

CITY OF LEXINGTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013

Prepared by:
Gary W. Swink, Finance Director

CITY OF LEXINGTON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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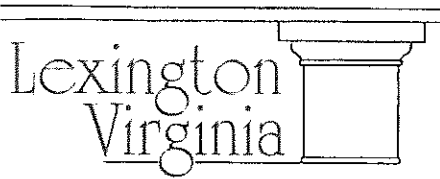
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INTRODUCTORY SECTION



November 18, 2013

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, 2013.

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, 2013. 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 OMB Circular A-133. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of the government

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

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

The City of Lexington provides a full range of services, including police and fire protection; emergency medical response and transport services; refuse collection; snow and leaf removal; traffic control; on-and-off street parking; building inspections; licenses and permits; the construction and maintenance of streets and other infrastructure; and recreational and cultural activities. In conjunction with other agencies within the City library and transit services are provided. Water distribution services and wastewater collection services are provided by the City. The water treatment plant and wastewater treatment plant, both owned by the Maury Service Authority (MSA) are operated as departments of the City under a contractual relationship. The water and wastewater functions are included as an integral part of the City of Lexington's financial statement. The City operates an independent school system; therefore, the financial results of the school system are reported as a separate component unit. City Council appoints a five-member School Board to administer the City school operations, which consist of an elementary and a middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement.

This report includes three other separate component units. Component units are legally separate units for which the primary government is financially accountable. The Rockbridge Area Recreation Organization (RARO) provides recreational activities, is supported financially by Rockbridge County and the City, and operates under a seven-member board of directors.

The Rockbridge Regional Public Safety Communications Center (Central Dispatch) provides E-911 dispatch for fire, rescue, and police services in Rockbridge County, the City of Lexington, the City of Buena Vista, and for VMI. Central Dispatch is managed and operated by a five member independent regional board, including the City Managers of Lexington and Buena Vista, the Rockbridge County Administrator, the Sheriff of Rockbridge County/City of Lexington, and one additional member appointed by the Rockbridge County of Supervisors.

The third separate component unit is the Lexington and Rockbridge Area Tourism (Tourism) program, which serves the City of Lexington, the City of Buena Vista, and Rockbridge County. The regional tourism operation serves under an executive director that is appointed by an independent seven-member board. The regional board of directors includes two members appointed by each of the jurisdictions (one of which must be from a tourism related industry) for two year terms. One remaining member is appointed from a tourism related business by the six jurisdictional members for a two-year term. The City serves as the fiscal agent for RARO, Central Dispatch, and Tourism.

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 Industrial Development Authority 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 beauty are two attributes that makes 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 has remained relatively high since 2008. Other indicators of economic activity (sales taxes, meal taxes, and lodging taxes) exhibited improvement during fiscal year 2013. Fees for building permits indicated strong construction activity during the year.

A relatively high percentage of the City's real property assessment (51%) is tax-exempt. This high level of tax-exempt property presents the City challenges in raising revenues sufficient to cover obligations.

Major Initiatives During the Past Year

During fiscal year 2013 the City refinanced general obligation bonds issued in 2006 and used to finance the City's portion of construction costs for the regional courthouse facilities. Series 2013 bonds in the par amount of \$9,545,000 were issued to advance refund \$9,670,000 of the Series 2006 bonds. Debt service savings over the remaining life of the bonds as a result of the refinancing will be \$735,021.

Bonds were issued in the amount of \$1,582,209 to finance improvements at the regional jail facility. Rockbridge County and the City of Buena Vista entered an agreement with the City of Lexington to pay 68.57% and 15.36% respectively, of the debt service on these bonds.

The City continues to follow a master plan to develop the Jordan's Point Park next to its north corridor entranceway. During this past year, work progressed on the interior renovation of the Old Miller's House, which will eventually house a museum.

The City continued to develop a low-to-moderate housing development known as Thompson's Knoll. The majority of funding for the project is from a grant from the Department of Housing and Community Development. Additional grant funding for the project is from the National Fish and Wildlife Foundation.

During the year significant efforts were undertaken to develop a Downtown Enhancement Plan. The plan when fully developed and approved, is intended to undergird the City's Economic Development Plan.

Future Plans

Lexington has major capital and infrastructure needs which will need to be addressed in the future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Capital projects estimated to cost \$17.58 million over the next five years include bridge, sidewalk, municipal facility improvements, water and wastewater utility improvements, storm water management improvements, recreational parks improvements, and a new elementary school.

Relevant Financial Policies

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

The City of Lexington has a policy requiring the minimum level 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, 2013 the unassigned fund balance exceeded the required minimum by approximately \$2.9 million. At June 30, 2012 the unassigned fund balance exceeded the required minimum by \$2.4 million.

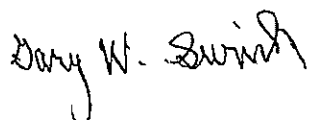
Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lexington for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012. This was the nineteenth 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 Programs'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,

A handwritten signature in black ink, appearing to read "Gary W. Swink". The signature is written in a cursive, flowing style.

Gary Swink
Director of Finance



Government Finance Officers Association

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

Presented to

**City of Lexington
Virginia**

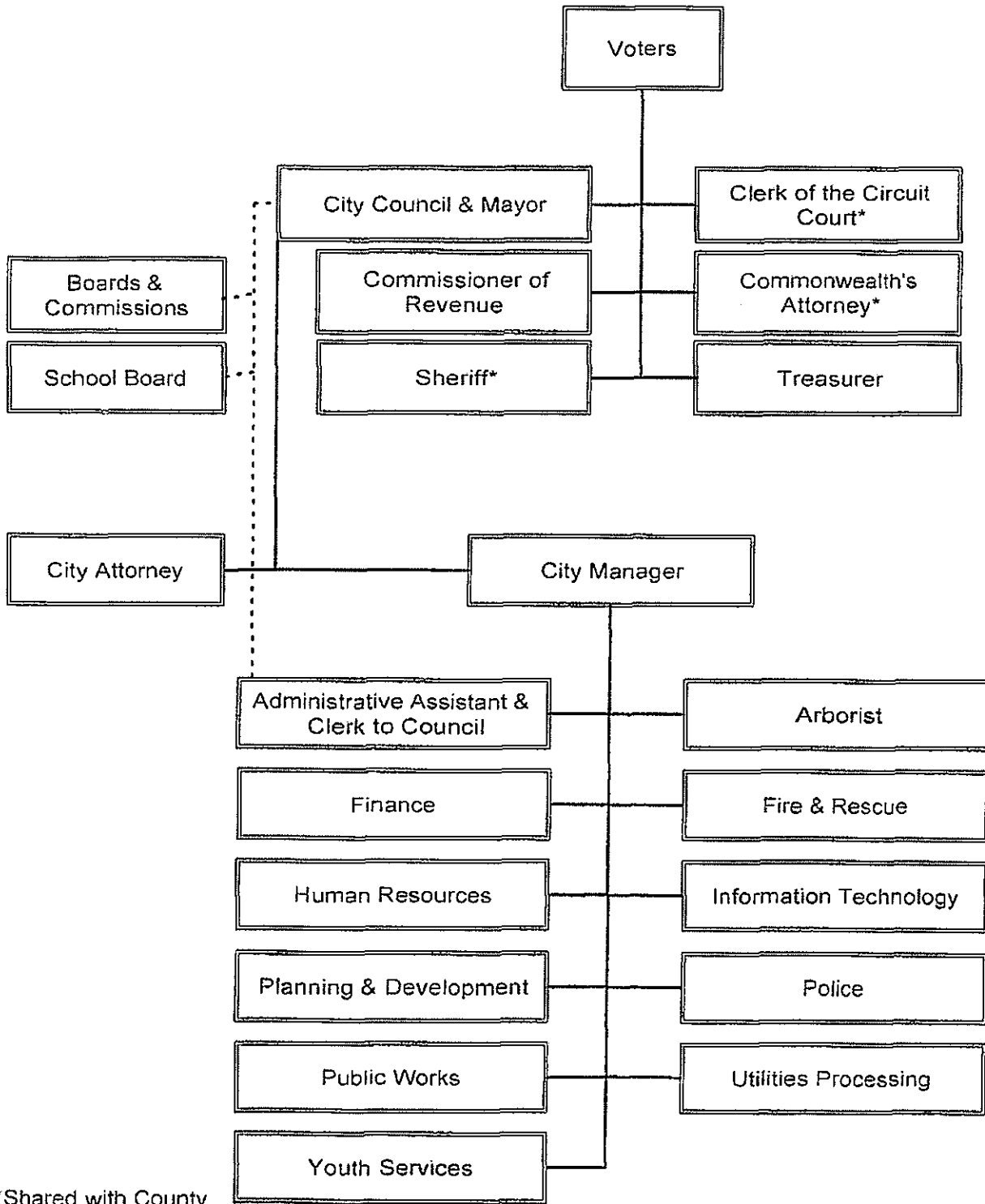
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

