

**CITY OF LEXINGTON, VIRGINIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2017**

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Prepared by:  
Gary W. Swink, Finance Director

**CITY OF LEXINGTON, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED JUNE 30, 2017**

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## INTRODUCTORY SECTION



November 30, 2017

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, 2017.

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, 2017. 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 (M D & A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The M D & 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 are owned and operated by the Maury Service Authority (MSA). In fiscal years prior to 2017, these plant were operated under contract by the City and were 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.

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 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.



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 reported for the City remains higher than state and national rates, but improved somewhat in fiscal year 2017. Economic activity, as measured by sales taxes, declined during fiscal year 2017 by 2.5%. Meals taxes, another measure of economic activity, was flat compared to the prior year. Lodging taxes, however, continued to show strong growth (+10%).

An extremely high percentage of the City's real property assessment (61%) 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*

A new elementary school was completed and occupied in October 2016. A major initiative began during fiscal year 2017 to replace and update the City's sewer and water distribution lines. Revenue bonds of \$2.18 million were issued to finance these projects. During 2017 the City also undertook a number of storm water management projects, as well as street pavement projects.

#### *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. Planned capital projects over the next five years are estimated to cost \$24.5 million and include water and wastewater utility improvements, storm water management improvements, bridge repairs, street improvements and improvements to municipal facilities and parks.

#### *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, equipment replacement 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 agency funds. The governing body of each of these component units approves and controls the annual appropriations made for their respective budgets. City Council approves annual appropriations and quarterly amends appropriations for all funds except for the agency funds.

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, 2017, the unassigned fund balance exceeded the required minimum by approximately

\$4.1 million. At June 30, 2016, the unassigned fund balance exceeded the required minimum by \$4.5 million. \$1 million of the unassigned fund balance was transferred to the Capital Projects Fund during FY 17 to fund future capital projects.

### *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, 2016. This was the twenty-third 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 W. Swink*

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**

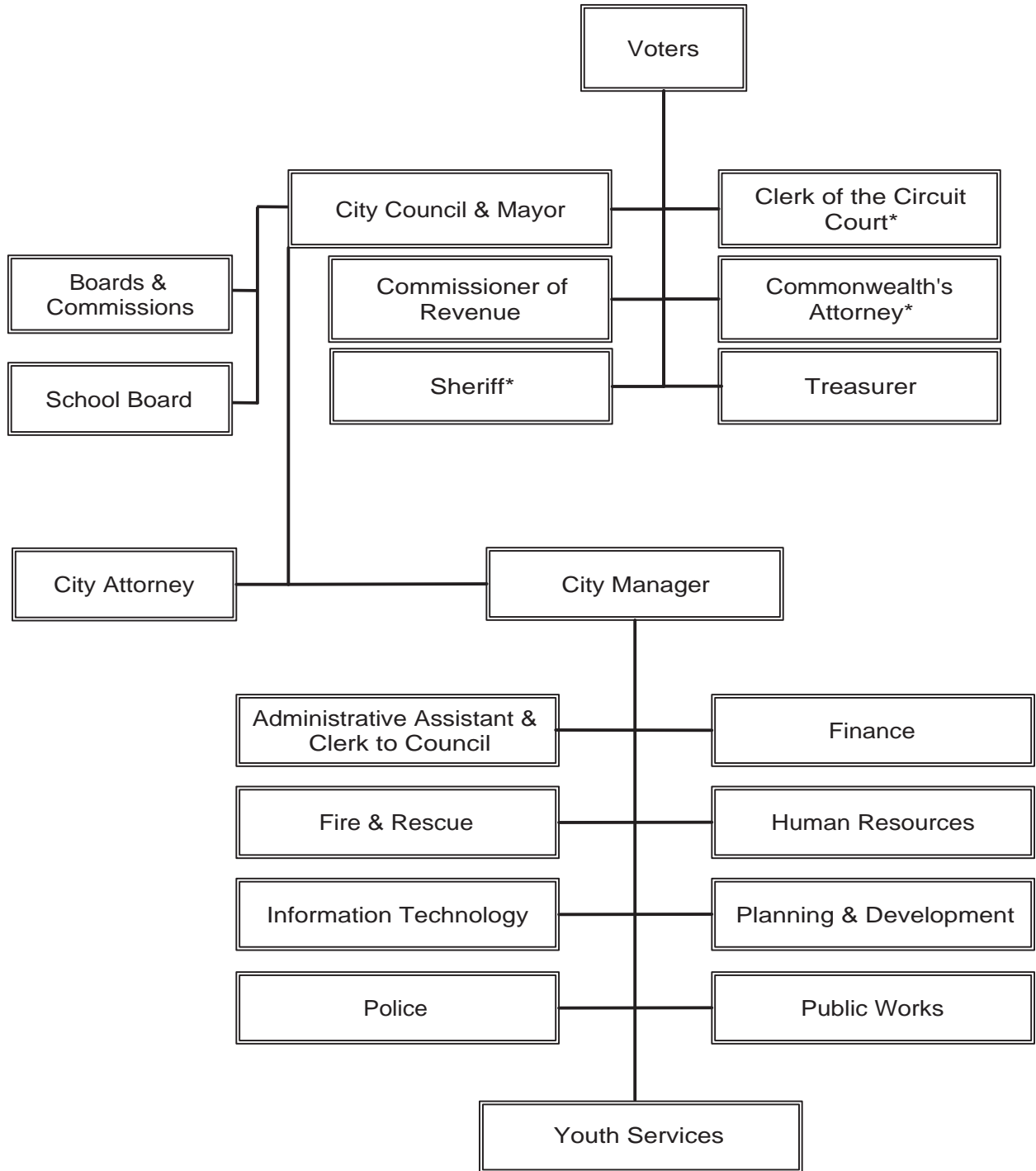
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

# CITY OF LEXINGTON

## Organizational Chart



\*Shared with County

CITY OF LEXINGTON, VIRGINIA

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CITY COUNCIL

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Marilyn Alexander J. Patrick Rhamey, Jr Charles "Chuck" Smith	Frank W. Friedman, Mayor	Michele F. Hentz David G. Sigler Leslie C. Straughan
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CITY SCHOOL BOARD

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Timothy Diette, Vice Chair Mollie Fox	Owen Collins, Chair	Miranda Edwards Jeannie VanNess
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OTHER OFFICIALS

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City Manager .....	Noah A. Simon
City Treasurer .....	Pat DeLaney
Commissioner of Revenue .....	Karen T. Roundy
Finance Director.....	Gary W. Swink
City Attorney.....	Josh Elrod
Chief of Police .....	Samuel Roman, Jr.
Fire and Rescue Chief .....	Ty Dickerson
Director of Planning and Development .....	Arne Glaeser
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

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## Independent Auditors' Report

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To the Honorable Members of  
the City Council  
City of 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, 2017, 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, 2017, 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 22 to the financial statements, in 2017, the City adopted new accounting guidance, GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. 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, 97-98, and 99-106, 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 9, 2017, 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.

*Proline, Farrow, Cox Associates*

Blacksburg, Virginia  
November 9, 2017

## 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, 2017. 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 \$28,934,320 (*net position*). A total of \$11,346,386 (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 \$7,672,653 or 46% of total general fund expenditures of \$16,541,541 in the year ended June 30, 2017.
- The City of Lexington's total outstanding debt increased by \$915,469 during the current fiscal year due to the issuance of \$2,180,000 in utility revenue bonds .

### 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

## Government-Wide Financial Statements (continued)

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 water distribution and sewer collection for its customers. Water and wastewater treatment services are purchased from the Maury Service Authority.

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 a 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 six 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 units - School Board and IDA. Data from the equipment replacement fund is aggregated in the presentation with the general fund.

The City of Lexington adopts an annual appropriated budget for its general fund, school fund, equipment replacement 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 exceeded liabilities and deferred inflows by \$28,934,320 at the close of the most recent fiscal year. Information on net position over the last ten years may be found in Table I of the statistical section of this report.

A portion of the City's net position reflects its unrestricted net position of \$11,346,386. 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 \$15,778,780. 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 \$1,386,379 for the fiscal year ending June 30, 2017. 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, 2017 and 2016**  
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		School Board Component Unit	
	2017	2016	2017	2016	2017	2016	2017	2016
Current & other assets	\$ 16,278	\$ 18,202	\$ 6,884	\$ 3,570	\$ 23,162	\$ 21,772	\$ 2,140	\$ 1,771
Capital assets	38,952	38,311	3,509	3,283	42,461	41,594	868	1,270
Total assets	<u>\$ 55,230</u>	<u>\$ 56,513</u>	<u>\$ 10,393</u>	<u>\$ 6,853</u>	<u>\$ 65,623</u>	<u>\$ 63,366</u>	<u>\$ 3,008</u>	<u>\$ 3,041</u>
Deferred outflows of resources	\$ 2,210	\$ 1,920	\$ 135	\$ 124	\$ 2,345	\$ 2,044	\$ 687	\$ 366
Long-term liabilities outstanding	\$ 32,663	\$ 33,256	\$ 3,499	\$ 799	\$ 35,626	\$ 34,055	\$ 4,909	\$ 4,447
Other liabilities	1,594	2,131	591	133	2,722	2,263	635	857
Total liabilities	<u>\$ 34,257</u>	<u>\$ 35,387</u>	<u>\$ 4,090</u>	<u>\$ 932</u>	<u>\$ 38,348</u>	<u>\$ 36,318</u>	<u>\$ 5,544</u>	<u>\$ 5,304</u>
Deferred inflows of resources	\$ 625	\$ 964	\$ 62	\$ 137	\$ 687	\$ 1,101	\$ 264	\$ 435
Net position:								
Net investment in capital assets	\$ 12,686	\$ 10,965	\$ 3,092	\$ 3,283	\$ 15,778	\$ 14,248	\$ 868	\$ 1,270
Restricted	1,809	1,700	-	-	1,809	1,700	-	-
Unrestricted	8,062	9,417	3,284	1,817	11,346	11,234	(2,981)	(3,602)
Total net position:	<u>\$ 22,557</u>	<u>\$ 22,082</u>	<u>\$ 6,376</u>	<u>\$ 5,100</u>	<u>\$ 28,933</u>	<u>\$ 27,182</u>	<u>\$ (2,113)</u>	<u>\$ (2,332)</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* (\$11,346,386) 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 78% 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, 2017 and 2016  
(In Thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government		School Board Component Unit	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues:								
Program Revenues:								
Chgs. For svcs.	\$ 1,241	\$ 1,218	\$ 4,571	\$ 6,376	\$ 5,812	\$ 7,594	\$ 194	\$ 217
Operating grants and contributions	1,647	1,158	-	-	1,647	1,158	3,596	3,253
Capital grants and contributions	-	26	94	130	94	156	-	-
General revenues:								
Property taxes	6,754	6,621	-	-	6,754	6,621	-	-
Other taxes	4,223	4,211	-	-	4,223	4,211	-	-
Grants and contributions not restricted to specific programs	903	911	-	-	903	911	-	-
Other	2,896	2,741	11	-	2,907	2,741	3,062	2,989
Total revenues	<u>\$ 17,664</u>	<u>\$ 16,886</u>	<u>\$ 4,676</u>	<u>\$ 6,506</u>	<u>\$ 22,340</u>	<u>\$ 23,392</u>	<u>\$ 6,852</u>	<u>\$ 6,459</u>
Expenses:								
General gov't.	\$ 1,394	\$ 1,141	\$ -	\$ -	\$ 1,394	\$ 1,141	\$ -	\$ -
Judicial admin	333	356	-	-	333	353	-	-
Public safety	3,483	3,201	-	-	3,483	3,201	-	-
Public works	3,807	3,215	-	-	3,807	3,215	-	-
Health & welfare	713	512	-	-	713	512	-	-
Education	4,453	3,253	-	-	4,453	3,253	7,039	6,269
Parks, rec, & cultural Community development	694	755	-	-	694	755	-	-
Interest on debt	1,059	716	-	-	1,059	716	-	-
Water & sewer utility	865	888	-	-	865	888	-	-
-	-	-	4,153	5,443	4,153	5,443	-	-
Total expenses	<u>\$ 16,801</u>	<u>\$ 14,037</u>	<u>\$ 4,153</u>	<u>\$ 5,443</u>	<u>\$ 20,954</u>	<u>\$ 19,477</u>	<u>\$ 7,039</u>	<u>\$ 6,269</u>
Changes in net position before transfers	\$ 863	\$ 2,849	\$ 523	\$ 1,063	\$ 1,386	\$ 3,915	\$ (187)	\$ 190
Transfers	56	178	(56)	(178)	-	-	-	-
Changes in net position	<u>\$ 919</u>	<u>\$ 3,027</u>	<u>\$ 467</u>	<u>\$ 885</u>	<u>\$ 1,386</u>	<u>\$ 3,915</u>	<u>\$ (187)</u>	<u>\$ 190</u>
Net position beginning of year	21,639	18,609	5,909	5,024	27,548	23,633	(1,926)	(2,116)
Net position end of year	<u>\$ 22,558</u>	<u>\$ 21,636</u>	<u>\$ 6,376</u>	<u>\$ 5,909</u>	<u>\$ 28,934</u>	<u>\$ 27,548</u>	<u>\$ (2,113)</u>	<u>\$ (1,926)</u>

## Governmental Revenues

- Property tax collections were up .4%, or \$27,620. The real estate tax rate remained the same at \$1.09/\$100 of assessed value. The tax rate on personal property remained at \$4.25/\$100 value.
- Other local taxes increased by \$11,985, or .3%. Local sales taxes decreased by \$26,455 or 2.5%. Restaurant food taxes were essentially flat, showing a change of less than .1%, while hotel and motel taxes increased by 9%, or \$43,834. Business, professional, and occupation licenses decreased by \$18,860, or 2.6%.
- Revenues from the use of money and property increased by \$43,739 as a result of higher interest rates.
- The City's major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of total Revenue</u>
General property taxes	\$6,708,542	37%
Other local taxes	4,222,756	23%
Charges for services	1,048,271	6%
Miscellaneous	2,499,350	14%
Recovered costs	538,919	3%
Intergovernmental	2,465,574	14%

## Governmental Expenses

- The general governmental expenses increased by \$186,150.
- Public safety expenses decreased by \$308,257, or 9%, partially due to additional staffing in the Fire Department.
- Public Works expenses increased by \$747,426 due to significant maintenance and capital projects, including street repaving.
- Health and welfare costs increased by \$201,447 primarily as a result of higher public assistance costs.
- Education costs decreased by \$6,736,409, primarily due to construction costs of building a replacement elementary school in the prior fiscal year. The school opened in October 2016.

## Business-Type Activities

The increase in net position for business-type activities was \$467,616, or 8% from the prior fiscal year, with an end of the year balance of \$6,376,511.

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 \$149,577, which included a rate increase averaging 9%.
- There were no revenues for contractual operation of the water and wastewater plants in fiscal year 2017, as the Maury Service Authority began to operate their treatment plants on July 1, 2016.
- Expenses decreased by \$1,412,435, primarily due to not operating the treatment plants in FY 2017.
- Significant capital projects were untaken to replace water and sewer lines, utilizing \$2,180,000 of revenue bonds as a source of funding.

## 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 \$13,062,035, a decrease of \$491,856 in comparison with the prior year. The decrease is due to expenditure of bond funds for a new elementary school. A total of \$828,378 is committed for the City's future equipment replacement purchases. The City committed fire department funds totaling \$91,748 to be used exclusively for the specific needs of the fire and rescue department, subject to City Council's appropriation. A total of \$342,177 is assigned for the carryover of committed projects not completed as of June 30, 2017 in the General Fund. A total of \$2,317,171 is committed for capital project needs. A total of \$7,672,653 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, 2017.

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 \$7,672,653, a decrease of \$252,074 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 46% or approximately six (6) months 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, 2017 was \$2,317,171, an increase of \$1,966,328.

The permanent fund balance increased by \$109,502 for the year to \$1,809,154 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 \$3,284,183, an increase of \$658,580 or 25% in comparison with the prior year. This increase is due primarily to the difference between charges for water and sewer services and expenses associated with providing these services.

## Governmental Fund Budgetary Highlights

Differences between the original budget of \$25,793,762 and the final amended budget of \$31,838,780 reflects an increase in appropriation of \$6,045,018. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 16 to FY 17 \$4,178,624 for ongoing projects or activities that could not be completed by June 30, 2016. Much of the carryover totaling \$2,194,188 is related to the construction of 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 appropriation of \$325,395 from the sale of real estate to repay a state grant used to develop a mixed housing development
  - a \$1,000,000 transfer from the unassigned portion of the General Fund Balance to the Capital Projects Fund for future capital projects
  - an appropriation of an additional \$120,000 for a storm water management project on East Nelson Street
  - \$74,974 for federal grant programs at the schools.
  - Appropriation of \$160,780 received from a S.A.F.E.R. grant for additional staffing within the Fire Department
  - Appropriation of \$200,000 for paving projects

## 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	\$ 6,787,000	\$ 6,708,542	\$ -78,458
Other Local Taxes	4,154,600	4,222,756	68,156
Charges for Services	1,065,180	1,048,271	-16,909
Miscellaneous	2,403,600	2,499,350	95,750
Intergovernmental	3,133,338	2,465,574	-667,764
Recovered Costs	540,750	538,919	-1,831

Actual expenditures were \$1,398,969 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, 2017 amounts to \$43,328,965 (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 1%.

