481,790	651,114	27,674	3,843	529,967	634,454	8.282	1,164,421	54.49%
2009	481,194	650,986	26,873	3,386	531,597	630,842	7.936	1,162,439	54.27%
2008	484,024	650,337	31,689	4,774	531,915	638,909	7.907	1,170,824	54.57%
2007	471,783	648,314	30,109	3,610	534,495	619,321	7.456	1,153,816	53.68%

Source: Commissioner of Revenue

City of Lexington, Virginia
 Property Tax Rates (1)
 Last Ten Fiscal Years

Fiscal Year	Real Estate		Personal Property	Mobile Homes	Machinery and Tools	Public Utility		Total Direct Rate
	Real Estate	Real Estate				Real Estate	Personal Property	
2015-16	\$ 1.09	\$ 1.09	4.25	1.09	4.25	\$ 1.060	\$ 4.25	\$ 13.251
2014-15	1.03	1.03	4.25	1.03	4.25	0.930	4.25	12.579
2013-14	0.83	0.83	4.25	0.83	4.25	0.805	4.25	10.395
2012-13	0.78	0.78	4.25	0.73	4.25	0.755	4.25	9.825
2011-12	0.73	0.73	4.25	0.73	4.25	0.715	4.25	9.186
2010-11	0.70	0.70	4.25	0.70	4.25	0.675	4.25	9.045
2009-10	0.65	0.65	4.25	0.65	4.25	0.64	3.95	8.282
2008-09	0.64	0.64	3.95	0.64	3.95	0.62	3.95	7.936
2007-08	0.60	0.60	3.95	0.60	3.95	0.58	3.95	7.907
2006-07	0.56	0.56	3.95	0.56	3.95	0.62	3.95	7.456

(1) Per \$100 of assessed value.
 Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia
Principal Taxpayers
June 30, 2016

Taxpayer Name	Fiscal year ended June 30, 2016			Fiscal year ended June 30, 2007		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
Virginia Electric & Power Co.	6,822,522	1	1.26%	3,391,368	7	0.59%
HI of Lexington, LLC	5,936,800	4	1.10%	5,978,300	1	1.04%
Central Telephone of Virginia	5,446,845	3	1.01%	5,736,888	3	1.00%
Columbia Gas of VA	4,339,271	5	0.80%			
Robert E Lee Properties LLC	4,032,500	2	0.74%			
Walker/Wood LC & Woods Family Trust	3,503,400	6	0.65%	4,334,300	4	0.76%
HCMF XXII LTD Partnership	3,429,600	7	0.63%	3,428,200	6	0.60%
Summit Square Partners	3,192,700	8	0.59%	3,007,600	10	0.52%
BB&T Bank	3,130,600	9	0.58%			
Rockbridge Square Associates	3,084,000	10	0.57%	3,376,200	9	0.59%
Kroger Limited Partnership, Inc.				3,330,700	2	0.58%
Washington and Lee University				5,792,600	8	1.01%
Lexington House Associates				4,180,200	5	0.73%
	<u>\$ 42,918,238</u>		<u>7.92%</u>	<u>\$ 33,186,688</u>		<u>7.42%</u>

(1) Total assessed valuation of real estate was \$541,671,210 as of June 30, 2016.

(2) Total assessed valuation of real estate was \$573,437,200 as of June 30, 2007.