CITY OF LEXINGTON

Organizational Chart



*Shared with County

.....Appointing authority only

CITY OF LEXINGTON, VIRGINIA

CITY COUNCIL

Marilyn Alexander	Mimi Elrod, Mayor	Frank W. Friedman
Mary P. Harvey-Halseth		Camille Wright Miller
George R. Pryde		Charles "Chuck" Smith

CITY SCHOOL BOARD

	Leslie Straughan, Chair	
Richard Cruze, Jr., Vice Chair		Aaron Bruce
Leonard Steward		Jeannie VanNess

OTHER OFFICIALS

City Manager	T. Jon Ellestad
City Treasurer	Pat DeLaney
Commissioner of Revenue	Karen T. Roundy
Finance Director.....	Gary W. Swink
City Attorney.....	Lawrence A. Mann
Chief of Police	Alfred S. Thomas
Fire and Rescue Chief	Ty Dickerson
Director of Planning and Development	Michael D. Zehner
Director of Utilities Processing.....	Richard Allen
Director of Public Works	Michael Kennedy
Superintendent of Schools	Daniel E. Lyons

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
the City Council
Lexington, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 the City of Lexington, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 20 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. 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 on pages 12-21, budgetary comparison information, and schedules of pension and OPEB funding progress 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 the 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Information (continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2013, on our consideration of the City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lexington, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates
Blacksburg, Virginia
November 16, 2013

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, 2013. 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 \$24,156,161 (*net position*). A total of \$12,423,894 (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 \$5,817,394 or 40% of total general fund expenditures for \$14,452,571 in the year ended June 30, 2013.
- The City of Lexington's total outstanding debt increased by \$607,505 during the current fiscal year because \$1,582,209 of general obligation bonds were issued for renovations at the regional jail. Rockbridge County has agreed to pay 68.57% of the debt service on the jail bonds and the City of Buena Vista has agreed to pay 15.36% of the debt service.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Uncollected taxes and earned but unused vacation leave.)

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

The government-wide financial statements include not only the City of Lexington itself (known as the *primary government*), but also a legally separate school district, a regional tourism program, a central dispatch operation, and joint recreation activities. 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 seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general

fund, capital projects fund, the cemetery trust fund, and the discretely presented component School Board unit, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

Proprietary Funds

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets exceeded liabilities by \$24,156,161 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 \$12,423,894. 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 \$10,156,149. 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 \$1,988,001 for the fiscal year ending June 30, 2013. This increase is

attributable primarily to effective control of expenditures. Increased revenues due to an improving economy also contributed to the increase.

City of Lexington's Summary Statement of Net Position
as of June 30, 2013 and 2012
(In Thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current & other assets	\$ 13,010	\$ 13,850	\$ 2,608	\$ 2,630	\$ 15,618	\$ 16,480	\$ 1,535	\$ 1,925
Capital assets	<u>27,535</u>	<u>26,290</u>	<u>2,659</u>	<u>2,769</u>	<u>30,194</u>	<u>29,059</u>	<u>1,710</u>	<u>1,861</u>
Total assets	<u>\$ 40,545</u>	<u>\$ 40,140</u>	<u>\$ 5,267</u>	<u>\$ 5,399</u>	<u>\$ 45,812</u>	<u>\$ 45,539</u>	<u>\$ 3,245</u>	<u>\$ 3,786</u>
Deferred charge on refunding	\$ 1,688	\$ —	\$ —	\$ —	\$ 1,688	\$ —	\$ —	\$ ---
Long-term liabilities outstanding	\$ 21,806	\$ 19,181	\$ 62	\$ 67	\$ 21,868	\$ 19,248	\$ 118	\$ 154
Other liabilities	<u>1,344</u>	<u>3,275</u>	<u>127</u>	<u>497</u>	<u>1,471</u>	<u>3,772</u>	<u>547</u>	<u>756</u>
Total liabilities	<u>\$ 23,150</u>	<u>\$ 22,456</u>	<u>\$ 189</u>	<u>\$ 564</u>	<u>\$ 23,339</u>	<u>\$ 23,020</u>	<u>\$ 665</u>	<u>\$ 910</u>
Deferred inflows of resources	\$ 6	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ —
Net position:								
Net Investment in capital assets	\$ 7,496	\$ 7,401	\$ 2,659	\$ 2,769	\$ 10,155	\$ 10,170	\$ 1,710	\$ 1,861
Restricted	1,576	1,403	—	—	1,576	1,403	—	—
Unrestricted	<u>10,005</u>	<u>8,880</u>	<u>2,419</u>	<u>2,066</u>	<u>12,424</u>	<u>10,946</u>	<u>870</u>	<u>1,015</u>
Total net position	<u>\$ 19,077</u>	<u>\$ 17,684</u>	<u>\$ 5,078</u>	<u>\$ 4,835</u>	<u>\$ 24,155</u>	<u>\$ 22,519</u>	<u>\$ 2,580</u>	<u>\$ 2,876</u>

An additional portion of the City's primary government net position (7 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* (\$12,423,894) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental Activities

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

City of Lexington's Changes in Net Position as of June 30, 2013 and 2012 (In Thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2011</u>
Revenues:								
Program Revenues:								
Chgs. for svcs.	\$ 1,375	\$ 1,151	\$ 5,605	\$ 5,649	\$ 6,980	\$ 6,800	\$ 246	\$ 244
Operating grants and contributions	1,608	1,002	10	—	1,596	1,002	2,882	3,163
Capital grants and contributions	93	9	—	—	93	9	—	—
General revenues:								
Property taxes	5,384	4,770	—	—	5,384	4,770	—	—
Other taxes	3,121	2,792	—	—	3,121	2,792	—	—
Grants and contributions not restricted to specific programs	688	1,181	—	—	710	1,181	—	—
Other	2,639	2,329	—	—	2,639	1,129	2,721	2,516
Transfers	120	- 1,200	-120	1,200	—	—	—	—
Total revenues	<u>\$ 15,028</u>	<u>\$ 12,034</u>	<u>\$ 5,495</u>	<u>\$ 6,849</u>	<u>\$ 20,523</u>	<u>\$ 17,683</u>	<u>\$ 5,849</u>	<u>\$ 5,923</u>
Expenses:								
General Gov't.	\$ 1,202	\$ 1,394	\$ —	\$ —	\$ 1,202	\$ 1,394	\$ —	\$ —
Judicial Admin.	285	254	—	—	285	254	—	—
Public Safety	2,945	2,739	—	—	2,945	2,739	—	—
Public Works	3,210	2,564	—	—	3,210	2,564	—	—
Health & Welfare	680	736	—	—	680	736	—	—
Education	2,873	2,559	—	—	2,873	2,559	6,094	5,871
Parks, Rec. & Cultural	572	589	—	—	572	589	—	—
Community Development	782	1,108	—	—	782	1,108	—	—
Nondepartmental	—	—	—	—	—	—	—	—

Interest on Debt	734	562	—	—	734	562	—	—
Water & Sewer								
Utility	—	—	5,251	5,254	5,251	5,254	—	—
Total Expenses	<u>\$ 13,283</u>	<u>\$ 12,505</u>	<u>\$ 5,251</u>	<u>\$ 5,254</u>	<u>\$ 18,534</u>	<u>\$ 17,759</u>	<u>\$ 6,094</u>	<u>\$ 5,871</u>
Changes in net position	1,745	-471	243	1,595	1,988	1,124	-245	52
Net position beginning of year	<u>17,333*</u>	<u>18,155</u>	<u>4,835</u>	<u>3,240</u>	<u>22,168</u>	<u>21,395</u>	<u>2,876</u>	<u>2,825</u>
Net position end of year	<u>\$ 19,078</u>	<u>\$ 17,684</u>	<u>\$ 5,078</u>	<u>\$ 4,835</u>	<u>\$ 24,156</u>	<u>\$ 22,519</u>	<u>\$ 2,631</u>	<u>\$ 2,877</u>