### 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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$2,707	\$2,913	\$ ---	\$ —	\$2,707	\$2,913	\$359	\$5
Buildings	28,861	16,494	---	---	28,861	16,494	313	1,242
Improvements other than buildings	617	684	25	26	642	710	---	---
Infrastructure	3,800	3,423	2,502	2,616	6,302	6,039	---	---
Machinery & Equip.	2,884	2,736	660	632	3,544	3,401	195	23
Construction in Progress	<u>83</u>	<u>12,619</u>	<u>322</u>	<u>9</u>	<u>405</u>	<u>12,628</u>	<u>---</u>	<u>---</u>
Totals	<u>\$38,952</u>	<u>\$38,722</u>	<u>\$3,509</u>	<u>\$3,283</u>	<u>\$42,461</u>	<u>\$42,005</u>	<u>\$ 867</u>	<u>\$1,270</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>2017</u>	<u>2016</u>
Governmental activities	\$27,334,327	\$28,598,858
Business-type activities	<u>2,180,000</u>	<u>0</u>
TOTAL	<u>\$29,514,327</u>	<u>\$28,598,858</u>

The City's total general obligation debt decreased by \$1,264,531, 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 \$54,212,000 which is significantly in excess of the City's outstanding general obligation debt.

## **Long-term debt (continued)**

### **Revenue Bonds**

The City issued \$2,180,000 of Revenue Bonds through the Virginia Resource Authority on November 16, 2016 to finance several water and sewer projects.

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 2017, the unemployment rate for the City of Lexington was 7.1%. This exceeds both the national and state unemployment rates, but was down from the previous year.

Sixty-one percent of the City's assessed real estate values are tax exempt. No change in the personal property, meals, or transient occupancy taxes rates were implemented in support of the FY 2018 Budget; however, the real estate tax rate was increased from \$1.09 per \$100 assessed value to \$1.11. The FY 2018 Budget does not anticipate using any fund balance to cover FY2018 expenditures. Funding of \$1,050,000 for future capital expenditures is included in the Budget.

The water and sewer utility fund rates were increased by 3% for the 2018 budget.

### **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.

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## Basic Financial Statements

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City of Lexington, Virginia  
Statement of Net Position  
June 30, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,333,181	\$ 679,222	\$ 3,012,403	\$ 255,574	\$ 47,177
Investments	9,238,151	3,500,000	12,738,151	1,500,000	251,425
Receivables (net of allowance for uncollectibles):					
Taxes receivable	799,431	-	799,431	-	-
Accounts receivable	363,906	562,672	926,578	-	-
Due from other governmental units	305,353	-	305,353	145,278	-
Due from others	406,263	-	406,263	-	-
Long-term receivable	1,021,700	-	1,021,700	-	-
Prepaid items	754	-	754	-	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents (in custody of others)	-	2,142,316	2,142,316	-	-
Permanently restricted:					
Cash and cash equivalents	426,172	-	426,172	-	-
Investments	1,382,982	-	1,382,982	-	-
Net OPEB asset	-	-	-	89,501	-
Net Pension asset	-	-	-	150,420	-
Capital assets (net of accumulated depreciation):					
Land	2,707,160	-	2,707,160	359,494	-
Buildings	28,861,040	-	28,861,040	313,367	-
Improvements other than buildings	617,336	24,583	641,919	-	-
Machinery and equipment	2,884,127	659,893	3,544,020	194,856	-
Infrastructure	3,799,907	2,502,127	6,302,034	-	-
Construction in progress	82,446	322,629	405,075	-	-
Total assets	<u>\$ 55,229,909</u>	<u>\$ 10,393,442</u>	<u>\$ 65,623,351</u>	<u>\$ 3,008,490</u>	<u>\$ 298,602</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge on refunding	\$ 1,396,355	\$ -	\$ 1,396,355	\$ -	\$ -
Pension contributions subsequent to measurement date	412,716	39,190	451,906	400,198	-
Items related to measurement of net pension liability	401,608	96,260	497,868	287,091	-
Total deferred outflows of resources	<u>\$ 2,210,679</u>	<u>\$ 135,450</u>	<u>\$ 2,346,129</u>	<u>\$ 687,289</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 315,501	\$ 520,431	\$ 835,932	\$ 92,667	\$ 52,891
Payroll liabilities	403,529	-	403,529	86,022	-
Contracts payable	-	-	-	422,844	-
Accrued interest payable	235,480	24,867	260,347	-	-
Unearned revenue	-	-	-	34,450	-
Deposits held in escrow	1,127	45,625	46,752	-	-
Unearned grant revenue	638,258	-	638,258	-	-
Long-term liabilities:					
Due within one year	1,453,133	95,375	1,548,508	22,717	-
Due in more than one year	31,210,593	3,404,018	34,614,611	4,886,151	-
Total liabilities	<u>\$ 34,257,621</u>	<u>\$ 4,090,316</u>	<u>\$ 38,347,937</u>	<u>\$ 5,544,851</u>	<u>\$ 52,891</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred revenue - property taxes	\$ 476,661	\$ -	\$ 476,661	\$ -	\$ -
Items related to measurement of net pension liability	148,497	62,065	210,562	264,000	-
Total deferred inflows of resources	<u>\$ 625,158</u>	<u>\$ 62,065</u>	<u>\$ 687,223</u>	<u>\$ 264,000</u>	<u>\$ -</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 12,686,452	\$ 3,092,328	\$ 15,778,780	\$ 867,717	\$ -
Restricted:					
Nonexpendable - perpetual cemetery care	1,809,154	-	1,809,154	-	-
Unrestricted (deficit)	8,062,203	3,284,183	11,346,386	(2,980,789)	245,711
Total net position	<u>\$ 22,557,809</u>	<u>\$ 6,376,511</u>	<u>\$ 28,934,320</u>	<u>\$ (2,113,072)</u>	<u>\$ 245,711</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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			School Board	Industrial Development Authority
					Governmental Activities	Business-type Activities	Total		
<b>PRIMARY GOVERNMENT:</b>									
Governmental activities:									
General government administration	\$ 1,393,588	\$ 70,050	\$ 250,433	\$ -	\$ (1,073,105)	\$ -	\$ (1,073,105)	\$ -	\$ -
Judicial administration	333,424	63,826	73,352	-	(196,246)	-	(196,246)	-	-
Public safety	3,483,173	488,524	397,349	-	(2,597,300)	-	(2,597,300)	-	-
Public works	3,807,230	514,153	704,852	-	(2,588,225)	-	(2,588,225)	-	-
Health and welfare	713,171	11,442	213,259	-	(488,470)	-	(488,470)	-	-
Education	4,452,319	-	-	-	(4,452,319)	-	(4,452,319)	-	-
Parks, recreation, and cultural	694,425	93,516	4,500	-	(596,409)	-	(596,409)	-	-
Community development	1,059,281	-	3,675	-	(1,055,606)	-	(1,055,606)	-	-
Interest on long-term debt	864,866	-	-	-	(864,866)	-	(864,866)	-	-
Total governmental activities	\$ 16,801,477	\$ 1,241,511	\$ 1,647,420	\$ -	\$ (13,912,546)	\$ -	\$ (13,912,546)	\$ -	\$ -
Business-type activities:									
Utility Fund	\$ 4,152,827	\$ 4,570,897	\$ -	\$ 93,716	\$ -	\$ 511,786	\$ 511,786	\$ -	\$ -
Total primary government	\$ 20,954,304	\$ 5,812,408	\$ 1,647,420	\$ 93,716	\$ (13,912,546)	\$ 511,786	\$ (13,400,760)	\$ -	\$ -
<b>COMPONENT UNITS:</b>									
School Board	\$ 7,039,159	\$ 193,873	\$ 3,596,435	\$ -	\$ -	\$ -	\$ -	\$ (3,248,851)	\$ -
Industrial Development Authority	280,759	-	-	-	-	-	-	-	(280,759)
Total component units	\$ 7,319,918	\$ 193,873	\$ 3,596,435	\$ -	\$ -	\$ -	\$ -	\$ (3,248,851)	\$ (280,759)
General revenues:									
General property taxes					\$ 6,753,610	\$ -	\$ 6,753,610	\$ -	\$ -
Other local taxes:									
Local sales and use taxes					1,014,689	-	1,014,689	-	-
Consumers' utility taxes					308,358	-	308,358	-	-
Business license taxes					697,889	-	697,889	-	-
Restaurant food taxes					1,462,273	-	1,462,273	-	-
Hotel and motel room taxes					534,588	-	534,588	-	-
Other local taxes					204,959	-	204,959	-	-
Unrestricted revenues from use of money and property					281,579	11,415	292,994	6,028	-
Miscellaneous					708,365	-	708,365	-	35,082
Revenue sharing payments					1,797,985	-	1,797,985	-	-
Payments from the City of Lexington/School Board					-	-	-	3,055,653	202,256
Grants and contributions not restricted to specific programs					902,549	-	902,549	-	-
Gain (loss) on disposal of assets					108,880	-	108,880	-	-
Transfers					55,585	(55,585)	-	-	-
Total general revenues and transfers					\$ 14,831,309	\$ (44,170)	\$ 14,787,139	\$ 3,061,681	\$ 237,338
Change in net position					\$ 918,763	\$ 467,616	\$ 1,386,379	\$ (187,170)	\$ (43,421)
Net position - beginning					21,639,046	5,908,895	27,547,941	(1,925,902)	289,132
Net position - ending					\$ 22,557,809	\$ 6,376,511	\$ 28,934,320	\$ (2,113,072)	\$ 245,711

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

City of Lexington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2017

	General	Capital Projects	Permanent	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 17,747	\$ 2,315,434	\$ -	\$ 2,333,181
Investments	9,238,151	-	-	9,238,151
Receivables (net of allowance for uncollectibles):				
Taxes receivable	799,431	-	-	799,431
Accounts receivable	363,906	-	-	363,906
Due from other governmental units	292,951	12,402	-	305,353
Due from others	406,263	-	-	406,263
Long-term receivable	1,021,700	-	-	1,021,700
Prepaid items	754	-	-	754
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	426,172	426,172
Investments	-	-	1,382,982	1,382,982
Total assets	<u>\$ 12,140,903</u>	<u>\$ 2,327,836</u>	<u>\$ 1,809,154</u>	<u>\$ 16,277,893</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 305,836	\$ 9,665	\$ -	\$ 315,501
Payroll liabilities	403,529	-	-	403,529
Deposits held in escrow	127	1,000	-	1,127
Unearned grant revenue	638,258	-	-	638,258
Total liabilities	<u>\$ 1,347,750</u>	<u>\$ 10,665</u>	<u>\$ -</u>	<u>\$ 1,358,415</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 835,743	\$ -	\$ -	\$ 835,743
Unavailable revenue - long-term receivable	1,021,700	-	-	1,021,700
Total deferred inflows of resources	<u>\$ 1,857,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,857,443</u>
<b>Fund balances:</b>				
Nonspendable	\$ 754	\$ -	\$ 180,562	\$ 181,316
Restricted	-	-	1,628,592	1,628,592
Committed	920,126	2,317,171	-	3,237,297
Assigned	342,177	-	-	342,177
Unassigned	7,672,653	-	-	7,672,653
Total fund balances	<u>\$ 8,935,710</u>	<u>\$ 2,317,171</u>	<u>\$ 1,809,154</u>	<u>\$ 13,062,035</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,140,903</u>	<u>\$ 2,327,836</u>	<u>\$ 1,809,154</u>	<u>\$ 16,277,893</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, 2017

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 13,062,035

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

Land	\$ 2,707,160	
Buildings	28,861,040	
Improvements other than buildings	617,336	
Infrastructure	3,799,907	
Machinery and equipment	2,884,127	
Construction in progress	82,446	38,952,016

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

Unavailable revenue - property taxes	\$ 359,082	
Unavailable revenue - long-term receivable	1,021,700	
Deferred inflows related to measurement of net pension liability	(148,497)	1,232,285

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.

412,716

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	\$ (27,334,330)	
Accrued interest payable	(235,480)	
Net OPEB obligation	(40,872)	
Net pension liability	(3,421,638)	
Deferred outflows related to measurement of net pension liability	401,608	
Deferred charge on refunding	1,396,355	
Unamortized bond premium	(1,581,270)	
Unamortized bond discount	36,415	
Compensated absences	(322,031)	(31,101,243)

Net position of governmental activities

\$ 22,557,809

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, 2017

	General	Capital Projects	Permanent	Total
<b>REVENUES</b>				
General property taxes	\$ 6,708,542	\$ -	\$ -	\$ 6,708,542
Other local taxes	4,222,756	-	-	4,222,756
Permits, privilege fees, and regulatory licenses	129,414	-	-	129,414
Fines and forfeitures	63,826	-	-	63,826
Revenue from the use of money and property	158,973	-	122,606	281,579
Charges for services	1,048,271	-	-	1,048,271
Miscellaneous	2,499,350	7,000	-	2,506,350
Recovered costs	538,919	-	-	538,919
Intergovernmental:				
Commonwealth	2,320,460	84,395	-	2,404,855
Federal	145,114	-	-	145,114
Total revenues	<u>\$ 17,835,625</u>	<u>\$ 91,395</u>	<u>\$ 122,606</u>	<u>\$ 18,049,626</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,320,899	\$ 65,711	\$ -	\$ 1,386,610
Judicial administration	333,424	-	-	333,424
Public safety	3,589,118	39,102	-	3,628,220
Public works	3,409,724	543,229	-	3,952,953
Health and welfare	711,236	-	-	711,236
Education	3,055,653	1,702,893	-	4,758,546
Parks, recreation, and cultural	551,183	3,457	26,529	581,169
Community development	1,059,235	-	-	1,059,235
Nondepartmental	371,152	-	-	371,152
Debt service:				
Principal retirement	1,264,531	-	-	1,264,531
Interest and other fiscal charges	875,386	-	-	875,386
Total expenditures	<u>\$ 16,541,541</u>	<u>\$ 2,354,392</u>	<u>\$ 26,529</u>	<u>\$ 18,922,462</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,294,084</u>	<u>\$ (2,262,997)</u>	<u>\$ 96,077</u>	<u>\$ (872,836)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 178,000	\$ 4,229,325	\$ 13,425	\$ 4,420,750
Transfers out	(4,365,165)	-	-	(4,365,165)
Sale of capital assets	325,395	-	-	325,395
Total other financing sources (uses)	<u>\$ (3,861,770)</u>	<u>\$ 4,229,325</u>	<u>\$ 13,425</u>	<u>\$ 380,980</u>
Net change in fund balances	\$ (2,567,686)	\$ 1,966,328	\$ 109,502	\$ (491,856)
Fund balances - beginning	11,503,396	350,843	1,699,652	13,553,891
Fund balances - ending	<u>\$ 8,935,710</u>	<u>\$ 2,317,171</u>	<u>\$ 1,809,154</u>	<u>\$ 13,062,035</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, 2017

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

Net change in fund balances - total governmental funds \$ (491,856)

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	\$ 1,784,299	
Depreciation expense	(1,337,787)	446,512

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. (216,515)

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

Property taxes	\$ 45,068	
Long-term receivable	(79,590)	
Change in deferred inflows related to the measurement of the net pension liability	325,260	290,738

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		1,264,531

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	\$ (91,846)	
Change in net OPEB obligation	1,000	
Change in net pension liability	(656,988)	
Change in deferred outflows related to pension payments subsequent to the measurement date	(38,941)	
Change in deferred outflows related to the measurement of the net pension liability	401,608	
Change in accrued interest payable	7,233	
Amortization of deferred charge on refunding	(72,387)	
Amortization of bond discount	(4,552)	
Amortization of bond premium	80,226	(374,647)

Change in net position of governmental activities		<u>\$ 918,763</u>
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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, 2017

	Enterprise Fund
	Utility Fund
	Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 679,222
Investments	3,500,000
Accounts receivable, net of allowance for uncollectibles	562,672
Total current assets	\$ 4,741,894
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (in custody of others)	\$ 2,142,316
Capital assets:	
Buildings	\$ 113,405
Less accumulated depreciation	(113,405)
Improvements other than buildings	77,717
Less accumulated depreciation	(53,134)
Machinery and equipment	1,154,401
Less accumulated depreciation	(494,508)
Infrastructure	4,958,637
Less accumulated depreciation	(2,456,510)
Construction in progress	322,629
Total capital assets	\$ 3,509,232
Total noncurrent assets	\$ 5,651,548
Total assets	\$ 10,393,442
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension contributions subsequent to measurement date	\$ 39,190
Items related to measurement of net pension liability	96,260
Total deferred outflows of resources	\$ 135,450
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 520,431
Accrued interest payable	24,867
Deposits held in escrow	45,625
Bonds payable - current portion	95,375
Total current liabilities	\$ 686,298
Noncurrent liabilities:	
Bonds payable - net of current portion	\$ 2,463,845
Net pension liability	940,173
Total noncurrent liabilities	\$ 3,404,018
Total liabilities	\$ 4,090,316
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Items related to measurement of net pension liability	\$ 62,065
<b>NET POSITION</b>	
Net investment in capital assets	\$ 3,092,328
Unrestricted	3,284,183
Total net position	\$ 6,376,511