Source: Commissioner of Revenue and Finance Department

Table 11

City of Lexington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1, 2)		Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)		Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Collections in Subsequent Years (3)	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
	Levy (1, 2)	\$			Delinquent Tax Collections (1)	Total Tax Collections					
2015-16	\$ 7,343,957	\$ 6,535,830	89.00%	\$ 121,065	\$ 6,656,895	90.64%	\$ -	\$ 1,158,047	15.77%		
2014-15	7,196,470	6,106,748	84.86%	156,621	6,263,369	87.03%	586,883	113,759	1.58%		
2013-14	6,297,122	5,434,465	86.30%	242,740	5,677,205	90.16%	828,398	67,258	1.07%		
2012-13	5,861,495	5,030,209	85.82%	148,707	5,178,916	88.35%	797,822	36,940	0.63%		
2011-12	5,482,944	4,640,415	84.63%	113,296	4,753,711	86.70%	822,767	25,561	0.47%		
2010-11	5,259,055	4,285,272	81.48%	67,102	4,352,374	82.76%	954,640	20,132	0.38%		
2009-10	5,089,509	4,310,028	84.68%	86,242	4,396,270	86.38%	764,528	18,378	0.36%		
2008-09	4,842,235	4,257,797	87.93%	42,712	4,300,509	88.81%	575,817	16,461	0.34%		
2007-08	4,822,549	4,049,095	83.96%	63,187	4,112,282	85.27%	770,985	5,338	0.11%		
2006-07	4,434,075	3,811,458	85.96%	72,852	3,884,310	87.60%	621,698	554	0.01%		

(1) Exclusive of penalties and interest.

(2) Includes original levy for real estate taxes collected on a fiscal year basis and personal property taxes collected on a calendar year basis. Also, includes supplemental levies for all tax years.

(3) Collections in subsequent years includes amounts received from the state for the Personal Property Tax Relief Act.

Source: Commissioner of Revenue and Treasurer.

Table 12

City of Lexington, Virginia
 Ratios of Outstanding Debt by Type
 Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income (1)	Per Capita
	General Obligation Bonds	State Literary Fund Loan	General Obligation Bonds				
2016	\$ 30,219,390	\$ -	\$ -		\$ 30,219,390	(1)	\$ 4,078
2015	31,537,136	-	-		31,537,136	(1)	4,072
2014	32,577,673	-	-		32,577,673	12.76%	4,203
2013	20,178,093	-	-		20,178,093	7.90%	2,752
2012	19,570,590	-	-		19,570,590	7.76%	2,660
2011	20,410,294	-	-		20,410,294	8.85%	2,836
2010	19,715,000	-	-		19,715,000	9.07%	2,800
2009	12,632,992	-	-		12,632,992	5.32%	1,735
2008	13,322,292	-	42,806		13,365,098	5.73%	1,853
2007	14,317,241	5,000	221,411		14,543,652	6.74%	2,003

(1) Income information is unavailable.

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Less: Debt Payable from Enterprise Fund	Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2015-16	(5)	\$ 541,672	\$ 30,219,390	\$ -	\$ 30,219,390	5.580%	\$ 4,078
2014-15	7,410	539,772	31,537,136	-	31,537,136	5.840%	4,072
2013-14	7,329	586,081	32,577,673	-	32,577,673	5.560%	4,443
2012-13	7,332	619,426	20,178,093	-	20,178,093	3.260%	2,743
2011-12	7,356	615,200	19,570,590	-	19,570,590	3.180%	2,660
2010-11	7,197	614,491	20,410,294	-	20,410,294	3.320%	2,836
2009-10	7,042	634,453	19,715,000	-	19,715,000	3.110%	2,800
2008-09	7,282	630,842	12,632,992	-	12,632,992	2.000%	1,735
2007-08	7,211	638,909	13,365,098	42,806	13,322,292	2.090%	1,847
2006-07	7,261	619,321	14,543,660	221,411	14,322,249	2.310%	1,972

(1) Weldon Cooper Center for Public Service Demographics & Workforce Group, www.coopercenter.org

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans. Excludes compensated absences.

(4) FY 2009-10, City issued \$8,410,000 in general obligation debt to fund the City's renovation and addition to the middle school capital project. FY 2010-11, City issued \$1,530,000 in general obligation bonds to complete the city's renovation and addition to the middle school capital project. FY 2012-13, City issued \$9,545,000 in general obligation bonds to refinance \$9,670,000 of the bonds issued in FY 2005-06 for the circuit court complex. FY 2012-13, the City issued \$1,582,209 in general obligation bonds to finance a renovation project at the Rockbridge Regional Jail. FY 2013-14 the City issued \$11,615,000 in general obligation bonds to finance a new elementary school.