* Restated

Governmental Revenues

- Property tax collections were up 13% or \$614,649. City Council raised the tax rate of \$0.73/\$100 of assessed value to \$0.77/\$100 of assessed value to support the FY 13 budgetary needs. The next four-year reassessment of real property taxes is scheduled in FY 14 to become effective in FY 15 for budgetary implications.
- Other local taxes are up \$328,913 or 12% for the current fiscal year ending June 30, 2013. The local sales and use taxes are up \$33,910 or 4%. The business license tax collections are up \$82,732 or 15%. The City's overall local taxes increased as the local economy began to show positive signs of a recovery from the recession that began in FY 08.
- The meals tax increased \$180,905 or 25% as a result of a tax rate increase.
- Revenues from the use of money and property increased by \$160,415.
- Permits and license revenue increased \$153,705 or 75% due to several large construction projects.
- The City's major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
General property taxes	\$ 5,253,894	35%
Other local taxes	3,120,959	21%
Charges for services	1,012,847	7%
Miscellaneous	2,334,764	16%
Recovered costs	235,022	2%
Intergovernmental	2,388,660	16%

Governmental Expenses

- Increases in wages and benefits were responsible for a large portion of the increase in operational expenses.
- The general governmental expenses include \$842,911 in equipment replacement costs. Additionally, \$1,131,702 was expended for capital projects. A large portion of the monies expended for capital assets was for a residential CDBG housing project.
- General government administration expenses decreased by 13.7%.

- Judicial administration expenses increased by 12.2%. The majority of the increase in this category was for the City's share of the regional court facilities costs.
- Public safety costs increased by 7.5%. Staff costs for fire and rescue personnel and vehicle replacement costs were the major factors in this category.
- Public works costs increased by 25%. Vehicle replacement costs and wage and benefit increases account for much of the increase.
- Costs for the health and welfare category decreased by \$56,850 or 7.7%.
- Education costs were up by 12%. \$65,000 was spent on design work for a new elementary school, while \$69,299 was spent on other capital projects.
- Community development costs decreased by 29%.

Business-Type Activities

For the City's business-type activities, the results for the current fiscal year were positive in that net position increased to reach an ending balance of \$5,078,517. The total increase in net position for business-type activities was \$243,210 or 5% from the prior fiscal year.

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 \$92,457 or 2.5% as a result of a rate increase.
- Revenues for contractual operation of the water and wastewater plants increased by \$32,518 or 1.8%.
- Expenses increased by 1.8% over the prior year.

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 \$10,876,286, an increase of \$1,311,092 in comparison with the prior year. A total of \$526,787 is committed for the City's future General Fund equipment replacement purchases. The City committed fire department funds totaling \$87,850 and first aid funds totaling \$160,506 to be used exclusively for the specific needs of the fire and rescue department, subject to City Council's appropriation. A total of \$170,495 is assigned for the carryover of committed projects not completed as of June 30, 2013 in the General Fund. A total of \$982,052 is committed for other capital project needs. A total of \$5,817,394 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, 2013.

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 \$5,817,394, an increase of \$736,793 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 40% or approximately five (5) months worth of total general fund expenditures and other uses of financing sources.

The City annually updates a five-year capital improvement plan and appropriates the funds necessary to support the ensuing fiscal year's capital projects. Capital projects for the water and sewer enterprise fund and the separate component units of the school, central dispatch, 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, 2013 was \$982,052, a decrease of \$150,459.

Proprietary Funds

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

Unrestricted net position of the utility fund (water and sewer services) at the end of the year amounted to \$2,418,985, an increase of \$352,396 or 17% in comparison with the prior year. Other factors concerning the finances of the proprietary fund have already been addressed in the discussion of the City's business-type activities.

Governmental Fund Budgetary Highlights

Differences between the original budget of \$15,475,657 and the final amended budget of \$19,193,051 reflects an increase in appropriation for \$3,717,394. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 12 to FY 13 \$2,965,391 for ongoing projects or activities that could not be completed by June 30, 2012. Most of the carryover totaling \$2,209,076 is for capital projects related to parks and recreation improvements, public works infrastructure improvements, and public facility improvements. Other significant budget amendments included:
 - » \$188,000 for expenses related to derecho storm damages
 - » \$65,000 for the design phase of the new Waddell Elementary School
 - » \$102,022 for the Chessie Trail connection project

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	\$ 4,983,600	\$ 5,253,894	\$ 270,294
Other Local Taxes	2,983,800	3,120,959	137,159
Licenses and Permits	46,800	254,912	208,112
Miscellaneous	2,120,781	2,278,105	157,324
Intergovernmental	2,743,052	1,874,730	-868,322

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, 2013 amounts to \$31,904,519 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and infrastructure. The total increase in capital assets for the current fiscal year was 6.6%.

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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 2,912	\$ 2,912	\$ —	\$ —	\$ 2,912	\$ 2,912	\$ 5	\$ 5
Buildings	17,270	17,638	—	—	17,270	17,638	1,660	1,799
Improvements other than buildings	854	855	29	30	883	885	—	—
Infrastructure	2,727	2,831	2,399	2,506	5,126	5,337	—	—
Machinery & Equip.	2,084	1,725	231	233	2,315	1,958	45	57
Construction in Progress	1,688	329	—	—	1,688	329	—	—
Totals	<u>\$ 27,535</u>	<u>\$ 26,290</u>	<u>\$ 2,659</u>	<u>\$ 2,769</u>	<u>\$ 30,194</u>	<u>\$ 29,059</u>	<u>\$ 1,710</u>	<u>\$ 1,861</u>

Additional information on the City of Lexington's capital assets can be found in Note 11 to the financial statements.

Long-term debt

City of Lexington's Outstanding Debt General Obligation Bonds

	<u>2013</u>	<u>2012</u>
Governmental activities	\$ 20,178,095	\$ 19,570,588
Business-type activities	<u>0</u>	<u>0</u>
TOTAL	<u>\$ 20,178,095</u>	<u>\$ 19,570,588</u>

The City's total general obligation debt increased by \$607,507 or 3% 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 \$58,424,000 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of Lexington's long-term debt can be found in Note 7 and 8 to the financial statements. Also, additional information can be found in the statistical section under Tables 12 through 15.

Economic Factors and Next Year's Budgets and Rates

As of June 2013, the unemployment rate for the City of Lexington is 12.8%. This exceeds both the national and state unemployment rates.

During the current fiscal year, unassigned fund balance in the general fund increased to \$5,817,394. The City of Lexington has appropriated \$257,353 of this amount for spending in the 2014 fiscal year budget. The City has appropriated \$164,195 of the unassigned fund balance in the school fund for spending in the 2014 fiscal year budget. The City has appropriated \$1,023,758 in reserves for the design and construction of a new elementary school.

The water and sewer utility fund rates were increased 3% for the 2014 budget year.

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, P. O. Box 922, City of Lexington, Virginia 24450.