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, 2017

	Enterprise Fund
	Utility Fund
<b>OPERATING REVENUES</b>	
Charges for services:	
Water and sewer revenues	\$ 4,570,897
<b>OPERATING EXPENSES</b>	
Administration	285,605
Water treatment plant	1,577
Water distribution	945,782
Water storage	2,129
Water service connections	3,931
Water system improvements	801
Wastewater improvements	6,565
Wastewater collection	2,000,154
MSA - Wastewater plant	5
Inflow and infiltration	134,370
Public works personnel	76,304
Miscellaneous	54,329
Internal services	229,710
Depreciation	210,223
Total operating expenses	\$ 3,951,485
Operating income (loss)	\$ 619,412
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	\$ 11,415
Interest expense	(201,342)
Total nonoperating revenues (expenses)	\$ (189,927)
Income before contributions and transfers	\$ 429,485
Capital contributions and construction grants	\$ 93,716
Transfers in	122,415
Transfers out	(178,000)
Change in net position	\$ 467,616
Total net position - beginning	5,908,895
Total net position - ending	\$ 6,376,511

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, 2017

	Enterprise Fund Utility Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 4,707,489
Payments to suppliers	(2,683,438)
Payments to and for employees	(580,099)
Net cash provided by (used for) by operating activities	\$ 1,443,952
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	\$ (178,000)
Transfers from other funds	122,415
Net cash provided by (used for) by noncapital financing activities	\$ (55,585)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	\$ (436,163)
Capital contribution	93,716
Proceeds from indebtedness	2,559,220
Interest payments	(176,475)
Net cash provided by (used for) by capital and related financing activities	\$ 2,040,298
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sale (purchase) of investments	\$ (3,142,316)
Interest and dividends received	11,415
Net cash provided by (used for) investing activities	\$ (3,130,901)
Net increase (decrease) in cash and cash equivalents	\$ 297,764
Cash and cash equivalents - beginning	381,458
Cash and cash equivalents - ending	\$ 679,222
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ 619,412
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	\$ 210,223
(Increase) decrease in accounts receivable	125,567
(Increase) decrease in deferred outflows of resources	(11,347)
Increase (decrease) in accounts payable	460,339
Increase (decrease) in payroll liabilities	(38,045)
Increase (decrease) in deferred inflows of resources	(74,786)
Increase (decrease) in net pension liability	141,564
Increase (decrease) deposits held in escrow	11,025
Total adjustments	\$ 824,540
Net cash provided by (used for) operating activities	\$ 1,443,952

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, 2017

	<u>OPEB Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 160,737	\$ 694,437
Accounts receivable	-	39,939
Total assets	<u>\$ 160,737</u>	<u>\$ 734,376</u>
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 68,744
Amount held for others - Central Dispatch	-	257,058
Amount held for others - RARO	-	135,647
Amount held for others - Regional Tourism	-	272,927
Total liabilities	<u>\$ -</u>	<u>\$ 734,376</u>
<b>NET POSITION</b>		
Net position restricted for postemployment benefits other than pensions	<u>\$ 160,737</u>	<u>\$ -</u>
Total net position	<u>\$ 160,737</u>	<u>\$ -</u>

City of Lexington, Virginia  
Statement of Changes in Fiduciary Net Position - Fiduciary Funds  
For the Year Ended June 30, 2017

	OPEB Trust
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 70,000
Investment income:	
Net increase in fair value of investments	\$ 18,189
Interest and dividends	198
Investment expense	(811)
Net investment income	\$ 17,576
Total additions	\$ 87,576
<b>DEDUCTIONS</b>	
Benefit payments	\$ 70,000
Net increase in net position	\$ 17,576
<b>NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS</b>	
Beginning of year	143,161
End of year	\$ 160,737

CITY OF LEXINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

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**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, Rockbridge Area Recreation Organization, Central Dispatch, Regional Tourism, 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 assets 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. Cash and cash equivalents

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. 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 5<sup>th</sup> and December 5<sup>th</sup>. 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 \$64,183 at June 30, 2017 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
Structures, lines, and accessories	20 - 40
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 unit - 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 36 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, 2017 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 has three items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Another item is comprised of certain items related to the measurement of the net pension liability/asset. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. The last item 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, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup>, and amounts prepaid on the 2<sup>nd</sup> half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup> and amounts prepaid on the 2<sup>nd</sup> half installments are reported as deferred inflows of resources. In addition certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions,

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

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

and the net difference between projected and actual earnings on pension plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions. 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, 2017, 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, 2017, 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).

**Note 3-Deposits and Investments: (Continued)**

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 2017 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, 2017 were held in the City's name by the City's custodial bank; except \$45,785 of U.S. Treasuries, \$561,967 of Mutual Fund Bonds, and \$690,907 of Common Stocks, and \$82,966 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.

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2017 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>
Local Government Investment Pool	\$ 14,238,151
State Non-Arbitrage Pool	2,142,316

Concentration of Credit Risk

At June 30, 2017, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

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**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	\$ 135,701	Upon demand	None
Ishares TR Barclays 3-7 yr	136,126	Upon demand	None
Pimco Fds Invt Grade Corp	137,789	Upon demand	None
Western Asset Mortgage Backed	152,351	Upon demand	None
Local Government Investment Pool	14,238,151	Upon demand	None
State Non-Arbitrage Pool	2,142,316	Upon demand	None

Investment Maturities (in years)

Investment Type	Fair Value	Less Than 1 Year
Local Government Investment Pool	\$ 14,238,151	\$ 14,238,151
State Non-Arbitrage Pool	2,142,316	2,142,316

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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, 2017:

Investment	6/30/2017	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 Bonds	\$ 561,967	\$ 561,967	\$ -	\$ -
Common Stocks	773,873	773,873	-	-
U.S. Treasuries	45,785	45,785	-	-

**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	\$ 171,213	\$ -
Communications sales and use tax	50,261	-
State sales tax	-	78,024
Categorical aid-shared expenses	12,427	-
Other categorical aid	16,311	-
Non-categorical aid	2,377	-
Virginia public assistance funds	1,007	-
<u>Federal Government:</u>		
School grants	-	67,254
Other categorical	51,757	-
Totals	<u>\$ 305,353</u>	<u>\$ 145,278</u>

**Note 6-Interfund Transfers:**

Interfund transfers for the fiscal year ended June 30, 2017 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Primary Government:</u>		
General Fund	\$ 178,000	\$ 4,365,165
Capital Projects Fund	4,229,325	-
Cemetery Fund	13,425	-
Utility Fund	122,415	178,000
Total	<u>\$ 4,543,165</u>	<u>\$ 4,543,165</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.

**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, 2017, the outstanding balance of the debt was \$1,217,266 and the long-term receivable balance was \$1,021,700.

CITY OF LEXINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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, 2017:

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
General Obligation Bonds	\$ 28,598,861	\$ -	\$ (1,264,531)	\$ 27,334,330
Less: Discount on Issuance	(40,967)	-	4,552	(36,415)
Plus: Premiums on Issuance	1,661,496	-	(80,226)	1,581,270
Net OPEB Obligation	41,872	12,000	(13,000)	40,872
Net Pension Liability	2,764,650	1,586,407	(929,419)	3,421,638
Compensated Absences	230,185	149,392	(57,546)	322,031
Total	<u>\$ 33,256,097</u>	<u>\$ 1,747,799</u>	<u>\$ (2,340,170)</u>	<u>\$ 32,663,726</u>

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
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	1,432,276	704,373
2023-2027	7,744,016	2,933,401
2028-2032	5,260,142	1,960,941
2033-2037	5,505,000	860,568
2038-2040	2,010,000	112,631
Totals	<u>\$ 27,334,330</u>	<u>\$ 9,737,596</u>



CITY OF LEXINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**Note 8-Long-Term Obligations: (Continued)**

**Primary Government - Governmental Activities Indebtedness: (Continued)**

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<b>General Obligation Bonds:</b>						
General Obligation Bond	0.00%	11/13/2009	2026	\$ 8,410,000	\$ 4,947,064	\$ 494,704
VPSA Bond	0.00%	7/8/2010	2027	1,525,000	900,000	90,000
General Obligation Bond	2.01-4.83%	6/5/2013	2035	9,545,000	9,200,000	320,000
General Obligation Bond	2.52%	4/12/2013	2028	1,582,209	1,217,266	97,247
VPSA Bond	2.675-5.05%	5/15/2014	2040	11,615,000	11,070,000	295,000
Subtotal General Obligation Bonds					\$ 27,334,330	\$ 1,296,951
Plus: Premium on Issuance					\$ 1,581,270	\$ 80,226
Less: Discount on Issuance					(36,415)	(4,552)
Total General Obligation Bonds					\$ 28,879,185	\$ 1,372,625
<b>Other Obligations:</b>						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 322,031	\$ 80,508
Net OPEB Obligation	n/a	n/a	n/a	n/a	40,872	-
Net Pension Liability	n/a	n/a	n/a	n/a	3,421,638	-
Total Other Obligations					\$ 3,784,541	\$ 80,508
Total Long-term Obligations					\$ 32,663,726	\$ 1,453,133

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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, 2017:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
General Obligation Bonds	\$ -	\$ 2,180,000	\$ -	\$ 2,180,000
Plus: Premium on Issuance	-	379,220	-	379,220
Net Pension Liability	798,609	421,962	(280,398)	940,173
 Total	 <u>\$ 798,609</u>	 <u>\$ 2,981,182</u>	 <u>\$ (280,398)</u>	 <u>\$ 3,499,393</u>

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2018	\$ 65,000	\$ 100,434
2019	70,000	98,150
2020	70,000	94,863
2021	75,000	91,497
2022	80,000	87,775
2023-2027	465,000	370,841
2028-2032	600,000	235,156
2033-2037	755,000	80,334
 Totals	 <u>\$ 2,180,000</u>	 <u>\$ 1,159,050</u>

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**Note 8-Long-Term Obligations: (Continued)**

**Primary Government-Business-type Activities Indebtedness: (Continued)**

Details of long-term obligations:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
General Obligation Bonds:						
General Obligation Bond	4.125%-5.125%	11/18/2016	2037	\$2,180,000	\$2,180,000	\$ 65,000
Plus: Premium on Issuance					<u>\$ 379,220</u>	<u>\$ 30,375</u>
Total General Obligation Bonds					<u>\$ 2,559,220</u>	<u>\$ 95,375</u>
Other Obligations:						
Net Pension Liability	n/a	n/a	n/a	n/a	<u>\$ 940,173</u>	<u>\$ -</u>
Total Long-term Obligations					<u><u>\$ 3,499,393</u></u>	<u><u>\$ 95,375</u></u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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, 2017.

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Compensated Absences	\$ 74,965	\$ 34,644	\$ (18,741)	\$ 90,868
Net pension liability	4,372,000	1,076,000	(630,000)	4,818,000
<b>Total</b>	<b>\$ 4,446,965</b>	<b>\$ 1,110,644</b>	<b>\$ (648,741)</b>	<b>\$ 4,908,868</b>

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<b>Other Obligations:</b>						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 90,868	\$ 22,717
Net pension liability	n/a	n/a	n/a	n/a	4,818,000	-
<b>Total Long-term Obligations</b>					<b>\$ 4,908,868</b>	<b>\$ 22,717</b>

Compensated absences are liquidated by the School Operating Fund.

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**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:

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

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

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**Note 10-Pension Plan: (Continued)**

*Plan Description (Continued)*

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

**Note 10-Pension Plan: (Continued)**

*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-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, 2017 was 12.38% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$451,906 and \$575,760 for the years ended June 30, 2017 and June 30, 2016, respectively.

*Net Pension Liability*

At June 30, 2017, the City reported a liability of \$4,361,811 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. 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, 2016 and June 30, 2015 were used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2016 and 2015, the City's proportion was 84.0663% 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 and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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, 2015 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, 2015, 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, 2016.

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, 2015 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, City Public Schools Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the 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	\$ 6,976,993	\$ 4,361,811	\$ 2,168,468

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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, 2017, the City recognized pension expense of \$468,447. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, 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	\$ -	\$ 190,547
Change in assumptions		
Net difference between projected and actual earnings on pension plan investments	457,284	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	40,584	20,015
Employer contributions subsequent to the measurement date	451,906	-
Total	<u>\$ 949,774</u>	<u>\$ 210,562</u>

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

\$451,906 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2018	\$ (67,005)
2019	(67,006)
2020	234,651
2021	186,666

**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, 2015 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	11
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>14</u></u>

*Contributions*

The Component Unit School Board’s contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 0.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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, 2017 and June 30, 2016, respectively, as there are currently no active members in the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

*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, 2015	\$ 335,881	\$ 499,421	\$ (163,540)
Changes for the year:			
Interest	\$ 22,411	\$ -	\$ 22,411
Differences between expected and actual experience	(1,766)	-	(1,766)
Net investment income	-	7,854	(7,854)
Benefit payments, including refunds of employee contributions	(31,460)	(31,460)	-
Administrative expenses	-	(325)	325
Other changes	-	(4)	4
Net changes	<u>\$ (10,815)</u>	<u>\$ (23,935)</u>	<u>\$ 13,120</u>
Balances at June 30, 2016	<u>\$ 325,066</u>	<u>\$ 475,486</u>	<u>\$ (150,420)</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:

	<u>Rate</u>		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Component Unit School Board (nonprofessional) Net Pension Liability (Asset)	\$ (121,633)	\$ (150,420)	\$ (175,210)

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

For the year ended June 30, 2017, the Component Unit School Board (nonprofessional) recognized pension expense of \$(13,178). At June 30, 2017, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Component Unit School Board (nonprofessional)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>12,091</u>	\$ <u>-</u>

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2018	\$ (306)
2019	(306)
2020	7,503
2021	5,200

**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, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects 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 16.32%. 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 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$400,198 and \$365,738 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$4,818,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was 0.03438% as compared to 0.03474% at June 30, 2015.

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**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, 2017, the school division recognized pension expense of \$380,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Component Unit School Board (professional)</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 155,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	109,000
Net difference between projected and actual earnings on pension plan investments	275,000	-
Employer contributions subsequent to the measurement date	<u>400,198</u>	<u>-</u>
Total	<u>\$ 675,198</u>	<u>\$ 264,000</u>

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**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)*

\$400,198 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (professional)</u>
2018	\$ (66,000)
2019	(66,000)
2020	92,000
2021	64,000
2022	(13,000)

*Actuarial Assumptions*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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, 2015 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

*Net Pension Liability*

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (expressed in thousands):

		<b><u>Teacher Employee Retirement Plan</u></b>
Total Pension Liability	\$	44,182,326
Plan Fiduciary Net Position		<u>30,168,211</u>
Employers' Net Pension Liability (Asset)	\$	<u><u>14,014,115</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		68.28%

**Note 10-Pension Plan: (Continued)**

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

*Net Pension Liability (Continued)*

The total pension liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System’s notes to the financial statements and required supplementary information.

*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	\$ 6,868,000	\$ 4,818,000	\$ 3,129,000

*Pension Plan Fiduciary Net Position*

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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. Under the accrual basis, assessments for future periods are deferred. 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 \$638,258.

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 \$34,450.