(5) Not available

Table 14

City of Lexington, Virginia
 Ratio of Annual Debt Service Expenditures for General Bonded
 Debt to Total General Governmental Expenditures (1)
 Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2015-16	\$ 1,242,072	\$ 900,590	\$ 2,142,662	\$ 27,320,225	7.8%
2014-15	964,863	664,176	1,629,039	22,930,873	7.1%
2013-14	987,297	449,762	1,437,059	21,721,945	6.6%
2012-13	849,704	529,150	1,378,854	20,717,979	6.7%
2011-12	839,704	495,034	1,334,738	18,186,431	7.3%
2010-11	834,706	534,345	1,369,051	19,292,892	7.1%
2009-10	1,327,992	533,785	1,861,777	26,303,375	7.1%
2008-09	689,358	574,412	1,263,770	22,923,952	5.5%
2007-08	999,949	607,663	1,607,612	25,268,779	6.4%
2006-07	748,365	681,431	1,429,796	19,252,432	7.4%

(1) Includes General, Special Revenue, Capital Projects funds of the Primary Government and the Discretely Presented Component Units.

(2) Information from Table 6.

City of Lexington, Virginia
Direct and Overlapping Governmental Activities Debt
As of June 30, 2016

<u>Government Unit:</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Amount Applicable to Primary Government</u>
None	\$ -	0.00%	\$ -
City of Lexington, direct debt			<u>\$ 30,219,390</u>
Total direct and overlapping debt			<u><u>\$ 30,219,390</u></u>

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This table estimates the portion of the outstanding debt of those overlapping government's that is borne by the residents and businesses of the City of Lexington. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt, of each overlapping government. At June 30, 2014, the City did not have any overlapping debt.

Source: City of Lexington, Virginia

Table 16

City of Lexington, Virginia
 Computation of Legal Debt Margin
 June 30, 2016
 (amounts expressed in thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	\$ 58,560	\$ 60,245	\$ 60,058	\$ 60,294	\$ 58,213	\$ 58,218	\$ 58,424	\$ 58,608	\$ 53,977	\$ 54,167
Total net debt applicable to limit	14,544	13,370	12,633	19,715	20,410	19,571	20,178	30,806	29,841	28,599
Legal debt margin	44,016	46,875	47,425	40,579	37,803	38,647	28,246	27,802	24,136	25,568
Total net debt applicable to the limit as a percentage of debt limit	24.8%	22.2%	21.0%	32.7%	35.1%	33.6%	34.5%	52.6%	55.3%	52.8%
<u>Legal Debt Margin Calculated for Fiscal Year 2016</u>										
	Assessed value									
	\$ 541,672									
	Debt limit (10% of assessed value)									
	\$ 54,167									
	Debt applicable to limit:									
	General Obligation Bonds									
	Less: amount set aside for repayment									
	of general obligation debt									
	Total net applicable to limit									
	28,599									
	<u>\$ 25,568</u>									

Table 17

City of Lexington, Virginia
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands)(2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)		
2015-16	-	(5) \$	-	(5) \$	-	659	8.2%
2014-15	7,410	-	-	-	-	651	8.5%
2013-14	7,329	1,262,492	34,836	650	11.3%		
2012-13	7,332	1,259,937	34,846	674	12.8%		
2011-12	7,356	1,236,939	36,099	667	13.2%		
2010-11	7,197	1,153,183	32,028	621	11.8%		
2009-10	7,042	1,110,646	30,854	619	14.5%		
2008-09	7,282	1,122,581	32,617	613	12.2%		
2007-08	7,211	1,118,605	32,348	615	8.3%		
2006-07	7,261	1,041,089	29,712	646	5.4%		

(1)Weldon Cooper Center for Public Service Demographics & Workforce Group, www.coopercenter.org

(2) Bureau of Economic Analysis, United States Department of Commerce, City of Lexington, City of Buena Vista and Rockbridge County combined, www.bea.gov/regional/bearfacts/action.cfm

(3) Lexington City Schools.

(4) Virginia Employment Commission.

(5) Information unavailable.