Basic Financial Statements

City of Lexington, Virginia
Statement of Net Position
June 30, 2013

	Primary Government			Component Units			
	Governmental Activities	Business-type Activities	Total	School Board	Centrat Dispatch	Rockbridge Area Recreation Organization	Regional Tourism
ASSETS							
Cash and cash equivalents	\$ 1,922,721	\$ 20,193	\$ 1,942,914	\$ 1,311,258	\$ 68,414	\$ 7,454	\$ 421,376
Investments in custody of others	1,493,396	-	1,493,396	-	-	-	-
Investments	6,252,349	2,100,000	8,352,349	-	-	-	-
Receivables (net of allowance for uncollectibles):							
Taxes receivable	762,947	-	762,947	-	-	-	-
Accounts receivable	324,219	487,657	811,876	90	72,815	33,050	210
Due from component unit	30,061	-	30,061	-	-	-	-
Due from other governmental units	586,165	-	586,165	189,394	8,989	17,133	-
Prepaid items	61,688	-	61,688	-	-	-	-
Restricted assets:							
Permanently restricted:							
Cash and cash equivalents	359,222	-	359,222	-	-	-	-
Investments	1,216,896	-	1,216,896	-	-	-	-
Net OPEB asset	-	-	-	34,688	-	-	-
Capital assets (net of accumulated depreciation):							
Land	2,912,496	-	2,912,496	4,550	-	-	-
Buildings	17,269,431	-	17,269,431	1,660,401	-	-	-
Improvements other than buildings	853,734	28,693	882,427	-	-	-	-
Machinery and equipment	2,084,332	231,341	2,315,673	44,916	420,110	15,697	13,369
Infrastructure	2,727,086	2,399,498	5,126,584	-	-	-	-
Construction in progress	1,688,041	-	1,688,041	-	-	-	-
Total assets	\$ 40,544,784	\$ 5,267,382	\$ 45,812,166	\$ 3,245,297	\$ 570,328	\$ 73,334	\$ 434,955
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	\$ 1,687,903	\$ -	\$ 1,687,903	\$ -	\$ -	\$ -	\$ -
LIABILITIES							
Accounts payable	\$ 389,130	\$ 68,202	\$ 457,332	\$ 83,163	\$ 37,283	\$ 6,233	\$ 27,768
Payroll liabilities	283,676	20,561	304,237	41,563	-	-	-
Cash overdraft	15,582	-	15,582	-	-	-	-
Contracts payable	-	-	-	377,450	-	-	-
Accrued interest payable	43,125	-	43,125	-	-	-	-
Due to primary government	1,479	-	1,479	-	-	30,061	-
Due to other governmental units	-	-	-	-	8,698	-	-
Unearned revenue	-	-	-	45,395	-	-	-
Deposits held in escrow	-	37,818	37,818	-	-	-	-
Unearned grant revenue	610,692	-	610,692	-	-	-	-
Long-term liabilities:							
Due within one year	1,057,220	6,228	1,063,448	11,803	2,365	2,608	1,263
Due in more than one year	20,748,400	56,056	20,804,456	106,225	21,281	23,472	11,367
Total liabilities	\$ 23,149,304	\$ 188,865	\$ 23,338,169	\$ 665,599	\$ 69,627	\$ 62,374	\$ 40,398
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property taxes	\$ 5,739	\$ -	\$ 5,739	\$ -	\$ -	\$ -	\$ -
NET POSITION							
Net investment in capital assets	\$ 7,496,617	\$ 2,659,532	\$ 10,156,149	\$ 1,709,867	\$ 420,110	\$ 15,697	\$ 13,369
Restricted:							
Nonexpendable:							
Pickeral memorial	-	-	-	-	-	13,358	-
Perpetual cemetery care	1,576,118	-	1,576,118	-	-	-	-
Unrestricted (deficit)	10,004,909	2,418,985	12,423,894	869,831	80,591	(18,095)	381,188
Total net position	\$ 19,077,644	\$ 5,078,517	\$ 24,156,161	\$ 2,579,698	\$ 500,701	\$ 10,960	\$ 394,557

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, 2013

Net (Expense) Revenue and Changes in Net Position											
Functions/Programs	Program Revenues				Primary Government			Component Units			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Area Recreation Organization	Regional Tourism
PRIMARY GOVERNMENT:											
Governmental activities:											
General government administration	\$ 1,202,465	\$ 65,504	\$ 193,580	\$ -	\$ (943,381)	\$ -	\$ (943,381)	\$ -	\$ -	\$ -	\$ -
Judicial administration	284,745	107,569	79,440	-	(97,736)	-	(97,736)	-	-	-	-
Public safety	2,944,617	729,833	318,970	-	(1,895,814)	-	(1,895,814)	-	-	-	-
Public works	3,210,486	383,575	375,585	-	(2,451,326)	-	(2,451,326)	-	-	-	-
Health and welfare	680,386	8,178	211,341	-	(460,867)	-	(460,867)	-	-	-	-
Education	2,872,637	-	-	-	(2,872,637)	-	(2,872,637)	-	-	-	-
Parks, recreation, and cultural	571,969	80,669	5,000	-	(486,300)	-	(486,300)	-	-	-	-
Community development	782,478	-	424,372	92,592	(265,514)	-	(265,514)	-	-	-	-
Interest on long-term debt	733,711	-	-	-	(733,711)	-	(733,711)	-	-	-	-
Total governmental activities	\$ 13,283,494	\$ 1,375,328	\$ 1,608,288	\$ 92,592	\$ (10,207,286)	\$ -	\$ (10,207,286)	\$ -	\$ -	\$ -	\$ -
Business-type activities:											
Utility Fund	\$ 5,251,455	\$ 5,605,023	\$ 9,642	\$ -	\$ -	\$ 363,210	\$ 363,210	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 18,534,949	\$ 6,980,351	\$ 1,617,930	\$ 92,592	\$ (10,207,286)	\$ 363,210	\$ (9,844,076)	\$ -	\$ -	\$ -	\$ -
COMPONENT UNITS:											
School Board	\$ 6,094,408	\$ 246,253	\$ 2,882,215	\$ -	\$ -	\$ -	\$ (2,965,940)	\$ -	\$ -	\$ -	\$ -
Central Dispatch	347,973	-	107,898	-	-	-	-	-	(240,075)	-	-
Rockbridge Area Recreation Organization	216,689	111,313	-	-	-	-	-	-	-	(105,376)	-
Regional Tourism	207,814	6,637	-	-	-	-	-	-	-	-	(201,177)
Total component units	\$ 6,866,884	\$ 364,203	\$ 2,990,113	\$ -	\$ -	\$ -	\$ (2,965,940)	\$ (240,075)	\$ (105,376)	\$ (105,376)	\$ (201,177)
General revenues:											
General property taxes	\$ 5,384,205	\$ -	\$ -	\$ -	\$ 5,384,205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes:											
Local sales and use taxes					852,197	-	852,197	-	-	-	-
Consumers' utility taxes					308,964	-	308,964	-	-	-	-
Business license taxes					631,105	-	631,105	-	-	-	-
Restaurant food taxes					889,734	-	889,734	-	-	-	-
Hotel and motel room taxes					245,797	-	245,797	-	-	-	-
Other local taxes					193,162	-	193,162	-	-	-	-
Unrestricted revenues from use of money and property					304,369	-	304,369	4,327	4,724	22	-
Miscellaneous					616,005	-	616,005	6,153	100	32,003	6,952
Revenue sharing payments					1,718,759	-	1,718,759	-	-	-	-
Payments from the City of Lexington					-	-	-	2,710,583	208,999	66,134	185,581
Grants and contributions not restricted to specific programs					687,780	-	687,780	-	-	-	-
Transfers					120,000	(120,000)	-	-	-	-	-
Total general revenues and transfers	\$ 11,952,077	\$ -	\$ -	\$ -	\$ 11,952,077	\$ (120,000)	\$ 11,832,077	\$ 2,721,063	\$ 213,823	\$ 98,159	\$ 192,533
Change in net position	\$ 1,744,791	\$ -	\$ -	\$ -	\$ 1,744,791	\$ 243,210	\$ 1,988,001	\$ (244,877)	\$ (26,252)	\$ (7,217)	\$ (8,644)
Net position - beginning, as restated	\$ 17,332,853	\$ -	\$ -	\$ -	\$ 17,332,853	\$ 4,835,307	\$ 22,168,160	\$ 2,824,575	\$ 526,953	\$ 18,177	\$ 403,201
Net position - ending	\$ 19,077,644	\$ -	\$ -	\$ -	\$ 19,077,644	\$ 5,078,517	\$ 24,156,161	\$ 2,579,698	\$ 500,701	\$ 10,960	\$ 394,557