Deferred/Unavailable Revenue - Primary Government:

	<u>Government-wide</u>			<u>Balance Sheet</u>	
	<u>Statements</u>			<u>Governmental Funds</u>	
	<u>Governmental Activities</u>			<u>Governmental Funds</u>	
Unavailable long-term receivable	\$	-	\$	1,021,700	
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures		-		359,082	
Tax assessments due after June 30		398,323		398,323	
Prepaid property taxes due after June 30 but paid in advance by taxpayers		78,338		78,338	
Total	\$	<u>476,661</u>	\$	<u>1,857,443</u>	

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CITY OF LEXINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**Note 12-Capital Assets:**

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,912,496	\$ -	\$ (205,336)	\$ 2,707,160
Construction in progress	12,619,401	1,289,461	(13,826,416)	82,446
Total capital assets not being depreciated	<u>\$ 15,531,897</u>	<u>\$ 1,289,461</u>	<u>\$ (14,031,752)</u>	<u>\$ 2,789,606</u>
Capital assets, being depreciated:				
Buildings	\$ 20,325,651	\$ 13,198,667	\$ -	\$ 33,524,318
Improvements other than buildings	1,513,139	12,182	-	1,525,321
Infrastructure	6,185,585	528,348	-	6,713,933
Machinery and equipment	6,831,634	582,057	(233,972)	7,179,719
Total capital assets being depreciated	<u>\$ 34,856,009</u>	<u>\$ 14,321,254</u>	<u>\$ (233,972)</u>	<u>\$ 48,943,291</u>
Accumulated depreciation:				
Buildings	\$ (4,012,132)	\$ (651,146)	\$ -	\$ (4,663,278)
Improvements other than buildings	(828,986)	(78,999)	-	(907,985)
Infrastructure	(2,762,219)	(151,807)	-	(2,914,026)
Machinery and equipment	(4,062,550)	(455,835)	222,793	(4,295,592)
Total accumulated depreciation	<u>\$ (11,665,887)</u>	<u>\$ (1,337,787)</u>	<u>\$ 222,793</u>	<u>\$ (12,780,881)</u>
Total capital assets being depreciated, net	<u>\$ 23,190,122</u>	<u>\$ 12,983,467</u>	<u>\$ (11,179)</u>	<u>\$ 36,162,410</u>
Governmental activities capital assets, net	<u>\$ 38,722,019</u>	<u>\$ 14,272,928</u>	<u>\$ (14,042,931)</u>	<u>\$ 38,952,016</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**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	\$ 8,881	\$ 313,748	\$ -	\$ 322,629
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	77,717	-	-	77,717
Infrastructure	4,958,637	-	-	4,958,637
Machinery and equipment	1,077,202	122,415	(45,216)	1,154,401
Total capital assets being depreciated	<u>\$ 6,226,961</u>	<u>\$ 122,415</u>	<u>\$ (45,216)</u>	<u>\$ 6,304,160</u>
Accumulated depreciation:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(52,106)	(1,028)	-	(53,134)
Infrastructure	(2,342,033)	(114,477)	-	(2,456,510)
Machinery and equipment	(445,006)	(94,718)	45,216	(494,508)
Total accumulated depreciation	<u>\$ (2,952,550)</u>	<u>\$ (210,223)</u>	<u>\$ 45,216</u>	<u>\$ (3,117,557)</u>
Total capital assets being depreciated, net	<u>\$ 3,274,411</u>	<u>\$ (87,808)</u>	<u>\$ -</u>	<u>\$ 3,186,603</u>
Business-type activities capital assets, net	<u>\$ 3,283,292</u>	<u>\$ 225,940</u>	<u>\$ -</u>	<u>\$ 3,509,232</u>

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**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	\$ 9,917
Public safety	323,834
Public works	488,102
Education	400,084
Parks, recreation, and culture	114,149
Community development	<u>1,701</u>
Total depreciation expense-governmental activities	<u>\$ 1,337,787</u>
Business-type activities:	
Water and Sewer Fund	<u>\$ 210,223</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2017

**Note 12-Capital Assets: (Continued)**

Discretely Presented Component Unit - School Board:

Capital asset activity for the School Board for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,550	\$ 354,944	\$ -	\$ 359,494
Total capital assets not being depreciated	<u>\$ 4,550</u>	<u>\$ 354,944</u>	<u>\$ -</u>	<u>\$ 359,494</u>
Capital assets, being depreciated:				
Buildings	\$ 4,193,860	\$ -	\$ (3,086,246)	\$ 1,107,614
Machinery and equipment	86,183	199,018	-	285,201
Total capital assets being depreciated	<u>\$ 4,280,043</u>	<u>\$ 199,018</u>	<u>\$ (3,086,246)</u>	<u>\$ 1,392,815</u>
Accumulated depreciation:				
Buildings	\$ (2,951,919)	\$ (45,860)	\$ 2,203,532	\$ (794,247)
Machinery and equipment	(63,019)	(27,326)	-	(90,345)
Total accumulated depreciation	<u>\$ (3,014,938)</u>	<u>\$ (73,186)</u>	<u>\$ 2,203,532</u>	<u>\$ (884,592)</u>
Total capital assets being depreciated, net	<u>\$ 1,265,105</u>	<u>\$ 125,832</u>	<u>\$ (882,714)</u>	<u>\$ 508,223</u>
School board capital assets, net	<u>\$ 1,269,655</u>	<u>\$ 480,776</u>	<u>\$ (882,714)</u>	<u>\$ 867,717</u>

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

Education	<u>\$73,186</u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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**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 \$5,273,030 as of June 30, 2017 and is scheduled to be completely retired by June of 2031. The City paid \$704,330 to the MSA in FY 17 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-Surety Bonds:**

Primary Government:

<u>Virginia Municipal Liability Pool - Surety:</u>	
Pat DeLaney, Treasurer	\$ 200,000
Wanda Floyd, Deputy Treasurer	200,000
Karen T. Roundy, Commissioner of Revenue	200,000
S. Roman, Chief of Police	200,000

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**Note 16-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. During fiscal year 2017, the City paid the MSA \$1,803,768 for bulk purchases of water and sewer services, as well as a \$704,330 assessment for debt service.

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 2017 was \$53.00/ton and \$51/ton for refuse disposal for commercial and citizen and municipal customers, respectively, 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 \$1,469,566 for high school student tuition in 2017.

**Note 17-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 2017, the City received \$1,797,985 from the County representing the revenue sharing payment under this agreement.

**Note 18-Litigation:**

At June 30, 2017 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 19-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 2017, the City and School Board contributed \$13,000, and \$54,000, respectively, in total for current premiums and prefunding amounts.

For retirees of the City and School Board, 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.

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**Note 19-Other Postemployment Benefits - Health Insurance: (Continued)**

B. Funding Policy (Continued)

The City and School Board’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 and School Board’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City and School Board’s net OPEB obligation:

	City	School Board	Total
Annual required contribution	\$ 12,000	\$ 25,000	\$ 37,000
Interest on net OPEB obligation	2,000	(3,000)	(1,000)
Adjustment to annual required contribution	(2,000)	3,000	1,000
Annual OPEB cost (expense)	12,000	25,000	37,000
Contributions made	(13,000)	(54,000)	(67,000)
Increase in net OPEB obligation	(1,000)	(29,000)	(30,000)
Net OPEB obligation (asset) - beginning of year	41,872	(60,501)	(18,629)
Net OPEB obligation (asset) - end of year	<u>\$ 40,872</u>	<u>\$ (89,501)</u>	<u>\$ (48,629)</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 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 12,000	108%	\$ 40,872
6/30/2016	19,130	69%	41,872
6/30/2015	18,874	101%	35,853

The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2017	\$ 25,000	216%	\$ (89,501)
6/30/2016	56,766	125%	(60,501)
6/30/2015	55,904	101%	(46,080)

**Note 19-Other Postemployment Benefits - Health Insurance: (Continued)**

D. Funded Status and Funding Progress

As of June 30, 2017, based on projected balances from the July 1, 2016 actuarial valuation, the City's portion of the plan was 46.63% funded. The actuarial accrued liability (AAL) for benefits was \$163,000, and the actuarial value of assets was \$76,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$163,000. The covered payroll (annual payroll of active employees covered by the plan) was \$4,619,654, and ratio of the UAAL to the covered payroll was 3.53%.

As of June 30, 2017, based on projected balances from the July 1, 2016 actuarial valuation, the School Board's portion of the plan was 21.25% funded. The actuarial accrued liability (AAL) for benefits was \$353,000, and the actuarial value of assets was \$75,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$278,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,774,518, and ratio of the UAAL to the covered payroll was 10.02%.

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, 2016, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.50% investment rate of return per annum and an inflation rate of 2.30%. An annual healthcare cost trend rate of 5.90% initially and then decreases gradually. The ultimate rate is 4.10% and is reached in 2075. The UAAL is being amortized as a level percentage of projected payroll over the remaining amortization period, which at June 30, 2016, was 30 years. Amortization period is closed.



**NOTE 20-Other Postemployment Benefits-Trust Fund - GASB 74:**

This disclosure applies to the OPEB Trust itself and includes specific OPEB disclosures required by GASB 74 not already included in Note 19.

**Plan Description**

Plan administration

The City of Lexington, Virginia administers the Lexington Post-Retirement Medical Plan (LPRMP), a single- employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all full-time employees of the City.

Management of the City of Lexington OPEB Trust is vested in the Local Finance Board which consists of four members: the chief financial officer of the City, the City Treasurer, one member appointed by the Lexington School Board, and a member appointed by City Council.

Plan membership

At June 30, 2017, LPRMP membership consisted of the following:

Retired plan members	10
Inactive plan members entitles to but not yet receiving benefit payments	144
	<u>154</u>

Benefits provided

LPRMP provides healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. Authority to establish and amend the benefit terms has been granted to the LPRMP Board.

Contributions

Authority to establish and amend the contribution requirements of the City and plan members has been granted to the LPRMP Board. The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 2017, the City's and School Board's combined average contribution rate was 0.91 percent of covered-employee payroll. Plan members are not required to contribute to the plan.

**NOTE 20-Other Postemployment Benefits-Trust Fund - GASB 74: (Continued)**

**Investments**

Investment policy

The City of Lexington’s OPEB Trust is invested in and administered by the Virginia Pooled OPEB Trust, which establishes the allocation of invested assets. The following was the asset allocation as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	40.0%
Internation Equity	20.0%
Fixed Income	20.0%
Diversified Hedge Funds	10.0%
Real Estate	10.0%
	<u>100.0%</u>

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 13.07 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net OPEB liability of the City**

The components of the net OPEB liability of the City at June 30, 2017, were as follows:

Total OPEB liability	\$ 474,000
Plan fiduciary net position	<u>(160,737)</u>
City's net OPEB liability	(A) <u>\$313,263</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 33.91%

(A) Note - The net OPEB liability is calculated for the plan at June 30, 2017 as required by GASB 74; however, it will not be included as a liability of the City or the component unit School Board until the fiscal year ending June 30, 2018 when the GASB 75 is implemented.

**NOTE 20-Other Postemployment Benefits-Trust Fund - GASB 74: (Continued)**

**Net OPEB liability of the City (Continued)**

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Salary Increases	2.50%
Investment rate of return	5.50%
Healthcare cost trend rates	5.90% for 2017, decreasing 0.10% per year to a rate of 5.70% for 2019 and later years

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2017 valuation were based on May 1, 2017 valuation data rolled forward to June 30, 2017. The methods, assumptions, and participant data used can be found in the July 1, 2016 actuarial valuation report.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of LPRMP's investment policy) are summarized in the following table:

Asset Class	Long Term Expected Rate of Real Geometric Return
Domestic Equity	4.0%
Internation Equity	4.4%
Fixed Income	1.0%
Diversified Hedge Funds	1.7%
Real Estate	2.9%

**NOTE 20-Other Postemployment Benefits-Trust Fund - GASB 74: (Continued)**

Discount rate

The discount rate used to measure the total OPEB liability was 5.5 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long term expected rate of return on assets has been decreased from 7.5% to 5.5%. The long term expected real rate of real expected rate of return by asset class was based on a survey of several investment firms. The rate was determined based on the following analysis:

<u>Asset Class</u>	<u>Current Allocation</u>	Long Term Expected Rate of Real Geometric Return	Weighted Average
Domestic Equity	40.0%	4.0%	1.6%
Internation Equity	20.0%	4.4%	0.9%
Fixed Income	20.0%	1.0%	0.2%
Diversified Hedge Funds	10.0%	1.7%	0.2%
Real Estate	10.0%	2.9%	0.3%
Total	100.0%		3.2%
Inflation Used for Health Care Trend Assumption			2.3%
Rate of Return			5.5%

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage- point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate:

	1% Decrease (4.50%)	Discount Rate (5.50%)	1% Increase (6.50%)
Net OPEB Liability (Asset)	\$ 337,263	\$ 313,263	\$ 289,263

**NOTE 20-Other Postemployment Benefits-Trust Fund - GASB 74: (Continued)**

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.9 percent decreasing to 4.7 percent) or 1-percentage-point higher (6.9 percent decreasing to 6.7 percent) than the current healthcare cost trend rates:

	Healthcare Costs		
	1% Decrease	Trend Rate	1% Increase
Net OPEB Liability (Asset)	\$ 279,263	\$ 313,263	\$ 352,263

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**Note 21-Fund Balance Classifications:**

Fund balance classifications for the primary government are as follows:

	General Fund	Capital Projects Fund	Permanent Fund
<b>Nonspendable:</b>			
Prepays	\$ 754	\$ -	\$ -
Corpus	-	-	180,562
<b>Total Nonspendable</b>	<b>\$ 754</b>	<b>\$ -</b>	<b>\$ 180,562</b>
<b>Restricted:</b>			
Perpetual cemetery care	\$ -	\$ -	\$ 1,628,592
<b>Committed:</b>			
Fire	\$ 91,748	\$ -	\$ -
Equipment replacement	828,378	-	-
Capital projects	-	2,317,171	-
<b>Total Committed</b>	<b>\$ 920,126</b>	<b>\$ 2,317,171</b>	<b>\$ -</b>
<b>Assigned:</b>			
Carryovers	\$ 342,177	\$ -	\$ -
<b>Unassigned</b>	<b>\$ 7,672,653</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Fund Balance</b>	<b>\$ 8,935,710</b>	<b>\$ 2,317,171</b>	<b>\$ 1,809,154</b>

Fund balance classifications for the component units are as follows:

	School Board	Industrial Development Authority
<b>Committed:</b>		
Special revenue funds	\$ 1,264,869	\$ 245,711
<b>Total Fund Balance</b>	<b>\$ 1,264,869</b>	<b>\$ 245,711</b>

**Note 22-Adoption of Accounting Principles:**

**Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2017. This Statement 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*. No restatement was required as a result of this implementation. All required disclosures are located in Note 20.

**Note 23-Upcoming Pronouncements:**

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. 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.

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust

**Note 23-Upcoming Pronouncements: (Continued)**

funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues*, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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



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## Required Supplementary Information

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City of Lexington, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 6,787,000	\$ 6,787,000	\$ 6,708,542	\$ (78,458)
Other local taxes	4,154,600	4,154,600	4,222,756	68,156
Permits, privilege fees, and regulatory licenses	36,000	36,000	129,414	93,414
Fines and forfeitures	66,200	66,200	63,826	(2,374)
Revenue from the use of money and property	85,150	85,150	158,973	73,823
Charges for services	1,065,180	1,065,180	1,048,271	(16,909)
Miscellaneous	2,400,000	2,403,600	2,499,350	95,750
Recovered costs	540,750	540,750	538,919	(1,831)
Intergovernmental:				
Commonwealth	2,306,740	2,969,558	2,320,460	(649,098)
Federal	3,000	163,780	145,114	(18,666)
Total revenues	<u>\$ 17,444,620</u>	<u>\$ 18,271,818</u>	<u>\$ 17,835,625</u>	<u>\$ (436,193)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,245,198	\$ 1,320,995	\$ 1,320,899	\$ 96
Judicial administration	325,772	334,104	333,424	680
Public safety	4,026,269	4,257,873	3,589,118	668,755
Public works	3,513,200	4,230,974	3,409,724	821,250
Health and welfare	715,191	726,216	711,236	14,980
Education	4,068,153	3,055,653	3,055,653	-
Parks, recreation, and cultural	537,321	555,572	551,183	4,389
Community development	776,471	1,202,567	1,059,235	143,332
Nondepartmental	56,720	89,720	371,152	(281,432)
Debt service:				
Principal retirement	1,264,531	1,264,531	1,264,531	-
Interest and other fiscal charges	902,305	902,305	875,386	26,919
Total expenditures	<u>\$ 17,431,131</u>	<u>\$ 17,940,510</u>	<u>\$ 16,541,541</u>	<u>\$ 1,398,969</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 13,489</u>	<u>\$ 331,308</u>	<u>\$ 1,294,084</u>	<u>\$ 962,776</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 120,000	\$ 120,000	\$ 178,000	\$ 58,000
Transfers out	(1,012,500)	(2,012,500)	(4,365,165)	(2,352,665)
Proceeds from sale of capital assets	-	325,395	325,395	-
Total other financing sources (uses)	<u>\$ (892,500)</u>	<u>\$ (1,567,105)</u>	<u>\$ (3,861,770)</u>	<u>\$ (2,294,665)</u>
Net change in fund balances	\$ (879,011)	\$ (1,235,797)	\$ (2,567,686)	\$ (1,331,889)
Fund balances - beginning	-	292,555	11,503,396	11,210,841
Fund balances - ending	<u>\$ (879,011)</u>	<u>\$ (943,242)</u>	<u>\$ 8,935,710</u>	<u>\$ 9,878,952</u>

**REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
JUNE 30, 2017**

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**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, 2017

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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%	\$ 7,394,172	9.59%
7/1/2015*	121,852	824,902	703,050	14.77%	7,703,876	9.13%
7/1/2014*	113,351	817,506	704,155	13.87%	7,796,310	9.03%

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

\*\* Information in the July 1, 2013 actuarial valuation was not segregated between the City and the School Board. For comparability, information in the July 1, 2016 actuarial valuation has been aggregated.