Table 18

City of Lexington, Virginia
Principal Employers
Current Year and Nine Years Ago

Employer	Fiscal year ended June 30, 2016			Fiscal year ended June 30, 2007		
	Employment Range	Rank	% of Total City Employees (1)	Employment Range	Rank	% of Total City Employees
Washington & Lee University	over 1000	1	68.3%	500-999	1	19.2%
Virginia Military Institute	500-999	2	41.0%	500-999	2	12.9%
Carilion - Stonewall Jackson Hospital	100-249	3	12.2%	250-500	3	8.8%
City of Lexington	100-249	4	9.0%	100-249	6	2.6%
Aramark Campus LLC	100-249	5	5.8%			
Kroger Company	50-99	6	5.5%	50-99	8	1.6%
Lexington City School Board	50-99	7	4.3%	50-99	7	2.0%
UTP Services LLC	50-99	8	3.9%			
Heritage Hall Health Care (HCMF)	50-99	9	3.8%	50-99	9	1.4%
The VMI Foundation	50-99	10	3.5%			
Rockbridge County				100-249	4	3.4%
Virginia Department of Transportation				100-249	5	3.0%
Rockbridge Farmers' Cooperative				50-99	10	1.4%

Source: Virginia Employment Commission, Labor Market & Demographic Analysis.

(1) Total percentage of City employees exceeds 100% due to employees commuting into the City to work.

Table 19

City of Lexington, Virginia
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government administration	14	14	14	14	14	14	14	14	14	14
Judicial administration	-	-	-	-	1	1	1	1	1	1
Public safety										
Police										
Officers	15	16	16	16	16	16	16	16	16	17
Civilians	2	2	2	3	3	3	3	3	3	3
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Fire	-	-	-	1	1	9	9	10	11	11
Public works										
Administration & maintenance	36	36	36	35	35	34	38	39	41	40
Solid waste management	11	11	11	12	10	10	10	10	8	8
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	5	5	5	5	5	5	5	4	4	2
Leisure Services	-	-	-	-	-	-	-	1	1	1
Utilities processing										
Water treatment	7	7	7	7	7	7	7	5	5	5
Wastewater treatment	10	10	10	10	11	11	12	11	11	10
Total	103	104	104	106	106	113	118	117	118	115

Source: Government finance department

City of Lexington, Virginia
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General administration										
Business licenses issued	669	662	617	616	640	648	698	677	662	678
Public safety										
Police										
Number of calls answered	6,163	4,580	5,446	3,815	3,899	3,447	4,780	4,475	6,094	5,639
Physical arrests	350	346	350	334	447	304	388	151	115	186
Parking violations	1,818	1,217	1,502	1,908	680	922	1,548	1,675	1,801	1,158
Traffic violations	1,191	923	1,145	800	862	542	718	482	137	529
Miles Patrolled	166,629	125,240	112,217	115,676	151,441	98,021	151,254	160,996	615,268	142,480
Fire										
Number of line calls answered	629	732	704	649	686	716	707	741	721	681
Number of reserve calls answered (1)	-	-	-	-	2,168	2,220	2,191	2,099	2,094	1,704
Inspections	123	138	146	136	129	84	87	184	166	294
Public works										
Highways and streets										
Street resurfacing (miles)	1	2	2	1	1	-	-	-	-	-
Sanitation and waste removal										
Refuse collected (tons/day)	11	14	12	10	9	10	10	10	9	8
Recyclables collected (tons/day)	4	6	6	7	8	6	12	10	7	6
Leisure services										
Culture and recreation										
Athletic program Participants	1,618	1,536	1,498	1,499	1,453	1,557	1,373	1,250	1,124	1,495
Utilities processing										
Water										
New connections	12	8	9	4	7	13	6	6	18	24
Water main breaks	42	46	30	19	23	29	32	30	40	29
Average daily consumption (thousands of gallons)	889	921	903	875	788	850	876	884	807	804
Number of customers	2,698	2,702	2,743	2,762	2,765	2,605	2,847	2,851	2,860	2,864
Wastewater										
Average daily sewage treatment (thousands of gallons)	764	583	608	732	631	667	645	735	583	603
Community development										
Number of building permits	87	98	83	55	57	100	61	87	87	74
Building construction value (thousands)	30,914	18,520	12,858	14,703	7,263	30,648	20,086	28,487	23,826	7,353
Component unit - school board										
Education										
Students - elementary	313	310	308	318	318	337	341	332	305	306
Students - middle school	179	180	176	178	170	186	189	174	187	187
City students - joint high school	154	125	129	123	133	144	144	144	159	166
Teachers elementary & middle school	50	50	50	50	50	50	50	50	50	50
Expenditures per pupil (2)	3,708	4,300	4,480	4,783	3,814	3,567	3,925	4,442	4,626	4,637

Source: Various city departments

(1) The City began compiling the number of reserve calls answered in 2011.