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

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,922,721	\$ -	\$ -	\$ 1,922,721
Investments in custody of others	1,493,396	-	-	1,493,396
Investments	5,252,349	1,000,000	-	6,252,349
Receivables (net of allowance for uncollectibles):				
Taxes receivable	762,947	-	-	762,947
Accounts receivable	299,317	24,902	-	324,219
Due from component unit	30,061	-	-	30,061
Due from other governmental units	493,573	92,592	-	586,165
Prepaid items	61,688	-	-	61,688
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	359,222	359,222
Investments	-	-	1,216,896	1,216,896
Total assets	<u>\$ 10,316,052</u>	<u>\$ 1,117,494</u>	<u>\$ 1,576,118</u>	<u>\$ 13,009,664</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Reconciled overdraft	\$ -	\$ 15,582	\$ -	\$ 15,582
Accounts payable	270,749	118,381	-	389,130
Payroll liabilities	283,676	-	-	283,676
Due to primary government	-	1,479	-	1,479
Unearned grant revenue	610,692	-	-	610,692
Total liabilities	<u>\$ 1,165,117</u>	<u>\$ 135,442</u>	<u>\$ -</u>	<u>\$ 1,300,559</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	<u>\$ 832,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 832,819</u>
Fund balances:				
Nonspendable	\$ 61,688	\$ -	\$ 180,562	\$ 242,250
Restricted	1,493,396	-	1,395,556	2,888,952
Committed	775,143	982,052	-	1,757,195
Assigned	170,495	-	-	170,495
Unassigned	5,817,394	-	-	5,817,394
Total fund balances	<u>\$ 8,318,116</u>	<u>\$ 982,052</u>	<u>\$ 1,576,118</u>	<u>\$ 10,876,286</u>
Total liabilities and fund balances	<u>\$ 10,316,052</u>	<u>\$ 1,117,494</u>	<u>\$ 1,576,118</u>	<u>\$ 13,009,664</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, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 10,876,286
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 2,912,496	
Buildings and improvements	17,269,431	
Improvements other than buildings	853,734	
Infrastructure	2,727,086	
Machinery and equipment	2,084,332	
Construction in progress	1,688,041	27,535,120

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	827,080
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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	\$ (20,178,095)	
Accrued interest payable	(43,125)	
Net OPEB obligation	(32,598)	
Deferred charge on refunding	1,687,903	
Unamortized bond premium	(1,408,427)	
Unamortized bond discount	54,623	
Compensated absences	(241,123)	(20,160,842)

Net position of governmental activities	\$ 19,077,644
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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, 2013

	General	Capital Projects	Permanent	Total
REVENUES				
General property taxes	\$ 5,253,894	\$ -	\$ -	\$ 5,253,894
Other local taxes	3,120,959	-	-	3,120,959
Permits, privilege fees, and regulatory licenses	254,912	-	-	254,912
Fines and forfeitures	107,569	-	-	107,569
Revenue from the use of money and property	96,825	-	207,544	304,369
Charges for services	1,012,847	-	-	1,012,847
Miscellaneous	2,278,105	56,659	-	2,334,764
Recovered costs	235,022	-	-	235,022
Intergovernmental revenues:				
Commonwealth	1,766,924	-	-	1,766,924
Federal	107,806	513,930	-	621,736
Total revenues	\$ 14,234,863	\$ 570,589	\$ 207,544	\$ 15,012,996
EXPENDITURES				
Current:				
General government administration	\$ 1,258,495	\$ -	\$ -	\$ 1,258,495
Judicial administration	284,745	-	-	284,745
Public safety	3,111,368	-	-	3,111,368
Public works	2,826,116	90,606	-	2,916,722
Health and welfare	679,526	-	-	679,526
Education	2,645,583	65,000	-	2,710,583
Parks, recreation, and cultural	447,827	178,853	42,741	669,421
Community development	781,631	797,243	-	1,578,874
Nondepartmental	838,565	-	-	838,565
Debt service:				
Principal retirement	849,704	-	-	849,704
Interest and other fiscal charges	529,150	-	-	529,150
Bond Issuance Costs	199,861	-	-	199,861
Total expenditures	\$ 14,452,571	\$ 1,131,702	\$ 42,741	\$ 15,627,014
Excess (deficiency) of revenues over (under) expenditures	\$ (217,708)	\$ (561,113)	\$ 164,803	\$ (614,018)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 120,000	\$ 410,654	\$ 8,875	\$ 539,529
Transfers out	(419,529)	-	-	(419,529)
Issuance of general obligation bonds	1,582,209	-	-	1,582,209
Premium on issuance	1,408,427	-	-	1,408,427
Issuance of refunding general obligation bonds	9,545,000	-	-	9,545,000
Payment to refunded bonds escrow agent	(10,730,526)	-	-	(10,730,526)
Total other financing sources (uses)	\$ 1,505,581	\$ 410,654	\$ 8,875	\$ 1,925,110
Net change in fund balances	\$ 1,287,873	\$ (150,459)	\$ 173,678	\$ 1,311,092
Fund balances - beginning	7,030,243	1,132,511	1,402,440	9,565,194
Fund balances - ending	\$ 8,318,116	\$ 982,052	\$ 1,576,118	\$ 10,876,286

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, 2013

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

Net change in fund balances - total governmental funds	\$	1,311,092
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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	\$	2,126,725	
Depreciation expenses		(881,590)	1,245,135

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in unearned property taxes is reported as revenues in the governmental funds.		130,311
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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 issuance costs, 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.

Debt issued or incurred:			
Issuance of general obligation debt	\$	(11,127,209)	
Plus: premium on issuance		(1,408,427)	
Principal repayments:			
General obligation bonds		849,704	
Payment to escrow agent for refunding of general obligation bonds		10,730,526	(955,406)

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.

Decrease (increase) in compensated absences	\$	307	
Decrease (increase) in net OPEB obligation		18,052	
Decrease (increase) in accrued interest payable		(4,700)	13,659

Change in net position of governmental activities	\$	1,744,791
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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, 2013

	Enterprise Fund <u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 20,193
Investments	2,100,000
Accounts receivable, net of allowance for uncollectibles	487,657
Total current assets	<u>\$ 2,607,850</u>
Noncurrent assets:	
Capital assets:	
Buildings	\$ 113,405
Less accumulated depreciation	(113,405)
Improvements other than buildings	77,717
Less accumulated depreciation	(49,024)
Machinery and equipment	469,759
Less accumulated depreciation	(238,418)
Infrastructure	4,407,800
Less accumulated depreciation	(2,008,302)
Total capital assets	<u>\$ 2,659,532</u>
Total noncurrent assets	<u>\$ 2,659,532</u>
Total assets	<u>\$ 5,267,382</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 68,202
Payroll liabilities	20,561
Compensated absences-current portion	6,228
Deposits held in escrow	37,818
Total current liabilities	<u>\$ 132,809</u>
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 56,056
Total noncurrent liabilities	<u>\$ 56,056</u>
Total liabilities	<u>\$ 188,865</u>
NET POSITION	
Investment in capital assets	\$ 2,659,532
Unrestricted	2,418,985
Total net position	<u><u>\$ 5,078,517</u></u>

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, 2013

	Enterprise Fund Utility Fund
OPERATING REVENUES	
Charges for services:	
Water and sewer revenues	\$ 5,604,921
Miscellaneous	102
Total operating revenues	<u>\$ 5,605,023</u>
OPERATING EXPENSES	
Administration	\$ 124,110
Water treatment plant	671,189
Water treatment	5,868
Water distribution	916,641
Wastewater collection	1,957,899
MSA - Wastewater plant	1,085,515
Inflow and infiltration	54,855
Public Works Personnel	51,941
Miscellaneous	44,163
Internal services	201,528
Depreciation	137,746
Total operating expenses	<u>\$ 5,251,455</u>
Operating income (loss)	<u>\$ 353,568</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue	<u>\$ 9,642</u>
Income before transfers	\$ 363,210
Transfers out	\$ (120,000)
Change in net position	<u>\$ 243,210</u>
Total net position - beginning	4,835,307
Total net position - ending	<u><u>\$ 5,078,517</u></u>