City of Lexington, Virginia  
 Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)  
 For the Year Ended June 30, 2017

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					
2016	84.0663%	\$ 4,361,811	\$ 4,274,314	102.05%	80.00%
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)					
2016	0.03438%	\$ 4,818,000	\$ 2,619,419	183.93%	68.28%
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 Changes in Net Pension Liability (Asset) and Related Ratios  
 Component Unit School Board (nonprofessional)  
 For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Interest	\$ 22,411	\$ 21,938	\$ 22,650
Differences between expected and actual experience	(1,766)	16,718	-
Benefit payments, including refunds of employee contributions	(31,460)	(32,349)	(33,291)
Net change in total pension liability	\$ (10,815)	\$ 6,307	\$ (10,641)
Total pension liability - beginning	335,881	329,574	340,215
Total pension liability - ending (a)	<u>\$ 325,066</u>	<u>\$ 335,881</u>	<u>\$ 329,574</u>
 Plan fiduciary net position			
Contributions - employee	\$ -	\$ 12,850	\$ -
Net investment income	7,854	22,550	70,087
Benefit payments, including refunds of employee contributions	(31,460)	(32,349)	(33,291)
Administrative expense	(325)	(326)	(402)
Other	(4)	(4)	4
Net change in plan fiduciary net position	\$ (23,935)	\$ 2,721	\$ 36,398
Plan fiduciary net position - beginning	499,421	496,700	460,302
Plan fiduciary net position - ending (b)	<u>\$ 475,486</u>	<u>\$ 499,421</u>	<u>\$ 496,700</u>
 School Division's net pension liability (asset) - ending (a) - (b)	\$ (150,420)	\$ (163,540)	\$ (167,126)
 Plan fiduciary net position as a percentage of the total pension liability	146.27%	148.69%	150.71%
 Covered payroll (1)	\$ -	\$ -	\$ -
 School Division's net pension liability as a percentage of covered payroll	100.00%	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 Years Ended June 30, 2008 through June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2017	\$ 451,906	\$ 451,906	\$ -	\$ 3,884,004	11.64%
2016	575,760	575,760	-	4,274,309	13.47%
2015	581,632	581,632	-	4,312,572	13.49%
<b>Component Unit School Board (nonprofessional) (a)</b>					
2011	\$ -	\$ -	\$ -	\$ 72,812	0.00%
2010	-	-	-	80,172	0.00%
2009	-	-	-	76,172	0.00%
2008	171	171	-	74,409	0.23%
<b>Component Unit School Board (professional)</b>					
2017	\$ 400,198	\$ 400,198	\$ -	\$ 2,774,517	14.42%
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%

(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.

Current year contributions are from City records and prior year contributions are from the VRS actuarial valuation performed each year.

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, 2017

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Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. 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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 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



Schedule of Changes in the City's Net OPEB Liability and Related Ratios  
Last Ten Fiscal Years

	<u>2016</u>
Total OPEB liability	
Service cost	\$ 20,000
Interest	26,000
Benefit payments	<u>(70,000)</u>
Net change in total OPEB liability	\$ <u>(24,000)</u>
Total OPEB liability - beginning	498,000
Total OPEB liability - ending (a)	<u><u>\$ 474,000</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 70,000
Net investment income	17,576
Benefit payments	<u>(70,000)</u>
Net change in plan fiduciary net position	\$ <u>17,576</u>
Plan fiduciary net position - beginning	143,161
Plan fiduciary net position - ending (b)	<u><u>\$ 160,737</u></u>
Political subdivision's net OPEB liability - ending (a) - (b)	\$ 313,263
Plan fiduciary net position as a percentage of the total OPEB liability	33.91%
Covered payroll	\$ 7,394,172
Political subdivision's net OPEB liability as a percentage of covered payroll	4.24%

This schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, only one year is available. Additional years will be included as they become available.

Schedule of Employer Contributions - OPEB  
Last Ten Fiscal Years

Date	Actuarially Determined Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
City:					
2017	\$ 12,000	\$ 13,000	\$ (1,000)	\$ 4,619,654	0.28%
School Board:					
2017	\$ 25,000	\$ 54,000	\$ (29,000)	\$ 2,774,518	1.95%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period	Closed, 30 years as of June 30, 2016
Asset valuation method	Market Value of Assets
Inflation	2.30 percent
Healthcare cost trend rates	Based on Society of Actuaries Long Term Medical Trend Model, as updated September 2016. The pre-65 medical trend was increased to reflect the impact of the Cadillac Tax mandated by the Affordable Care Act. The rate in 2017 is 5.90% and the rate decreases gradually. The rate in 2050 is 5.50% pre Medicare. The ultimate rate is 4.10% pre Medicare and is reached in 2075.
Salary increases	2.50 percent
Investment rate of return	5.50 percent
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 2017 actuarial valuation, assumed life expentancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

Schedule of Investment Returns - OPEB  
Last Ten Fiscal Years

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	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	\$ 13.07%

This schedule is intended to show information for 10 years. Since 2017 is the first year for this presentation, only one year is available. Additional years will be included as they become available.

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## Other Supplementary Information

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## **CAPITAL PROJECTS FUND**

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### **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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ 3,000	\$ 7,000	\$ 4,000
Intergovernmental:				
Commonwealth	6,500	6,500	84,395	77,895
Total revenues	\$ 6,500	\$ 9,500	\$ 91,395	\$ 81,895
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 95,000	\$ 501,500	\$ 65,711	\$ 435,789
Public safety	40,100	40,100	39,102	998
Public works	929,550	1,055,271	543,229	512,042
Education	40,000	2,234,188	1,702,893	531,295
Parks, recreation, and cultural	32,500	387,699	3,457	384,242
Total expenditures	\$ 1,137,150	\$ 4,218,758	\$ 2,354,392	\$ 1,864,366
Excess (deficiency) of revenues over (under) expenditures	\$ (1,130,650)	\$ (4,209,258)	\$ (2,262,997)	\$ 1,946,261
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,025,000	\$ 2,025,000	\$ 4,229,325	\$ 2,204,325
Total other financing sources (uses)	\$ 1,025,000	\$ 2,025,000	\$ 4,229,325	\$ 2,204,325
Net change in fund balances	\$ (105,650)	\$ (2,184,258)	\$ 1,966,328	\$ 4,150,586
Fund balances - beginning	105,650	225,650	350,843	125,193
Fund balances - ending	\$ -	\$ (1,958,608)	\$ 2,317,171	\$ 4,275,779

City of Lexington, Virginia  
Combining Statement of Fiduciary Net Position - Agency Funds  
June 30, 2017

	Agency Funds			Total
	Central Dispatch	RARO	Regional Tourism	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 298,029	\$ 121,363	\$ 275,045	\$ 694,437
Accounts receivable	9,144	27,493	3,302	39,939
Total assets	<u>\$ 307,173</u>	<u>\$ 148,856</u>	<u>\$ 278,347</u>	<u>\$ 734,376</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 50,115	\$ 13,209	\$ 5,420	\$ 68,744
Amount held for others - Central Dispatch	257,058	-	-	257,058
Amount held for others - RARO	-	135,647	-	135,647
Amount held for others - Regional Tourism	-	-	272,927	272,927
Total liabilities	<u>\$ 307,173</u>	<u>\$ 148,856</u>	<u>\$ 278,347</u>	<u>\$ 734,376</u>

City of Lexington, Virginia  
 Agency Funds  
 Statement of Changes in Assets and Liabilities  
 For the Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>ASSETS</b>				
Cash and cash equivalents	\$ 572,869	\$ 2,490,796	\$ 2,369,228	\$ 694,437
Accounts receivable	40,213	-	274	39,939
Total assets	<u>\$ 613,082</u>	<u>\$ 2,490,796</u>	<u>\$ 2,369,502</u>	<u>\$ 734,376</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 108,709	\$ -	\$ 39,965	\$ 68,744
Accrued payroll and benefits	34,482	-	34,482	-
Due to other governmental units	34,483	-	34,483	-
Amount held for others - Central Dispatch	114,759	142,299	-	257,058
Amount held for others - RARO	77,981	57,666	-	135,647
Amount held for others - Regional Tourism	242,668	30,259	-	272,927
Total liabilities	<u>\$ 613,082</u>	<u>\$ 230,224</u>	<u>\$ 108,930</u>	<u>\$ 734,376</u>



**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD**

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**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, 2017

		School Operating Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$	255,574
Investments		1,500,000
Due from other governmental units		145,278
Total assets		\$ 1,900,852
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$	92,667
Payroll liabilities		86,022
Contracts payable		422,844
Unearned revenue		34,450
Total liabilities		\$ 635,983
Fund balances:		
Committed		\$ 1,264,869
Total fund balances		\$ 1,264,869
Total liabilities and fund balances		\$ 1,900,852
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above	\$	1,264,869
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	359,494
Buildings		313,367
Machinery and equipment		194,856
		867,717
The net OPEB asset is not an available resource and, therefore, is not reported in the funds.		
		89,501
The net pension asset is not an available resource and, therefore, is not reported in the funds.		
		150,420
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Deferred inflows related to measurement of net pension liability/asset		(264,000)
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.		
		400,198
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	\$	(90,868)
Net pension liability		(4,818,000)
Deferred outflows related to measurement of net pension liability/asset		287,091
		(4,621,777)
Net position of governmental activities		\$ (2,113,072)

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, 2017

		School Operating Fund
<b>REVENUES</b>		
Revenue from the use of money and property	\$	6,028
Charges for services		193,873
Recovered costs		11,218
Intergovernmental:		
Local government		3,055,653
Commonwealth		3,271,744
Federal		324,691
Total revenues	<u>\$</u>	<u>6,863,207</u>
<b>EXPENDITURES</b>		
Current:		
Education	\$	6,695,174
Total expenditures	<u>\$</u>	<u>6,695,174</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$</u>	<u>168,033</u>
Net change in fund balances	\$	168,033
Fund balances - beginning		1,096,836
Fund balances - ending	<u>\$</u>	<u>1,264,869</u>
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	\$	168,033
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays	\$	553,962
Depreciation expense	<u>(73,186)</u>	480,776
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		(882,714)
OPEB costs are recognized as expenditures in the fund statements, but are deferred in the government-wide statements.		29,000
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		171,207
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	\$	(15,903)
Change in net pension liability		(446,000)
Change in net pension asset		(13,120)
Change in deferred outflows related to the measurement of the net pension liability/asset		287,091
Change in deferred outflows related to pension payments subsequent to the measurement date	<u>34,460</u>	(153,472)
Change in net position of governmental activities	<u>\$</u>	<u>(187,170)</u>

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, 2017

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 4,600	\$ 4,600	\$ 6,028	\$ 1,428
Charges for services	240,000	240,000	193,873	(46,127)
Miscellaneous	1,000	1,000	-	(1,000)
Recovered costs	10,000	10,000	11,218	1,218
Intergovernmental:				
Local government	3,055,653	3,055,653	3,055,653	-
Commonwealth	3,203,278	3,203,278	3,271,744	68,466
Federal	243,000	317,974	324,691	6,717
Total revenues	<u>\$ 6,757,531</u>	<u>\$ 6,832,505</u>	<u>\$ 6,863,207</u>	<u>\$ 30,702</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 6,757,531	\$ 6,827,505	\$ 6,695,174	\$ 132,331
Total expenditures	<u>\$ 6,757,531</u>	<u>\$ 6,827,505</u>	<u>\$ 6,695,174</u>	<u>\$ 132,331</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 168,033</u>	<u>\$ 163,033</u>
Net change in fund balances	\$ -	\$ 5,000	\$ 168,033	\$ 163,033
Fund balances - beginning	-	-	1,096,836	1,096,836
Fund balances - ending	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 1,264,869</u>	<u>\$ 1,259,869</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, 2017

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	<u>Industrial Development Authority</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 47,177
Investments	251,425
Total assets	<u>\$ 298,602</u>
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 52,891
Total liabilities	<u>\$ 52,891</u>
 Fund balances:	
Committed	\$ 245,711
Total fund balances	<u>\$ 245,711</u>
Total liabilities and fund balances	<u>\$ 298,602</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, 2017

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	<u>Industrial Development Authority</u>
<b>REVENUES</b>	
Miscellaneous	\$ 35,082
Intergovernmental:	
Local government	202,256
Total revenues	<u>\$ 237,338</u>
 <b>EXPENDITURES</b>	
Current:	
Parks, recreation, and cultural	\$ 202,257
Community development	78,502
Total expenditures	<u>\$ 280,759</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>\$ (43,421)</u>
 Net change in fund balances	 \$ (43,421)
Fund balances - beginning	289,132
Fund balances - ending	<u><u>\$ 245,711</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, 2017

	Industrial Development Authority			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ -	\$ 35,082	\$ 35,082
Intergovernmental:				
Local government	-	-	202,256	202,256
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,338</u>	<u>\$ 237,338</u>
<b>EXPENDITURES</b>				
Current:				
Parks, recreation, and cultural	\$ -	\$ -	\$ 202,257	\$ (202,257)
Community development	-	-	78,502	(78,502)
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,759</u>	<u>\$ (280,759)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (43,421)</u>	<u>\$ (43,421)</u>
Net change in fund balances	\$ -	\$ -	\$ (43,421)	\$ (43,421)
Fund balances - beginning	-	-	289,132	289,132
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,711</u>	<u>\$ 245,711</u>



## Supporting Schedules

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Primary Government:</b>				
<b>General Fund:</b>				
<b>Revenue from local sources:</b>				
General property taxes:				
Real property taxes	\$ 5,795,000	\$ 5,795,000	\$ 5,615,834	\$ (179,166)
Real and personal public service corporation taxes	208,000	208,000	208,181	181
Personal property taxes	722,000	722,000	816,869	94,869
Penalties	40,000	40,000	41,009	1,009
Interest	22,000	22,000	26,649	4,649
Total general property taxes	<u>\$ 6,787,000</u>	<u>\$ 6,787,000</u>	<u>\$ 6,708,542</u>	<u>\$ (78,458)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,110,000	\$ 1,110,000	\$ 1,014,689	\$ (95,311)
Consumers' utility taxes	290,000	290,000	308,358	18,358
Consumption taxes	26,000	26,000	25,562	(438)
Business license taxes	620,000	620,000	697,889	77,889
Franchise license taxes	-	-	1,000	1,000
Bank stock taxes	125,000	125,000	120,778	(4,222)
Taxes on recordation and wills	43,600	43,600	57,619	14,019
Hotel and motel room taxes	485,000	485,000	534,588	49,588
Restaurant food taxes	1,455,000	1,455,000	1,462,273	7,273
Total other local taxes	<u>\$ 4,154,600</u>	<u>\$ 4,154,600</u>	<u>\$ 4,222,756</u>	<u>\$ 68,156</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 5,500	\$ 5,500	\$ 6,349	\$ 849
Building permits	25,000	25,000	114,735	89,735
Excavation permits	1,000	1,000	2,250	1,250
Permits and other licenses	4,500	4,500	6,080	1,580
Total permits, privilege fees, and regulatory licenses	<u>\$ 36,000</u>	<u>\$ 36,000</u>	<u>\$ 129,414</u>	<u>\$ 93,414</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 29,000	\$ 29,000	\$ 37,481	\$ 8,481
Parking fines	31,000	31,000	15,817	(15,183)
Courthouse fees	6,200	6,200	10,528	4,328
Total fines and forfeitures	<u>\$ 66,200</u>	<u>\$ 66,200</u>	<u>\$ 63,826</u>	<u>\$ (2,374)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 48,150	\$ 48,150	\$ 123,377	\$ 75,227
Revenue from use of property	37,000	37,000	35,596	(1,404)
Total revenue from use of money and property	<u>\$ 85,150</u>	<u>\$ 85,150</u>	<u>\$ 158,973</u>	<u>\$ 73,823</u>
Charges for services:				
Charges for finance	\$ 73,260	\$ 73,260	\$ 69,976	\$ (3,284)
Charges for public safety	17,970	17,970	10,325	(7,645)
Charges for youth services	9,000	9,000	11,442	2,442
Charges for public works	35,850	35,850	23,985	(11,865)
Charges for grave openings	41,200	41,200	50,210	9,010
Charges for rescue services	350,000	350,000	348,785	(1,215)
Charges for burial spaces	24,500	24,500	26,850	2,350
Charges for recreation	62,000	62,000	70,520	8,520