(2) The City began paying for school debt service costs in General Fund in 2011.

Note: Indicators are not available for the judicial administration function.

Table 21

City of Lexington, Virginia
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Function										
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	12	12	13	13	13	13	13	13	13
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Highways and streets										
Streets (miles)	60	60	60	60	60	60	60	60	60	60
Streetlights	527	527	529	530	530	530	530	530	531	531
Traffic signal intersections	12	12	12	12	12	13	13	13	13	13
Parking garage	-	-	1	1	1	1	1	1	1	1
Cemeteries Maintenance										
Cemeteries	2	2	2	2	2	2	2	2	2	2
Health, education and welfare										
Hospitals	1	1	1	1	1	1	1	1	1	1
Number of hospital beds	25	25	25	25	25	25	25	25	25	25
Leisure services										
Parks acreage	37	37	37	40	40	40	43	43	43	43
Parks	8	8	8	8	8	8	8	8	8	8
Swimming Pools	1	2	2	2	2	2	2	2	2	2
Community centers	1	1	1	-	-	-	-	-	-	-
Utilities processing										
Water										
Water mains (miles)	30	30	30	30	30	30	58	58	58	58
Fire hydrants	268	268	268	268	268	268	270	270	270	270
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer										
Sanitary sewers (miles)	40	40	40	40	40	40	68	68	68	68
Storm sewers (miles)	5	5	5	5	5	5	7	7	7	7
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Component unit - school board										
Education										
Elementary schools	1	1	1	1	1	1	1	1	1	1
Middle schools	1	1	1	1	1	1	1	1	1	1
Jointly operated high school	1	1	1	1	1	1	1	1	1	1

Source: Various city departments

Note: Indicators are not available for the general government, judicial administration and community development functions.

City of Lexington, Virginia
 Schedule of Joint Services Contract Billing
 For the Year Ended June 30, 2016

	Parking Garage	Fire	RARO Administration	Recreation					RARO Total	Totals
				Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other		
Salaries and fringe benefits	\$ 4,761	\$ 593,701	\$ 264,915	\$ 12,054	\$ 8,616	\$ 13,412	\$ 3,627	\$ 1,289	\$ 303,913	\$ 902,375
Contractual services	106,095	89,918	9,532	-	-	1,374	-	950	11,856	207,869
Other expenses	11,094	253,250	35,189	1,971	3,150	9,257	1,936	3,437	54,940	319,284
Totals	\$ 121,950	\$ 936,869	\$ 309,636	\$ 14,025	\$ 11,766	\$ 24,043	\$ 5,563	\$ 5,676	\$ 370,709	\$ 1,429,528
Less: Revenue for Operations	\$ -	\$ (338,717)	\$ (6,273)	\$ (4,760)	\$ (5,599)	\$ (7,207)	\$ (4,033)	\$ (5,019)	\$ (32,891)	\$ (371,608)
Net Expenses	\$ 121,950	\$ 598,152	\$ 303,363	\$ 9,265	\$ 6,167	\$ 16,836	\$ 1,530	\$ 657	\$ 337,818	\$ 1,057,920
Rockbridge County participation	9.90%	56.16%	63.95%	63.38%	61.33%	64.10%	69.41%	63.01%	63.91%	53.30%
Rockbridge County share	\$ 12,073	\$ 335,931	\$ 193,990	\$ 5,872	\$ 3,782	\$ 10,792	\$ 1,062	\$ 414	\$ 215,912	\$ 563,916

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lexington, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Lexington, Virginia's basic financial statements, and have issued our report thereon dated November 6, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson-Farmer, Co. Associates

Blacksburg, Virginia
November 6, 2016