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, 2013

	Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 6,259,683
Payments to suppliers	(3,993,180)
Payments to and for employees	(1,497,579)
Net cash provided by (used for) by operating activities	<u>\$ 768,924</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	\$ (120,000)
Operating subsidy from federal grant	9,642
Net cash provided by (used for) by noncapital financing activities	<u>\$ (110,358)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (28,560)
Net cash provided by (used for) by capital and related financing activities	<u>\$ (28,560)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale (purchase) of investments	\$ (2,100,000)
Net cash provided by (used for) investing activities	<u>\$ (2,100,000)</u>
Net increase (decrease) in cash and cash equivalents	\$ (1,469,994)
Cash and cash equivalents - beginning	1,490,187
Cash and cash equivalents - ending	<u><u>\$ 20,193</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ 353,568
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 137,746
(Increase) decrease in accounts receivable	652,560
Increase (decrease) in compensated absences	(5,011)
Increase (decrease) in accounts payable	(392,600)
Increase (decrease) in payroll liabilities	20,561
Increase (decrease) customer deposits held in escrow	2,100
Total adjustments	<u>\$ 415,356</u>
Net cash provided by (used for) by operating activities	<u><u>\$ 768,924</u></u>

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, 2013

	<u>OPEB Trust</u>
ASSETS	
Cash and cash equivalents	\$ 101,019
	<u><u>101,019</u></u>
NET POSITION	
Assets held in trust for OPEB benefits	\$ 101,019
	<u><u>101,019</u></u>

City of Lexington, Virginia
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013

	<u>OPEB Trust</u>
ADDITIONS	
Total additions	<u>\$ -</u>
DEDUCTIONS	
Administrative expenses	<u>\$ 657</u>
Total deductions	<u>\$ 657</u>
Change in net position	\$ (657)
Net position - beginning	101,676
Net position - ending	<u><u>\$ 101,019</u></u>

CITY OF LEXINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 its own financial report; therefore all of the School Board's financial information is presented within this Comprehensive Annual Financial Report.

Central Dispatch - The Central Dispatch provides emergency response dispatch for the City of Lexington, the City of Buena Vista, and the County of Rockbridge Fire and Rescue departments and the Cities of Lexington, Buena Vista, and Virginia Military Institute Police departments. The City has determined this to be a component unit based on the opinion that its exclusion would render the basic financial statements misleading. The City does not exercise direct control over Central Dispatch's board or its annual budget, but does serve as fiscal agent. An annual budget is adopted for the Central Dispatch fund which accounts for the general operations of the emergency response dispatch activities. Financing is provided by funds from the Virginia Wireless Board Grant, as well as appropriations from the City of Lexington, the City of Buena Vista, the County of Rockbridge, and Virginia Military Institute. Central Dispatch consists of a governmental fund type and has been presented as a nonmajor component unit in this financial report. Central Dispatch does not issue separate financial statements. All of Central Dispatch's financial information is presented within this Comprehensive Annual Financial Report.

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

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Rockbridge Area Recreation Organization - The Rockbridge Area Recreation Organization (RARO) was formed by the City of Lexington and the County of Rockbridge to provide recreational activities for area youth. The Lexington City Council does not appoint any RARO Board Members. The City has significant influence over RARO's budget matters but does not exercise direct control over its board or annual budget. The City also serves as RARO's fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. Financing is provided by appropriation from the City's General Fund by City Council. The City then bills the County of Rockbridge for the County's share of RARO's operations; this revenue is shown as a recovered cost in the General Fund of the City. RARO consists of a governmental fund type and has been presented as a nonmajor component unit in this financial report. RARO does not issue separate financial statements. All of RARO's financial information is presented within this Comprehensive Annual Financial Report.

Regional Tourism - Regional Tourism serves to promote tourism in the Cities of Lexington and Buena Vista and the County of Rockbridge. The City of Lexington appoints two of the seven members to the governing board of Regional Tourism. The City does not exercise direct control over the Regional Tourism's 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. Regional Tourism is presented as a governmental fund type. Financing is provided by specific allocations from the state government, as well as appropriations from the Cities of Lexington and Buena Vista and the County of Rockbridge. Regional Tourism has been presented as a nonmajor component unit within this financial report. Regional Tourism does not issue separate financial statements. All of Regional Tourism's financial information is presented within this Comprehensive Annual Financial Report.

Related Organizations - The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointment.

The City Council appoints the Lexington Industrial Development Authority (IDA) Board which approves applications for IDA loans. However, IDA loans do not represent obligations of the City, are not for the purpose of financing City projects, nor does Council exercise control over daily operations.

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

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations -

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

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of net position is designed to display financial position of the primary government (government 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 fund is 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 unearned 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 Funds) account for asset held by the City in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The OPEB Trust Fund is the only fiduciary fund of the City. The fund utilizes 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 *non-operating* 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 non-operating revenues and expenses.

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

1. Deposits and investments

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

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

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

3. Property Taxes

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

4. Inventory

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

5. 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, 2013 and is comprised solely of property taxes.

6. 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.

7. 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 estimated fair market 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 1-Summary of Significant Accounting Policies: (Continued)**D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (Continued)****7. Capital assets (Continued)**

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

Property, plant, equipment, and infrastructure of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Improvements other than buildings	10 - 15
Machinery and equipment	2 - 20
Infrastructure	50

8. Compensated Absences

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

9. 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.

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

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

9. Long-term obligations (Continued)

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.

10. 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, 2013 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).

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

Committed -amounts that have been committed (modified or rescinded) by formal action by the entity's "highest level of decision-making authority"; which the City of Lexington, Virginia considers to be the City Council.

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.

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

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

10. Fund equity (Continued)

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).

11. 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.

12. 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.

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

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

12. Component Unit - School Board Capital Asset and Debt Presentation (Continued)

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.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It 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.

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 only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

14. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 2-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2013, 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, 2013, there were no funds with deficit fund equity.

Note 3-Deposits and Investments:

Deposits:

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

Investments:

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

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2013 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, 2013 were held in the City's name by the City's custodial bank; except \$39,934 of U.S. Treasuries, \$487,474 of Mutual Fund Bonds, and \$579,593 of Common Stocks, and \$109,843 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 3-Deposits and Investments: (Continued)**Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2013 were rated by Moody's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values		
Rated Debt Investments	Fair Quality Ratings	
	AAAm	AAm
LGIP	\$ 8,352,349	\$ -
SNAP	-	1,493,396

Concentration of Credit Risk

At June 30, 2013, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

Interest Rate Risk

Investment Type	Fair Value	Date	Options
Mutual Fund Bonds:			
Doubleline FDS TR Total Return	\$ 83,583	Upon demand	None
Eaton Vance Mut FDS TR	30,484	Upon demand	None
Goldman Sachs TR Local Emerging Mkts	22,285	Upon demand	None
Ishares TR Barclays 3-7 yr	120,740	Upon demand	None
Neuberger Berman Income Fds High Inc	29,821	Upon demand	None
Pimco Fds Invt Grade Corp	70,144	Upon demand	None
Pimco Fds Emerging Local Bd	22,012	Upon demand	None
Vanguard Scottsdale FDS Mtg Backed Secs I	108,404	Upon demand	None
LGIP	8,352,349	Upon demand	None
SNAP	1,493,396	Upon demand	None

The fair value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 3-Deposits and Investments: (Continued)****Interest Rate Risk (Continued)**

State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission.

Note 4-Due from Other Governmental Units:

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

	Primary Government	Component Unit- School Board	Nonmajor Component Units
<u>Rockbridge County:</u>			
Rockbridge Area Recreation Org.	\$ -	\$ -	\$ 17,133
General Fund	200,218	-	-
<u>Commonwealth of Virginia:</u>			
Local sales tax	156,106	-	-
Communications sales and use tax	52,016	-	-
State sales tax	-	52,134	-
Categorical aid-shared expenses	12,509	-	-
Other categorical aid	6,176	102,000	8,989
Non-categorical aid	4,352	-	-
Virginia public assistance funds	62,196	-	-
<u>Federal Government:</u>			
Categorical aid	92,592	-	-
School grants	-	35,260	-
Totals	\$ 586,165	\$ 189,394	\$ 26,122

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 5-Interfund/Component Unit Obligations:

Interfund/Component Unit Obligations for the fiscal year ended June 30, 2013 consisted of the following:

Fund	Due to Primary Government/ Component Unit	Due from Primary Government/ Component Unit
Primary Government:		
General Fund	\$ -	\$ 30,061
Nonmajor Component Unit:		
Rockbridge Area Recreation Organization	\$ 30,061	\$ -

Note 6-Interfund/Component Unit Transfer:

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

Fund	Transfers In	Transfers Out
Primary Government:		
General Fund	\$ 120,000	\$ 419,529
Capital Projects Fund	410,654	-
Cemetery Fund	8,875	-
Utility Fund	-	120,000
Total	<u>\$ 539,529</u>	<u>\$ 539,529</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 7-Long-Term Obligations:**Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2013.