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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	\$ 160,000	\$ 160,000	\$ 156,892	\$ (3,108)
Charges for landfill fees	279,500	279,500	256,216	(23,284)
Charges for community activity support	8,500	8,500	7,750	(750)
Charges for farmer's market	3,400	3,400	15,246	11,846
Charges for other services	-	-	74	74
Total charges for services	\$ 1,065,180	\$ 1,065,180	\$ 1,048,271	\$ (16,909)
Miscellaneous:				
Miscellaneous	\$ 625,000	\$ 628,600	\$ 701,365	\$ 72,765
County revenue sharing	1,775,000	1,775,000	1,797,985	22,985
Total miscellaneous	\$ 2,400,000	\$ 2,403,600	\$ 2,499,350	\$ 95,750
Recovered costs:				
Joint services fire and rescue	\$ 406,000	\$ 406,000	\$ 419,931	\$ 13,931
Joint services jail	128,350	128,350	107,728	(20,622)
Parking Garage	1,400	1,400	1,284	(116)
Insurance	5,000	5,000	9,976	4,976
Total recovered costs	\$ 540,750	\$ 540,750	\$ 538,919	\$ (1,831)
Total revenue from local sources	\$ 15,134,880	\$ 15,138,480	\$ 15,370,051	\$ 231,571
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 250	\$ 250	\$ 69	\$ (181)
Mobile home titling tax	75	75	150	75
Motor vehicle rental tax	2,500	2,500	1,763	(737)
State recordation tax	15,000	15,000	15,616	616
Communications tax	302,000	302,000	302,927	927
Personal property tax relief funds	581,419	581,419	581,419	-
Other noncategorical aid	650	650	605	(45)
Total noncategorical aid	\$ 901,894	\$ 901,894	\$ 902,549	\$ 655
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 191,280	\$ 191,280	\$ 197,440	\$ 6,160
Commissioner of revenue	77,100	77,100	75,704	(1,396)
Treasurer	60,700	60,700	59,075	(1,625)
Registrar/electoral board	27,000	33,869	31,259	(2,610)
Total shared expenses	\$ 356,080	\$ 362,949	\$ 363,478	\$ 529

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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	\$ 694,000	\$ 1,341,183	\$ 704,852	\$ (636,331)
Welfare payments	11,226	11,226	10,097	(1,129)
Comprehensive services	220,490	220,490	198,324	(22,166)
VJCCCA grant	72,050	72,050	72,054	4
Fire program grant	22,300	31,066	30,031	(1,035)
Four for life	3,700	3,700	3,909	209
Forfeited asset sharing	-	-	3,653	3,653
Arts grant	4,500	4,500	4,500	-
DOF grant	3,000	3,000	3,675	675
DMV grant	10,000	10,000	15,838	5,838
Emergency management grant	7,500	7,500	7,500	-
Total other categorical aid	<u>\$ 1,048,766</u>	<u>\$ 1,704,715</u>	<u>\$ 1,054,433</u>	<u>\$ (650,282)</u>
Total categorical aid	<u>\$ 1,404,846</u>	<u>\$ 2,067,664</u>	<u>\$ 1,417,911</u>	<u>\$ (649,753)</u>
Total revenue from the Commonwealth	<u>\$ 2,306,740</u>	<u>\$ 2,969,558</u>	<u>\$ 2,320,460</u>	<u>\$ (649,098)</u>
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ 2,000	\$ 2,000	\$ 4,838	\$ 2,838
Department of justice grants	1,000	1,000	1,298	298
FEMA grant	-	160,780	138,978	(21,802)
Total categorical aid	<u>\$ 3,000</u>	<u>\$ 163,780</u>	<u>\$ 145,114</u>	<u>\$ (18,666)</u>
Total revenue from the federal government	<u>\$ 3,000</u>	<u>\$ 163,780</u>	<u>\$ 145,114</u>	<u>\$ (18,666)</u>
Total General Fund	<u>\$ 17,444,620</u>	<u>\$ 18,271,818</u>	<u>\$ 17,835,625</u>	<u>\$ (436,193)</u>
Capital Projects Fund:				
Revenue from local sources:				
Miscellaneous:				
Miscellaneous	\$ -	\$ 3,000	\$ 7,000	\$ 4,000
Total revenue from local sources	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 7,000</u>	<u>\$ 4,000</u>

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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	\$ 6,500	\$ 6,500	\$ 84,395	\$ 77,895
Total Capital Projects Fund	<u>\$ 6,500</u>	<u>\$ 9,500</u>	<u>\$ 91,395</u>	<u>\$ 81,895</u>
Permanent Fund				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 122,606	\$ 122,606
Total Primary Government	<u>\$ 17,451,120</u>	<u>\$ 18,281,318</u>	<u>\$ 18,049,626</u>	<u>\$ (231,692)</u>
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	\$ 2,428	\$ 2,128
Revenue from the use of property	4,300	4,300	3,600	(700)
Total revenue from use of money and property	<u>\$ 4,600</u>	<u>\$ 4,600</u>	<u>\$ 6,028</u>	<u>\$ 1,428</u>
Charges for services:				
Cafeteria sales	\$ 60,000	\$ 60,000	\$ 43,928	\$ (16,072)
Tuition and payments from other divisions	180,000	180,000	149,945	(30,055)
Total charges for services	<u>\$ 240,000</u>	<u>\$ 240,000</u>	<u>\$ 193,873</u>	<u>\$ (46,127)</u>
Miscellaneous:				
Other miscellaneous	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Recovered costs:				
Other recovered costs	\$ 10,000	\$ 10,000	\$ 11,218	\$ 1,218
Total revenue from local sources	<u>\$ 255,600</u>	<u>\$ 255,600</u>	<u>\$ 211,119</u>	<u>\$ (44,481)</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	<u>\$ 3,055,653</u>	<u>\$ 3,055,653</u>	<u>\$ 3,055,653</u>	<u>\$ -</u>
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 651,413	\$ 651,413	\$ 634,936	\$ (16,477)
Basic school aid	1,747,254	1,747,254	1,824,424	77,170
Gifted and talented	18,165	18,165	18,755	590
Remedial education	34,398	34,398	35,515	1,117
Special education	166,191	166,191	171,588	5,397
Textbook payment	42,429	42,429	6,991	(35,438)
Vocational standards of quality payments	27,441	27,441	28,332	891

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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	\$ 105,512	\$ 105,512	\$ 108,938	\$ 3,426
Retirement fringe benefits	217,594	217,594	224,661	7,067
Group life insurance instructional	6,570	6,570	7,582	1,012
State lottery payments	-	-	52,467	52,467
Early reading intervention	5,824	5,824	11,649	5,825
Homebound education	70	70	54	(16)
At risk payments	21,421	21,421	12,482	(8,939)
Mentor teacher program	678	678	5,533	4,855
National Board Certified	2,500	2,500	2,500	-
Technology	102,000	102,000	102,000	-
School food	1,231	1,231	1,427	196
English as a second language	13,838	13,838	11,921	(1,917)
Other state funds	38,749	38,749	9,989	(28,760)
Total categorical aid	<u>\$ 3,203,278</u>	<u>\$ 3,203,278</u>	<u>\$ 3,271,744</u>	<u>\$ 68,466</u>
Total revenue from the Commonwealth	<u>\$ 3,203,278</u>	<u>\$ 3,203,278</u>	<u>\$ 3,271,744</u>	<u>\$ 68,466</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 46,105	\$ 80,270	\$ 77,631	\$ (2,639)
Title VI-B - Special education, grants to states	15,000	15,000	14,219	(781)
Title VI-B - Silver grant	143,124	143,124	140,472	(2,652)
National School lunch program	38,771	38,771	68,404	29,633
Title II, part D	-	37,370	21,560	(15,810)
Title III	-	3,439	2,405	(1,034)
Total categorical aid	<u>\$ 243,000</u>	<u>\$ 317,974</u>	<u>\$ 324,691</u>	<u>\$ 6,717</u>
Total revenue from the federal government	<u>\$ 243,000</u>	<u>\$ 317,974</u>	<u>\$ 324,691</u>	<u>\$ 6,717</u>
Total School Operating Fund	<u>\$ 6,757,531</u>	<u>\$ 6,832,505</u>	<u>\$ 6,863,207</u>	<u>\$ 30,702</u>
Industrial Development Authority:				
Revenue from local sources:				
Miscellaneous:				
Other miscellaneous	\$ -	\$ -	\$ 35,082	\$ 35,082
Total revenue from local sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,082</u>	<u>\$ 35,082</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ -	\$ -	\$ 202,256	\$ 202,256
Total Industrial Development Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,338</u>	<u>\$ 237,338</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Primary Government:</b>				
<b>General Fund:</b>				
<b>General government administration:</b>				
<b>Legislative:</b>				
City council	\$ 47,444	\$ 58,444	\$ 61,376	\$ (2,932)
<b>General and financial administration:</b>				
City manager	\$ 202,357	\$ 202,357	\$ 206,750	\$ (4,393)
Director of finance	241,113	237,613	232,810	4,803
City attorney	97,410	97,410	98,083	(673)
Commissioner of revenue	246,461	246,461	244,398	2,063
Assessment board	2,500	2,500	2,643	(143)
Treasurer	129,815	129,815	125,033	4,782
Human Resources	75,129	75,129	73,573	1,556
Information technology	146,830	146,830	141,476	5,354
Total general and financial administration	<u>\$ 1,141,615</u>	<u>\$ 1,138,115</u>	<u>\$ 1,124,766</u>	<u>\$ 13,349</u>
<b>Board of elections:</b>				
Electoral board and officials	\$ 56,139	\$ 124,436	\$ 134,757	\$ (10,321)
Total general government administration	<u>\$ 1,245,198</u>	<u>\$ 1,320,995</u>	<u>\$ 1,320,899</u>	<u>\$ 96</u>
<b>Judicial administration:</b>				
<b>Courts:</b>				
Judicial services	\$ 245,580	\$ 253,912	\$ 253,912	\$ -
VJCCA services	80,192	80,192	79,512	680
Total judicial administration	<u>\$ 325,772</u>	<u>\$ 334,104</u>	<u>\$ 333,424</u>	<u>\$ 680</u>
<b>Public safety:</b>				
<b>Law enforcement and traffic control:</b>				
Police department	\$ 1,713,678	\$ 1,724,592	\$ 1,554,908	\$ 169,684
Contributions to Central Dispatch	430,000	529,375	339,584	189,791
Total law enforcement and traffic control	<u>\$ 2,143,678</u>	<u>\$ 2,253,967</u>	<u>\$ 1,894,492</u>	<u>\$ 359,475</u>
<b>Fire and rescue services:</b>				
Fire department	\$ 1,675,170	\$ 1,796,485	\$ 1,502,828	\$ 293,657
Fire department - reserve activity	11,000	11,000	25,702	(14,702)
Total fire and rescue services	<u>\$ 1,686,170</u>	<u>\$ 1,807,485</u>	<u>\$ 1,528,530</u>	<u>\$ 278,955</u>
<b>Correction and detention:</b>				
Juvenile probation and detention	\$ 106,312	\$ 106,312	\$ 96,070	\$ 10,242
Special services	90,109	90,109	70,026	20,083
Total correction and detention	<u>\$ 196,421</u>	<u>\$ 196,421</u>	<u>\$ 166,096</u>	<u>\$ 30,325</u>
Total public safety	<u>\$ 4,026,269</u>	<u>\$ 4,257,873</u>	<u>\$ 3,589,118</u>	<u>\$ 668,755</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
<b>Public works:</b>				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 393,626	\$ 523,180	\$ 414,575	\$ 108,605
Public works labor pool	313,346	313,346	228,722	84,624
Equipment operations	272,108	275,708	305,317	(29,609)
Pavement Maintenance	260,341	840,582	396,089	444,493
Drainage Maintenance	47,799	47,799	-	47,799
Snow Removal	77,667	83,667	66,918	16,749
Traffic	254,164	254,164	271,974	(17,810)
Parking Garage	17,969	13,269	12,966	303
Community activity support	69,483	69,483	50,382	19,101
Right of way improvements	5,000	5,000	6,756	(1,756)
Public works administration	248,203	248,203	256,235	(8,032)
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 1,959,706</u>	<u>\$ 2,674,401</u>	<u>\$ 2,009,934</u>	<u>\$ 664,467</u>
Sanitation and waste removal:				
Solid waste management	\$ 1,057,433	\$ 1,030,167	\$ 830,660	\$ 199,507
Maintenance of general buildings and grounds:				
General properties	\$ 108,923	\$ 108,923	\$ 163,202	\$ (54,279)
Park maintenance	194,422	194,422	194,172	250
Cemeteries maintenance	127,717	127,717	126,931	786
Dam maintenance	25,928	56,323	48,844	7,479
City Arborist	39,071	39,021	35,981	3,040
Total maintenance of general buildings and grounds	<u>\$ 496,061</u>	<u>\$ 526,406</u>	<u>\$ 569,130</u>	<u>\$ (42,724)</u>
Total public works	<u>\$ 3,513,200</u>	<u>\$ 4,230,974</u>	<u>\$ 3,409,724</u>	<u>\$ 821,250</u>
Health and welfare:				
Health:				
Health and welfare	\$ 637,334	\$ 644,834	\$ 631,444	\$ 13,390
Youth services administration	77,857	81,382	79,792	1,590
Total health and welfare	<u>\$ 715,191</u>	<u>\$ 726,216</u>	<u>\$ 711,236</u>	<u>\$ 14,980</u>
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	\$ 4,068,153	\$ 3,055,653	\$ 3,055,653	-
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 410,925	\$ 427,556	\$ 220,911	\$ 206,645
Municipal swimming pool	126,396	128,016	128,016	-
Contribution to IDA - component unit	-	-	202,256	(202,256)
Total parks, recreation, and cultural	<u>\$ 537,321</u>	<u>\$ 555,572</u>	<u>\$ 551,183</u>	<u>\$ 4,389</u>



City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
<b>Community development:</b>				
<b>Planning and community development:</b>				
Planning and development	\$ 389,894	\$ 430,179	\$ 397,080	\$ 33,099
Housing program	3,950	379,345	276,326	103,019
Community development contributions	382,627	393,043	385,829	7,214
<b>Total community development</b>	<b>\$ 776,471</b>	<b>\$ 1,202,567</b>	<b>\$ 1,059,235</b>	<b>\$ 143,332</b>
<b>Nondepartmental:</b>				
Nondepartmental	\$ 56,720	\$ 89,720	\$ 371,152	\$ (281,432)
<b>Debt service:</b>				
Principal retirement	\$ 1,264,531	\$ 1,264,531	\$ 1,264,531	\$ -
Interest and other fiscal charges	902,305	902,305	875,386	26,919
<b>Total debt service</b>	<b>\$ 2,166,836</b>	<b>\$ 2,166,836</b>	<b>\$ 2,139,917</b>	<b>\$ 26,919</b>
<b>Total General Fund</b>	<b>\$ 17,431,131</b>	<b>\$ 17,940,510</b>	<b>\$ 16,541,541</b>	<b>\$ 1,398,969</b>
<b>Capital Projects Fund:</b>				
<b>General government administration:</b>				
<b>General and financial administration:</b>				
City hall improvements	\$ 35,000	\$ 441,500	\$ 5,411	\$ 436,089
Computer software	60,000	60,000	60,300	(300)
<b>Total general government administration</b>	<b>\$ 95,000</b>	<b>\$ 501,500</b>	<b>\$ 65,711</b>	<b>\$ 435,789</b>
<b>Public safety:</b>				
<b>Fire and rescue services:</b>				
Police firing range	\$ 12,500	\$ 12,500	\$ 12,182	\$ 318
Fire department equipment	27,600	27,600	26,920	680
<b>Total public safety</b>	<b>\$ 40,100</b>	<b>\$ 40,100</b>	<b>\$ 39,102</b>	<b>\$ 998</b>
<b>Public works:</b>				
<b>Maintenance of highways, streets, bridges and sidewalks:</b>				
Nelson street drainage project	\$ 293,600	\$ 413,600	\$ 412,622	\$ 978
Moore street drainage improvement	94,550	91,245	20,308	70,937
Taylor street reconstruction	13,000	13,000	3,200	9,800
Miscellaneous storm drainage projects	-	75,098	33,876	41,222
Downtown improvement	25,000	40,323	33,749	6,574
Bridge repairs	20,000	-	-	-
Public works complex	25,000	12,360	-	12,360
Enfield drainage project	371,400	371,400	-	371,400
Sidewalks	20,000	38,245	39,474	(1,229)
Maintenance of parking areas	67,000	-	-	-
<b>Total public works</b>	<b>\$ 929,550</b>	<b>\$ 1,055,271</b>	<b>\$ 543,229</b>	<b>\$ 512,042</b>
<b>Education:</b>				
<b>Capital projects:</b>				
WES-Replace	\$ -	\$ 2,194,188	\$ 1,688,726	\$ 505,462
High school capital projects	30,000	30,000	-	\$ 30,000
Downing building improvement	10,000	10,000	14,167	(4,167)
<b>Total education</b>	<b>\$ 40,000</b>	<b>\$ 2,234,188</b>	<b>\$ 1,702,893</b>	<b>\$ 531,295</b>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Fund, Function, Activity and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Fund: (Continued)</b>				
<b>Parks, recreation, and cultural:</b>				
Parks and recreation:				
Jordan's point park trail connection	\$ -	\$ 374,399	\$ -	\$ 374,399
Brewbaker field	-	2,800	2,800	-
Skateboard park	-	3,000	657	2,343
Stonewall Jackson Center	25,000	-	-	-
Parks and playgrounds	7,500	7,500	-	7,500
Total parks and recreation	<u>\$ 32,500</u>	<u>\$ 387,699</u>	<u>\$ 3,457</u>	<u>\$ 384,242</u>
Total Capital Projects Fund	<u>\$ 1,137,150</u>	<u>\$ 4,218,758</u>	<u>\$ 2,354,392</u>	<u>\$ 1,864,366</u>
<b>Permanent Fund:</b>				
<b>Parks, recreation, and cultural:</b>				
Parks and recreation:				
Cemetery	\$ -	\$ -	\$ 26,529	\$ (26,529)
Total Primary Government	<u>\$ 18,568,281</u>	<u>\$ 22,159,268</u>	<u>\$ 18,922,462</u>	<u>\$ 3,236,806</u>
<b>Discretely Presented Component Units:</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Administration, attendance, and health	\$ 67,099	\$ 67,099	\$ 65,186	\$ 1,913
Instruction costs:				
Classroom instruction	\$ 5,950,643	\$ 6,020,617	\$ 5,800,072	\$ 220,545
School food services:				
Administration of school food program	\$ 196,223	\$ 196,223	\$ 191,830	\$ 4,393
Operating costs:				
Operation and maintenance of school plant	\$ 543,566	\$ 543,566	\$ 638,086	\$ (94,520)
Total education	<u>\$ 6,757,531</u>	<u>\$ 6,827,505</u>	<u>\$ 6,695,174</u>	<u>\$ 132,331</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 6,757,531</u>	<u>\$ 6,827,505</u>	<u>\$ 6,695,174</u>	<u>\$ 132,331</u>
<b>Industrial Development Authority:</b>				
<b>Parks, recreation, and cultural:</b>				
Leisure services contributions	\$ -	\$ -	\$ 202,257	\$ (202,257)
<b>Community development:</b>				
Economic development	\$ -	\$ -	\$ 78,502	\$ (78,502)
Total Industrial Development Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,759</u>	<u>\$ (280,759)</u>