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
General Obligation Bonds	\$ 19,570,590	\$ 11,127,209	\$ (10,519,704)	\$ 20,178,095
Less: Discount on Issuance	(682,000)	-	627,377	(54,623)
Plus: Premiums on Issuance	-	1,408,427	-	1,408,427
Net OPEB Obligation	50,650	17,836	(35,888)	32,598
Compensated Absences	241,430	221,423	(221,730)	241,123
Total	\$ 19,180,670	\$ 12,774,895	\$ (10,149,945)	\$ 21,805,620

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2014	\$ 987,297	\$ 443,913
2015	964,869	468,629
2016	977,072	454,623
2017	984,531	443,100
2018	1,001,953	429,886
2019-2023	5,273,255	1,880,354
2024-2028	5,189,118	1,366,009
2029-2033	2,810,000	754,881
2034-2036	1,990,000	129,343
Totals	\$ 20,178,095	\$ 6,370,738

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 7-Long-Term Obligations: (Continued)****Primary Government - Governmental Activity Indebtedness: (Continued)**

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
General Obligation Bond	4.00%	1/5/2006	2015	\$ 12,000,000	\$ 865,000	\$ 275,000
General Obligation Bond	0.00%	11/13/2009	2026	8,410,000	6,925,885	494,706
VPSA Bond	0.00%	7/8/2010	2027	1,530,000	1,260,000	90,000
General Obligation Bond	2.01-4.83%	6/5/2013	2035	9,545,000	9,545,000	40,000
General Obligation Bond	2.52%	4/12/2013	2028	1,582,209	1,582,210	87,591
Subtotal General Obligation Bonds					<u>\$ 20,178,095</u>	<u>\$ 987,297</u>
Plus: Premium on Issuance					\$ 1,408,427	\$ 64,019
Less: Discount on Issuance					(54,623)	(18,208)
Total General Obligation Bonds					<u>\$ 21,531,899</u>	<u>\$ 1,033,108</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 241,123	\$ 24,112
Net OPEB Obligation	n/a	n/a	n/a	n/a	32,598	-
Total Other Obligations					<u>\$ 273,721</u>	<u>\$ 24,112</u>
Total Long-term Obligations					<u>\$ 21,805,620</u>	<u>\$ 1,057,220</u>

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

The City issued \$9,545,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$9,670,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$1,687,903. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 23 years by \$735,021 and resulted in an economic gain of \$618,799.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 7-Long-Term Obligations: (Continued)**Primary Government-Enterprise Activity Indebtedness:**

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2013.

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Compensated Absences	\$ 67,295	\$ 48,543	\$ (53,554)	\$ 62,284

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 62,284	\$ 6,228

Compensated absences are liquidated by the Utilities Fund.

Note 8-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, 2013.

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Compensated Absences	\$ 103,511	\$ 14,517	\$ -	\$ 118,028

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 118,028	\$ 11,803

Compensated absences are liquidated by the School Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 8-Long-Term Obligations-Component Units: (Continued)Discretely Presented Nonmajor Component Units:

The following is a summary of long-term obligation transactions of the Nonmajor Component Units for the year ended June 30, 2013.

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Compensated Absences	\$ 64,882	\$ 47,464	\$ (49,990)	\$ 62,356

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 62,356	\$ 6,236

Compensated absences are liquidated by the nonmajor component unit which reports the liability.

Note 9-Employee Retirement System and Defined Benefit Pension Plans:**A. Plan Description**

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or at age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or at age 50 with at least 10 years of service credit.

Note 9-Employee Retirement System and Defined Benefit Pension Plans: (Continued)

a. Plan Description (Continued)

Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 9-Employee Retirement System and Defined Benefit Pension Plans: (Continued)

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the City of Lexington, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City of Lexington, Virginia's contribution rate for the fiscal year ended 2013 was 12.61% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2013, the City of Lexington, Virginia's annual pension cost of \$619,851 was equal to the City of Lexington, Virginia's required and actual contributions.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2013	\$ 619,851	100.00%	\$ -
	6/30/2012	456,692	100.00%	-
	6/30/2011	422,340	100.00%	-

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City of Lexington, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Lexington, Virginia's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 9-Employee Retirement System and Defined Benefit Pension Plans: (Continued)

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 71.51% funded. The actuarial accrued liability for benefits was \$22,279,887, and the actuarial value of assets was \$15,931,495, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,348,392. The covered payroll (annual payroll of active employees covered by the plan) was \$4,822,409, and ratio of the UAAL to the covered payroll was 131.64%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) 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 liability (AAL) for benefits.

E. Discretely Presented Component Unit School Board - Professional Employees:

Plan Description

The Lexington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/2012-annual-report.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees was \$298,490, \$152,921, and \$89,914, for the fiscal years ended 2013, 2012, and 2011, respectively. Employer contributions represented 11.66%, 6.33%, and 3.93%, of covered payroll for the fiscal years ended 2013, 2012, and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 10-Unearned and Unavailable Revenue:

Unearned and unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

Primary Government:

Unearned Grants - Grant revenue collected by the City for various purposes that has not met the revenue criteria totaled \$610,692.

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$827,080 at June 30, 2013.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2013 but paid in advance by the taxpayers totaled \$5,739

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 \$45,395.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 11-Capital Assets:**

Capital asset activity for the year ended June 30, 2013 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,912,496	\$ -	\$ -	\$ 2,912,496
Construction in progress	329,348	1,358,693	-	1,688,041
Total capital assets not being depreciated	<u>\$ 3,241,844</u>	<u>\$ 1,358,693</u>	<u>\$ -</u>	<u>\$ 4,600,537</u>
Capital assets, being depreciated:				
Buildings	\$ 20,066,430	\$ 48,838	\$ -	\$ 20,115,268
Improvements other than buildings	1,383,335	66,950	-	1,450,285
Infrastructure	5,089,552	-	-	5,089,552
Machinery and equipment	5,667,355	652,244	(414,320)	5,905,279
Total capital assets being depreciated	<u>\$ 32,206,672</u>	<u>\$ 768,032</u>	<u>\$ (414,320)</u>	<u>\$ 32,560,384</u>
Accumulated depreciation:				
Buildings	\$ (2,428,375)	\$ (417,462)	\$ -	\$ (2,845,837)
Improvements other than buildings	(528,593)	(67,958)	-	(596,551)
Infrastructure	(2,258,990)	(103,476)	-	(2,362,466)
Machinery and equipment	(3,942,573)	(292,694)	414,320	(3,820,947)
Total accumulated depreciation	<u>\$ (9,158,531)</u>	<u>\$ (881,590)</u>	<u>\$ 414,320</u>	<u>\$ (9,625,801)</u>
Total capital assets being depreciated, net	<u>\$ 23,048,141</u>	<u>\$ (113,558)</u>	<u>\$ -</u>	<u>\$ 22,934,583</u>
Governmental activities capital assets, net	<u>\$ 26,289,985</u>	<u>\$ 1,245,135</u>	<u>\$ -</u>	<u>\$ 27,535,120</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 11-Capital Assets: (Continued)****Primary Government: (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	77,717	-	-	77,717
Infrastructure	4,407,800	-	-	4,407,800
Machinery and equipment	441,198	28,561	-	469,759
Total capital assets being depreciated	<u>\$ 5,040,120</u>	<u>\$ 28,561</u>	<u>\$ -</u>	<u>\$ 5,068,681</u>
Accumulated depreciation:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(47,999)	(1,025)	-	(49,024)
Infrastructure	(1,901,351)	(106,951)	-	(2,008,302)
Machinery and equipment	(208,647)	(29,771)	-	(238,418)
Total accumulated depreciation	<u>\$ (2,271,402)</u>	<u>\$ (137,747)</u>	<u>\$ -</u>	<u>\$ (2,409,149)</u>
Total capital assets being depreciated, net	<u>\$ 2,768,718</u>	<u>\$ (109,186)</u>	<u>\$ -</u>	<u>\$ 2,659,532</u>
Business-type activities capital assets, net	<u>\$ 2,768,718</u>	<u>\$ (109,186)</u>	<u>\$ -</u>	<u>\$ 2,659,532</u>