## STATISTICAL SECTION

Table 1

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 11,611	\$ 6,086	\$ 7,378	\$ 6,955	\$ 7,401	\$ 7,464	\$ 9,090	\$ 10,004	\$ 11,283	\$ 12,687
Restricted	1,434	1,269	1,314	1,479	1,403	1,576	1,729	1,724	1,700	1,809
Unrestricted	4,219	7,682	9,977	9,721	8,880	10,038	8,804	7,099	8,656	8,062
Total governmental activities net position	\$ 17,264	\$ 15,037	\$ 18,669	\$ 18,155	\$ 17,684	\$ 19,078	\$ 19,623	\$ 18,827	\$ 21,639	\$ 22,558
Business-type activities										
Net investment in capital assets	\$ 1,812	\$ 1,864	\$ 1,921	\$ 2,036	\$ 2,769	\$ 2,660	\$ 2,869	\$ 3,207	\$ 3,283	\$ 3,092
Unrestricted	561	627	834	1,204	2,066	2,419	2,700	1,817	2,626	3,284
Total business-type activities	\$ 2,373	\$ 2,491	\$ 2,755	\$ 3,240	\$ 4,835	\$ 5,079	\$ 5,569	\$ 5,024	\$ 5,909	\$ 6,376
Primary Government										
Net investment in capital assets	\$ 13,423	\$ 7,950	\$ 9,299	\$ 8,991	\$ 10,170	\$ 10,124	\$ 11,959	\$ 13,211	\$ 14,566	\$ 15,779
Restricted for perpetual care	1,434	1,269	1,314	1,479	1,403	1,576	1,729	1,724	1,700	1,809
Unrestricted	4,780	8,309	10,811	10,925	10,946	12,457	11,504	8,916	11,282	11,346
Total primary government net position	\$ 19,637	\$ 17,528	\$ 21,424	\$ 21,395	\$ 22,519	\$ 24,157	\$ 25,192	\$ 23,851	\$ 27,548	\$ 28,934

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government administration	\$ 1,299	\$ 1,252	\$ 1,292	\$ 1,222	\$ 1,394	\$ 1,203	\$ 2,155	\$ 1,250	\$ 1,124	\$ 1,394
Judicial administration	3,252	2,813	258	264	254	285	299	310	353	334
Public Safety	2,425	2,684	2,586	2,569	2,739	2,945	3,491	3,211	3,141	3,483
Public Works	3,005	3,063	2,971	3,046	2,564	3,210	3,566	3,515	3,153	3,807
Health and welfare	628	565	652	751	736	680	816	667	510	713
Education	2,187	2,553	1,874	3,008	2,559	2,873	2,369	3,191	3,230	4,452
Parks, recreation and cultural	672	871	600	530	589	572	745	645	725	694
Community development	759	706	716	1,196	1,108	782	718	726	713	1,059
Non-departmental	-	10	-	-	-	-	-	-	-	-
Interest on long-term debt	615	584	562	602	563	734	597	870	889	865
Total governmental activities expenses	\$ 14,842	\$ 15,101	\$ 11,511	\$ 13,188	\$ 12,506	\$ 13,284	\$ 14,756	\$ 14,385	\$ 13,838	\$ 16,801
Business-type activities:										
Utility fund	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254	\$ 5,252	\$ 5,333	\$ 5,280	\$ 5,443	\$ 4,153
Total business-type activities	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254	\$ 5,252	\$ 5,333	\$ 5,280	\$ 5,443	\$ 4,153
Total primary government expenses	\$ 19,320	\$ 19,598	\$ 16,021	\$ 17,912	\$ 17,760	\$ 18,536	\$ 20,089	\$ 19,665	\$ 19,281	\$ 20,954

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government administration	\$ 52	\$ 57	\$ 68	\$ 58	\$ 61	\$ 65	\$ 66	\$ 71	\$ 71	\$ 70
Judicial administration	106	124	95	104	103	108	86	82	58	64
Public Safety	386	410	465	415	462	730	606	498	412	489
Public Works	349	365	384	370	429	384	400	519	583	514
Health and welfare	3	5	4	4	8	8	8	9	11	11
Parks, recreation and cultural	93	88	97	98	88	81	76	80	83	94
Community development	2	2	-	-	-	-	-	-	-	-
Operating grants and contributions	1,327	1,188	1,327	1,256	1,003	1,608	1,732	1,490	1,158	1,647
Capital grants and contributions	100	61	120	126	9	93	13	150	26	-
<b>Total governmental activities program revenues</b>	<b>\$ 2,418</b>	<b>\$ 2,300</b>	<b>\$ 2,560</b>	<b>\$ 2,431</b>	<b>\$ 2,163</b>	<b>\$ 3,077</b>	<b>\$ 2,987</b>	<b>\$ 2,899</b>	<b>\$ 2,402</b>	<b>\$ 2,889</b>
Business-type activities:										
Charges for services:										
Utility fund	\$ 4,669	\$ 4,615	\$ 4,733	\$ 5,209	\$ 5,649	\$ 5,605	\$ 5,611	\$ 5,790	\$ 6,376	\$ 4,571
Capital grants and contributions	-	-	40	-	-	10	-	-	130	94
<b>Total business-type activities program revenues</b>	<b>\$ 4,669</b>	<b>\$ 4,615</b>	<b>\$ 4,773</b>	<b>\$ 5,209</b>	<b>\$ 5,649</b>	<b>\$ 5,615</b>	<b>\$ 5,611</b>	<b>\$ 5,790</b>	<b>\$ 6,506</b>	<b>\$ 4,665</b>
<b>Total primary government program revenues</b>	<b>\$ 7,087</b>	<b>\$ 6,915</b>	<b>\$ 7,333</b>	<b>\$ 7,640</b>	<b>\$ 7,812</b>	<b>\$ 8,692</b>	<b>\$ 8,598</b>	<b>\$ 8,689</b>	<b>\$ 8,908</b>	<b>\$ 7,554</b>
<b>Net (expense)/revenue:</b>										
Governmental activities	\$ (12,424)	\$ (12,801)	\$ (8,951)	\$ (10,757)	\$ (10,343)	\$ (10,207)	\$ (11,769)	\$ (11,486)	\$ (11,436)	\$ (13,912)
Business-type activities	191	118	263	485	395	363	278	510	1,063	512
<b>Total primary government net expense</b>	<b>\$ (12,233)</b>	<b>\$ (12,683)</b>	<b>\$ (8,688)</b>	<b>\$ (10,272)</b>	<b>\$ (9,948)</b>	<b>\$ (9,844)</b>	<b>\$ (11,491)</b>	<b>\$ (10,976)</b>	<b>\$ (10,373)</b>	<b>\$ (13,400)</b>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes:										
Property taxes	\$ 4,141	\$ 4,337	\$ 4,607	\$ 4,309	\$ 4,770	\$ 5,384	\$ 5,372	\$ 6,434	\$ 6,621	\$ 6,754
Local sales and use taxes	795	791	773	786	818	852	860	1,009	1,041	1,015
Taxes on recordation and wills	61	47	49	50	44	60	47	30	54	58
Motor vehicle licenses taxes	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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Revenues and Other Changes in Net Position (Continued)</b>										
Governmental activities: (Continued)										
Taxes: (Continued)										
Consumer utility taxes	\$ 310	\$ 312	\$ 312	\$ 313	\$ 305	\$ 309	\$ 313	\$ 315	\$ 310	\$ 308
Business licenses taxes	608	603	534	513	548	631	603	640	717	698
Restaurant food taxes	597	634	620	645	709	890	927	1,074	1,461	1,461
Hotel and motel room taxes	207	204	205	217	233	246	254	382	491	535
Communications taxes	369	335	337	-	-	-	-	-	-	-
Other local taxes	66	72	141	164	134	133	141	151	137	147
Unrestricted grants and contributions	638	573	603	938	1,181	688	924	914	911	903
Unrestricted revenues from use of money and property	797	222	169	188	144	304	261	112	148	282
Payments from the City of Lexington School Board	-	-	-	-	-	-	435	149	75	-
Miscellaneous	2,995	2,382	2,279	2,120	2,185	2,335	2,323	2,474	2,518	2,505
Transfers	-	-	-	-	(1,200)	120	(213)	148	178	56
Gain on sale of assets	-	-	1,926	-	-	-	-	-	-	109
<b>Total governmental activities</b>	<b>\$ 11,649</b>	<b>\$ 10,575</b>	<b>\$ 12,583</b>	<b>\$ 10,243</b>	<b>\$ 9,871</b>	<b>\$ 11,952</b>	<b>\$ 12,247</b>	<b>\$ 13,832</b>	<b>\$ 14,662</b>	<b>\$ 14,831</b>
Business-type activities:										
Unrestricted revenues from use of money and property	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12
Transfers	-	-	-	-	1,200	(120)	213	(148)	(178)	(56)
<b>Total business-type activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 1,200</b>	<b>\$ (120)</b>	<b>\$ 213</b>	<b>\$ (148)</b>	<b>\$ (178)</b>	<b>\$ (44)</b>
<b>Total primary government</b>	<b>\$ 11,649</b>	<b>\$ 10,575</b>	<b>\$ 12,584</b>	<b>\$ 10,243</b>	<b>\$ 11,071</b>	<b>\$ 11,832</b>	<b>\$ 12,460</b>	<b>\$ 13,684</b>	<b>\$ 14,484</b>	<b>\$ 14,787</b>
<b>Change in Net Position</b>										
Governmental activities	\$ (775)	\$ (2,226)	\$ 3,632	\$ (514)	\$ (472)	\$ 1,745	\$ 478	\$ 2,346	\$ 3,226	\$ 919
Business-type activities	191	118	264	485	1,595	243	491	362	885	468
<b>Total primary government</b>	<b>\$ (584)</b>	<b>\$ (2,108)</b>	<b>\$ 3,896</b>	<b>\$ (29)</b>	<b>\$ 1,123</b>	<b>\$ 1,988</b>	<b>\$ 969</b>	<b>\$ 2,708</b>	<b>\$ 4,111</b>	<b>\$ 1,387</b>

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
2016-17	\$ 6,708,542	\$ 1,014,689	\$ 308,358	\$ 697,889	\$ -	\$ -	\$ 120,778	\$ 57,619	\$ 534,588	\$ 1,462,273	\$ 26,562	\$ 10,931,298
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

(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.



Table 4

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

	Fiscal Year									
	2008	2009	2010	2011 (1)	2012	2013	2014	2015	2016	2017
<b>General Fund</b>										
Unreserved	\$ 8,690,276	\$ 6,842,571	\$ 8,902,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonspendable	-	-	-	104,062	147,003	61,688	3,829	3,943	117,557	754
Restricted	-	-	-	-	-	1,493,396	12,006,641	9,556,723	2,227,751	-
Committed	-	-	-	1,205,144	1,392,938	775,143	752,075	757,277	896,379	920,126
Assigned	-	-	-	247,525	409,701	170,495	251,578	203,763	336,982	342,177
Unassigned	-	-	-	7,206,302	5,080,601	5,817,394	7,157,866	8,122,812	7,924,727	7,672,653
<b>Total general fund</b>	<b>\$ 8,690,276</b>	<b>\$ 6,842,571</b>	<b>\$ 8,902,100</b>	<b>\$ 8,763,033</b>	<b>\$ 7,030,243</b>	<b>\$ 8,318,116</b>	<b>\$ 20,171,989</b>	<b>\$ 18,644,518</b>	<b>\$ 11,503,396</b>	<b>\$ 8,935,710</b>
<b>All other governmental funds</b>										
Reserved, reported in:										
Permanent Fund	\$ 1,434,253	\$ 1,268,677	\$ 1,314,149	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Capital Projects	3,033,371	224,876	185,226	-	-	-	-	-	-	-
Nonspendable										
Permanent Fund	-	-	-	180,562	180,562	180,562	180,562	180,562	180,562	180,562
Restricted										
Permanent Fund	-	-	-	1,194,752	1,221,878	1,395,556	1,547,928	1,543,894	1,519,090	1,628,592
Committed										
Capital Projects	-	-	-	271,289	1,132,511	982,052	999,423	1,008,306	350,843	2,317,171
<b>Total all other governmental funds</b>	<b>\$ 4,467,624</b>	<b>\$ 1,493,553</b>	<b>\$ 1,499,375</b>	<b>\$ 1,646,603</b>	<b>\$ 2,534,951</b>	<b>\$ 2,558,170</b>	<b>\$ 2,727,913</b>	<b>\$ 2,732,762</b>	<b>\$ 2,050,495</b>	<b>\$ 4,126,325</b>

(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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
General property taxes	\$ 4,144	\$ 4,438	\$ 4,449	\$ 4,400	\$ 4,807	\$ 5,254	\$ 5,778	\$ 6,481	\$ 6,681	\$ 6,709
Other local taxes	3,078	3,061	3,000	2,688	2,792	3,121	3,145	3,601	4,211	4,223
Licenses and permits	108	79	100	56	94	255	187	82	62	129
Fines and forfeitures	106	124	95	100	103	108	86	82	59	64
Use of money & property	797	222	169	188	144	304	261	112	148	282
Charges for services	777	848	918	894	954	1,013	969	1,096	1,097	1,048
Miscellaneous	2,995	2,382	2,279	2,120	2,185	2,335	2,323	2,474	2,518	2,506
Recovered costs	255	180	179	155	221	235	415	433	476	539
Intergovernmental	2,065	1,821	2,050	2,320	2,193	2,388	3,105	2,703	2,170	2,550
<b>Total revenues</b>	<b>\$ 14,325</b>	<b>\$ 13,155</b>	<b>\$ 13,239</b>	<b>\$ 12,921</b>	<b>\$ 13,493</b>	<b>\$ 15,013</b>	<b>\$ 16,269</b>	<b>\$ 17,064</b>	<b>\$ 17,422</b>	<b>\$ 18,050</b>
<b>Expenditures</b>										
General government administration	\$ 1,141	\$ 1,175	\$ 1,204	\$ 1,168	\$ 1,364	\$ 1,258	\$ 2,096	\$ 1,289	\$ 1,200	\$ 1,321
Judicial administration	3,252	4,389	259	266	256	285	299	310	353	333
Public safety	2,377	2,689	2,540	2,490	2,715	3,111	3,799	3,375	3,320	3,589
Public works	2,630	3,002	2,624	2,719	2,224	2,917	3,134	3,184	2,917	3,410
Health and Welfare	628	565	652	751	736	680	816	669	510	711
Education	1,484	2,553	1,873	2,858	2,379	2,711	2,215	3,012	3,033	3,056
Parks, recreation and cultural	1,310	1,539	533	448	508	669	474	530	594	578
Community development	757	697	711	1,194	1,100	1,579	714	737	725	1,059
Nondepartmental	193	95	-	-	-	(5)	20	7	459	371
Capital outlay(1)	4,794	-	8,437	1,164	520	843	1,388	3,992	8,786	2,354
Debt service:										
Principal	1,000	689	1,328	835	840	850	987	965	1,242	1,265
Interest	608	574	560	534	495	529	450	664	901	875
Bond Issuance Costs	-	-	115	-	-	200	130	-	-	-
<b>Total Expenditures</b>	<b>\$ 20,174</b>	<b>\$ 17,967</b>	<b>\$ 20,836</b>	<b>\$ 14,427</b>	<b>\$ 13,137</b>	<b>\$ 15,627</b>	<b>\$ 16,522</b>	<b>\$ 18,734</b>	<b>\$ 24,040</b>	<b>\$ 18,922</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>\$ (5,849)</b>	<b>\$ (4,812)</b>	<b>\$ (7,597)</b>	<b>\$ (1,506)</b>	<b>\$ 356</b>	<b>\$ (614)</b>	<b>\$ (253)</b>	<b>\$ (1,670)</b>	<b>\$ (6,618)</b>	<b>\$ (872)</b>

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Other financing sources (uses)										
Transfers in	\$ 970	\$ 1,640	\$ 85	\$ 177	\$ 1,100	\$ 540	\$ 580	\$ 3,474	\$ 8,070	\$ 4,421
Transfers out	(970)	(1,650)	(95)	(193)	(2,300)	(420)	(460)	(3,327)	(7,892)	(4,365)
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	-	-	-	-	-	-	325
Total other financing sources (uses)	\$ -	\$ (10)	\$ 9,662	\$ 1,514	\$ (1,200)	\$ 1,925	\$ 12,210	\$ 147	\$ 178	\$ 381
Net change in fund balances	\$ (5,849)	\$ (4,822)	\$ 2,065	\$ 8	\$ (844)	\$ 1,311	\$ 11,957	\$ (1,523)	\$ (6,440)	\$ (491)
Debt service as a percentage of noncapital expenditures	10.5%	7.0%	15.4%	10.3%	10.6%	9.5%	9.6%	11.1%	14.0%	12.9%

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

Table 6

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
2016-17	\$ 1,320,899	\$ 333,424	\$ 3,589,118	\$ 3,409,724	\$ 711,236	\$ 6,695,174	\$ 577,713	\$ 1,137,737	\$ 2,725,544	\$ 2,139,917	\$ 22,640,486
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

(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.

Table 7

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	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2016-17	\$ 6,708,542	\$ 4,222,756	\$ 129,414	\$ 63,826	\$ 287,607	\$ 1,242,144	\$ 2,541,432	\$ 550,137	\$ 6,146,404	\$ 21,892,262
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

(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					
2017	\$ 410,592	\$ 1,059,482	\$ 35,308	\$ 6,021	\$ 927,958	\$ 583,445	\$ 13.131	\$ 1,511,403	38.60%
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	4,474	531,915	638,609	7.907	1,170,824	54.57%

Source: Commissioner of Revenue

Table 9

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	Personal Property	
2016-17	\$ 1.09	\$ 4.25	\$ 1.09	\$ 4.25	\$ 1.09	\$ 4.25	\$ 13.131
2015-16	1.09	4.25	1.09	4.25	1.06	4.25	13.251
2014-15	1.03	4.25	1.03	4.25	0.93	4.25	12.579
2013-14	0.83	4.25	0.83	4.25	0.805	4.25	10.395
2012-13	0.78	4.25	0.73	4.25	0.755	4.25	9.825
2011-12	0.73	4.25	0.73	4.25	0.715	4.25	9.186
2010-11	0.70	4.25	0.70	4.25	0.675	4.25	9.045
2009-10	0.65	4.25	0.65	4.25	0.640	3.95	8.282
2008-09	0.64	3.95	0.64	3.95	0.618	3.95	7.936
2007-08	0.60	3.95	0.60	3.95	0.580	3.95	7.907

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

Table 10

City of Lexington, Virginia  
Principal Taxpayers  
June 30, 2017

Taxpayer Name	Fiscal year ended June 30, 2017			Fiscal year ended June 30, 2008		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
Virginia Electric & Power Co.	7,039,106	1	1.30%	4,346,857	4	0.72%
HI of Lexington, LLC	5,989,300	2	1.10%	5,978,300	2	0.99%
Central Telephone Co. of Virginia	5,011,055	3	0.92%	6,984,559	1	1.16%
Columbia Gas of Va, Inc	4,501,936	4	0.83%			
Robert E Lee Properties LLC	4,032,500	5	0.74%			
HCFM XXII Partnership	3,429,600	6	0.63%	3,428,200	7	0.57%
Summit Square Partners	3,192,700	7	0.59%	3,084,300	10	0.51%
BB & T Bank	3,130,600	8	0.58%			
Rockbridge Square Associates	3,084,000	9	0.57%	3,376,200	8	0.56%
Kroger Limited Partnership, Inc.	3,075,600	10	0.57%	3,330,700	9	0.55%
Washington & Lee University				5,230,700	3	0.87%
Walker/ Wood LC & Woods Family Trust				4,334,300	5	0.72%
Lexington House Associates				4,180,200	6	0.69%
	<u>\$ 42,486,397</u>		<u>7.84%</u>	<u>\$ 44,274,316</u>		<u>7.33%</u>

(1) Total assessed valuation of real estate was \$542,115,798 as of June 30, 2017.

(2) Total assessed valuation of real estate was \$604,269,835 of June 30, 2008.

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
2016-17	\$ 7,424,405	\$ 6,587,784	88.73%	\$ 94,966	\$ 6,682,750	90.01%	\$ -	\$ 125,205	1.69%
2015-16	7,515,788	6,535,830	86.96%	121,065	6,656,895	88.57%	464,015	127,632	1.70%
2014-15	7,084,639	6,106,748	86.20%	156,621	6,263,369	88.41%	894,638	83,253	1.18%
2013-14	6,293,593	5,434,465	86.35%	242,740	5,677,205	90.21%	802,016	57,112	0.91%
2012-13	5,860,438	5,030,209	85.83%	148,707	5,178,916	88.37%	800,312	29,917	0.51%
2011-12	5,482,776	4,640,415	84.63%	113,296	4,753,711	86.70%	823,696	18,665	0.34%
2010-11	5,259,055	4,285,272	81.48%	67,102	4,352,374	82.76%	957,297	16,486	0.31%
2009-10	5,089,509	4,310,028	84.68%	86,242	4,396,270	86.38%	761,234	18,247	0.36%
2008-09	4,842,235	4,257,797	87.93%	42,712	4,300,509	88.81%	569,113	15,325	0.32%
2007-08	4,822,549	4,049,095	83.96%	63,187	4,112,282	85.27%	768,395	5,059	0.10%

(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			
2017	\$ 27,334,326	\$ -	\$ 2,180,000	\$ 29,514,326	(1)	\$ 4,043
2016	28,598,857	-	-	28,598,857	(1)	3,917
2015	29,840,929	-	-	29,840,929	10.82%	4,027
2014	30,805,796	-	-	30,805,796	12.76%	4,203
2013	18,595,884	-	-	18,595,884	7.28%	2,536
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	12,203,899	-	-	12,203,899	5.32%	1,676
2008	12,678,355	-	42,806	12,721,161	5.73%	1,764

(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:		Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Payable from Enterprise Fund				
2016-17	(5)	\$ 542,116	\$ 29,514,326	\$ 2,180,000		\$ 27,334,326	5.04%	\$ 3,744
2015-16	7,301	541,672	28,598,857	-		28,598,857	5.28%	3,917
2014-15	7,410	539,772	29,840,929	-		29,840,929	5.53%	4,027
2013-14	7,329	586,081	30,805,796	-		30,805,796	5.26%	4,203
2012-13	7,332	619,426	18,595,884	-		18,595,884	3.00%	2,536
2011-12	7,356	615,200	19,570,590	-		19,570,590	3.18%	2,660
2010-11	7,197	614,491	20,410,294	-		20,410,294	3.32%	2,836
2009-10	7,042	634,453	19,715,000	-		19,715,000	3.11%	2,800
2008-09	7,282	630,842	12,203,899	-		12,203,899	1.93%	1,676
2007-08	7,211	638,909	12,721,161	42,806		12,678,355	1.98%	1,758

(1) Weldon Cooper Center for Public Service Demographics & Workforce Group, [www.coopercenter.org](http://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
2016-17	\$ 1,264,531	\$ 875,386	\$ 2,139,917	\$ 22,640,486	9.5%
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%

(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, 2017

Government Unit:	Debt Outstanding	Estimated Percentage Applicable	Amount Applicable to Primary Government
None	\$ -	0.00%	\$ -
City of Lexington, direct debt			<u>\$ 27,334,326</u>
Total direct and overlapping debt			<u><u>\$ 27,334,326</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, 2017, 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, 2017  
 (amounts expressed in thousands)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 60,245	\$ 60,058	\$ 60,294	\$ 58,213	\$ 58,218	\$ 58,424	\$ 58,608	\$ 53,977	\$ 54,167	\$ 54,212
Total net debt applicable to limit	12,721	12,204	19,715	20,410	19,571	18,596	30,806	29,841	28,599	27,334
Legal debt margin	47,524	47,854	40,579	37,803	38,647	39,828	27,802	24,136	25,568	26,878
Total net debt applicable to the limit as a percentage of debt limit	21.1%	20.3%	32.7%	35.1%	33.6%	31.8%	52.6%	55.3%	52.8%	50.4%

Legal Debt Margin Calculated for Fiscal Year 2017

Assessed value	\$ 542,116
Debt limit (10% of assessed value)	\$ 54,212
Debt applicable to limit:	
General Obligation Bonds	27,334
Less: amount set aside for repayment of general obligation debt	-
Total net applicable to limit	<u>27,334</u>
Legal debt margin	<u>\$ 26,878</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)
2016-17	(5)	(5)	(5)	678	7.1%
2015-16	7,301	(5)	(5)	659	8.2%
2014-15	7,410	1,348,251	37,210	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%

(1)Weldon Cooper Center for Public Service Demographics & Workforce Group, [www.coopercenter.org](http://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](http://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 Ten Years Ago

Employer	Fiscal year ended June 30, 2017		Fiscal year ended June 30, 2008		% of Total City Employees
	Employment Range	Rank	Employment Range	Rank	
Washington & Lee University	over 1000	1	over 1000	1	21.7%
Virginia Military Institute	500-999	2	500-999	2	11.2%
Carilion - Stonewall Jackson Hospital	100-249	3	250-499	3	5.3%
ADP Totalsource	100-249	4			
City of Lexington	100-249	5	100-249	5	3.3%
Aramark Campus LLC	100-249	6			
Kroger Company	100-249	7	50-99	7	1.6%
Lexington City School Board	50-99	8	50-99	6	1.7%
Heritage Hall Health Care (HCMF)	50-99	9	50-99	10	1.0%
The VMI Foundation	50-99	10	50-99	9	1.1%
Rockbridge County			100-249	4	3.5%
Rockbridge Farmer's Cooperative			50-99	8	1.3%

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



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, 2017									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government administration	14	14	14	14	14	14	14	14	14	14
Judicial administration	-	-	-	1	1	1	1	1	1	1
Public safety										
Police										
Officers	16	16	16	16	16	16	16	16	17	16
Civilians	2	2	3	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	16
Public works										
Administration & maintenance	36	36	35	35	34	38	39	41	40	40
Solid waste management	11	11	12	10	10	10	10	8	8	8
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	5	5	5	5	5	5	4	4	2	2
Leisure Services	-	-	-	-	-	-	1	1	1	1
Utilities processing										
Water treatment	7	7	7	7	7	7	5	5	5	0
Wastewater treatment	10	10	10	11	11	12	11	11	10	0
<b>Total</b>	<b>104</b>	<b>104</b>	<b>106</b>	<b>106</b>	<b>113</b>	<b>118</b>	<b>117</b>	<b>118</b>	<b>115</b>	<b>104</b>

Source: Government finance department

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

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function										
General administration										
Business licenses issued	662	617	616	640	648	698	677	662	678	668
Public safety										
Police										
Number of calls answered	4,580	5,446	3,815	3,899	3,447	4,780	4,475	6,094	5,639	5,422
Physical arrests	346	350	334	447	304	388	151	115	186	180
Parking violations	1,217	1,502	1,908	680	922	1,548	1,675	1,801	1,801	1,158
Traffic violations	923	1,145	800	862	542	718	482	137	529	577
Miles Patrolled	125,240	112,217	115,676	151,441	98,021	151,254	160,996	161,825	142,480	132,847
Fire										
Number of line calls answered	732	704	649	686	716	707	741	721	681	673
Number of reserve calls answered (1)	-	-	-	2,168	2,220	2,191	2,099	2,094	1,704	1,817
Inspections	138	146	136	129	84	87	184	166	294	353
Public works										
Highways and streets										
Street resurfacing (miles)	2.00	2.00	1.00	1.00	-	-	-	-	-	21.64
Sanitation and waste removal										
Refuse collected (tons/day)	14	12	10	9	10	10	10	9	8	9
Recyclables collected (tons/day)	6	6	7	8	6	12	10	7	6	7
Leisure services										
Culture and recreation										
Athletic program Participants	1,536	1,498	1,499	1,453	1,557	1,373	1,250	1,124	1,495	1,628
Utilities processing										
Water										
New connections	8	9	4	7	13	6	6	18	24	8
Water main breaks	46	30	19	23	29	32	30	40	29	30
Average daily consumption (thousands of gallons)	921	903	875	788	850	876	884	807	804	732
Number of customers	2,702	2,743	2,762	2,765	2,605	2,847	2,851	2,860	2,864	2,811
Wastewater										
Average daily sewage treatment (thousands of gallons)	583	608	732	631	667	645	735	583	603	(3)
Community development										
Number of building permits	98	83	55	57	100	61	87	87	74	62
Building construction value (thousands)	18,520	12,858	14,703	7,263	30,648	20,086	28,487	23,826	7,353	16,481
Component unit - school board										
Education										
Students - elementary	310	308	318	318	337	341	332	305	306	315
Students - middle school	180	176	178	170	186	189	174	187	187	204
City students - joint high school	125	129	123	133	144	144	144	159	166	159
Teachers elementary & middle school	50	50	50	50	50	50	50	50	50	49
Expenditures per pupil (2)	4,300	4,480	4,783	3,814	3,567	3,925	4,442	4,626	4,637	4,553

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.

(3) The City transferred the operation of the wastewater treatment plant to the Maury Service Authority in FY 2017.

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	12	12	13	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	529	530	530	530	530	530	531	531	531
Traffic signal intersections	12	12	12	12	13	13	13	13	13	13
Parking garage	-	1	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	40	40	40	43	43	43	43	43
Parks	8	8	8	8	8	8	8	8	8	8
Swimming Pools	2	2	2	2	2	2	2	2	2	2
Community centers	1	1	-	-	-	-	-	-	-	-
Utilities processing										
Water										
Water mains (miles)	30	30	30	30	30	58	58	58	58	51
Fire hydrants	268	268	268	268	268	270	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	68	68	68	68	68
Storm sewers (miles)	5	5	5	5	5	7	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.

Table 22

City of Lexington, Virginia  
 Schedule of Joint Services Contract Billing  
 For the Year Ended June 30, 2017

	Parking Garage	Fire	Recreation						RARO Total	Totals
			RARO Administration	Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other		
Salaries and fringe benefits	\$ 3,125	\$ 898,048	\$ 268,009	\$ 11,858	\$ 8,534	\$ 18,622	\$ 1,884	\$ 1,319	\$ 310,226	\$ 1,211,399
Contractual services	-	88,569	11,183	-	-	1,721	-	850	13,754	102,323
Other expenses	9,841	211,739	30,572	2,865	4,942	7,352	4,950	3,743	54,064	275,644
<b>Totals</b>	<b>\$ 12,966</b>	<b>\$ 1,198,356</b>	<b>\$ 309,764</b>	<b>\$ 14,723</b>	<b>\$ 13,476</b>	<b>\$ 27,695</b>	<b>\$ 6,474</b>	<b>\$ 5,912</b>	<b>\$ 378,044</b>	<b>\$ 1,589,366</b>
Less: Revenue for Operations	\$ -	\$ (487,763)	\$ (6,401)	\$ (4,813)	\$ (3,782)	\$ (5,853)	\$ (3,009)	\$ (4,876)	\$ (28,734)	\$ (516,497)
<b>Net Expenses</b>	<b>\$ 12,966</b>	<b>\$ 710,593</b>	<b>\$ 303,363</b>	<b>\$ 9,910</b>	<b>\$ 9,694</b>	<b>\$ 21,842</b>	<b>\$ 3,465</b>	<b>\$ 1,036</b>	<b>\$ 349,310</b>	<b>\$ 1,072,869</b>
Rockbridge County participation	9.90%	55.71%	61.92%	60.86%	60.25%	59.77%	69.49%	61.40%	61.78%	57.13%
Rockbridge County share	\$ 1,284	\$ 395,836	\$ 187,832	\$ 6,031	\$ 5,841	\$ 13,054	\$ 2,408	\$ 636	\$ 215,802	\$ 612,921

## COMPLIANCE SECTION

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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To the Honorable Members of  
the City Council  
City of 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, 2017, 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 9, 2017.

### 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.

*Polina, Farrow, Cox Associates*

Blacksburg, Virginia  
November 9, 2017