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

Governmental activities:	
General government administration	\$ 25,959
Public safety	239,525
Public works	353,087
Education	180,106
Parks, recreation, and culture	81,219
Community development	<u>1,694</u>
Total depreciation expense-governmental activities	<u>\$ 881,590</u>
Business-type activities:	
Water and Sewer Fund	<u>\$ 137,747</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 11-Capital Assets: (Continued)

Capital asset activity for the School Board for the year ended June 30, 2013 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,550	\$ -	\$ -	\$ 4,550
Total capital assets not being depreciated	<u>\$ 4,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,550</u>
Capital assets, being depreciated:				
Buildings	\$ 4,357,610	\$ -	\$ -	\$ 4,357,610
Machinery and equipment	236,660	-	-	236,660
Total capital assets being depreciated	<u>\$ 4,594,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,594,270</u>
Accumulated depreciation:				
Buildings	\$ (2,558,553)	\$ (138,656)	\$ -	\$ (2,697,209)
Machinery and equipment	(179,168)	(12,576)	-	(191,744)
Total accumulated depreciation	<u>\$ (2,737,721)</u>	<u>\$ (151,232)</u>	<u>\$ -</u>	<u>\$ (2,888,953)</u>
Total capital assets being depreciated, net	<u>\$ 1,856,549</u>	<u>\$ (151,232)</u>	<u>\$ -</u>	<u>\$ 1,705,317</u>
School board capital assets, net	<u>\$ 1,861,099</u>	<u>\$ (151,232)</u>	<u>\$ -</u>	<u>\$ 1,709,867</u>

Discretely Presented Component Unit - School Board: (Continued)

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

Education	<u>\$151,232</u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 11-Capital Assets: (Continued)**Discretely Presented Component Units - Nonmajor:

Capital asset activity for the Nonmajor Component Units for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment - Central Dispatch	\$ 892,805	\$ -	\$ -	\$ 892,805
Machinery and equipment - RARO	30,533	-	-	30,533
Machinery and equipment - Regional Tourism	29,490	-	-	29,490
Total capital assets being depreciated	<u>\$ 952,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 952,828</u>
Accumulated depreciation:				
Machinery and equipment - Central Dispatch	\$ (386,557)	\$ (86,138)	\$ -	\$ (472,695)
Machinery and equipment - RARO	(10,865)	(3,971)	-	(14,836)
Machinery and equipment - Regional Tourism	(13,574)	(2,547)	-	(16,121)
Total accumulated depreciation	<u>\$ (410,996)</u>	<u>\$ (92,656)</u>	<u>\$ -</u>	<u>\$ (503,652)</u>
Total capital assets being depreciated, net	<u>\$ 541,832</u>	<u>\$ (92,656)</u>	<u>\$ -</u>	<u>\$ 449,176</u>
Nonmajor component unit capital assets, net	<u>\$ 541,832</u>	<u>\$ (92,656)</u>	<u>\$ -</u>	<u>\$ 449,176</u>

Depreciation expense was charged to functions of the Nonmajor Component Units as follows:

Public safety	\$ 86,138
Parks, recreation, and cultural	3,971
Community development	<u>2,547</u>
Total depreciation expense-nonmajor component units	<u>\$ 92,656</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 12-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 13-Contingent Liabilities:

The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction and recent upgrades of its current wastewater treatment plant. The MSA's debt totaled \$11,193,599 as of June 30, 2013, and is scheduled to be completely retired by June of 2031. The City paid \$718,105 to the MSA in FY13 for half of the debt service; the County of Rockbridge pays an equal assessment. An annual assessment of \$704,330 per year is scheduled thru 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 14-Surety Bonds:

Primary Government:

Virginia Municipal Liability Pool - Surety:

Pat DeLaney, Treasurer	\$	200,000
Wanda Floyd, Deputy Treasurer		200,000
Karen T. Roundy, Commissioner of Revenue		200,000
Alfred Thomas, Chief of Police		200,000

Note 15-Service Contracts:

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

In fiscal year 2013, the City paid the MSA \$1,749,505 for bulk purchases of water and sewer services, as well as a \$718,105 assessment for debt service. The City also received \$1,841,739 from the MSA under the operating agreements described above.

Note 15-Service Contracts: (Continued)

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 2013 was \$24/ton for refuse disposal at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual per student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,100,000 for high school student tuition in 2013.

Note 16-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 842 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 2013, the City received \$1,718,759 from the County representing the revenue sharing payment under this agreement.

Note 17-Litigation:

A suit was filed by the estate of Charles Volpe related to a drowning in 2006. The original case was heard in the Circuit Court of Rockbridge County, the jury deadlocked and the case was dismissed. It was reheard in June 2012 after having been remanded by the Virginia Supreme Court. The jury found that the City was negligent, but awarded only \$100,000 to the Plaintiff. Subsequently the Plaintiff filed a request for Additur and for a new trial, both of which were denied. This decision has been appealed to the Virginia Supreme Court and the attorney for the Plaintiff presented oral argument on October 16, 2013. The Supreme Court has not ruled on the motion for a writ at this time.

The Sons of Confederate Veterans filed suit regarding a decision by the City to allow only the US, state, and City flags to be flown on City property. After losing the original case in Federal Court, Plaintiffs appealed to the Fourth Circuit where the appeal was denied. They have until the end of this month to file with the Supreme Court of the United States which they have publicly indicated they plan to do.

There has been an appeal to the Board of Zoning Appeals (BZA) concerning the timeliness of an appeal which was denied. Further appeals and an action in the Circuit Court have all been dismissed as the parties were able to reach a settlement.

Note 18-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 2013, the City contributed \$171,096 in total for current premiums and prefunding amounts.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 18-Other Postemployment Benefits - Health Insurance: (Continued)****B. Funding Policy (Continued)**

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

	City	School Board	Total
Annual required contribution	\$ 17,249	\$ 48,903	\$ 66,152
Interest on net OPEB obligation	3,799	3,827	7,626
Adjustment to annual required contribution	(3,212)	(3,236)	(6,448)
Annual OPEB cost (expense)	17,836	49,494	67,330
Contributions made	(35,888)	(135,208)	(171,096)
Increase in net OPEB obligation	(18,052)	(85,714)	(103,766)
Net OPEB obligation - beginning of year	50,650	51,026	101,676
Net OPEB obligation (asset) - end of year	\$ 32,598	\$ (34,688)	\$ (2,090)

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 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 17,836	201%	\$ 32,598
6/30/2012	19,732	27%	50,650
6/30/2011	21,900	27%	36,241

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 18-Other Postemployment Benefits - Health Insurance: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2013	\$ 49,494	273%	\$ (34,688)
6/30/2012	54,473	96%	51,026
6/30/2011	60,600	95%	48,707

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 15.1% funded. The actuarial accrued liability (AAL) for benefits was \$685,457, and the actuarial value of assets was \$103,338, resulting in an unfunded actuarial accrued liability (UAAL) of \$582,119. The covered payroll (annual payroll of active employees covered by the plan) was \$4,822,409, and ratio of the UAAL to the covered payroll was 12.07%.

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, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return per annum. An annual healthcare cost trend rate of 10 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage of projected payroll over the remaining amortization period, which at June 30, 2013, was 30 years. Amortizations are open ended in that they begin anew at each valuation date.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 19-Fund Balance Classifications:

Fund balance classifications for the primary government are as follows:

	General Fund	Capital Projects Fund	Permanent Fund
Nonspendable			
Prepays	\$ 61,688	\$ -	\$ -
Corpus	-	-	180,562
Total Nonspendable	\$ 61,688	\$ -	\$ 180,562
Restricted:			
Jail constuction and upgrades	\$ 1,493,396	\$ -	\$ -
Perpetual cemetery care	-	-	1,395,556
Total Restricted	\$ 1,493,396	\$ -	\$ 1,395,556
Committed:			
First aid	\$ 160,506	\$ -	\$ -
Fire	87,850	-	-
Equipment replacement	526,787	-	-
Capital projects	-	982,052	-
Total Committed	\$ 775,143	\$ 982,052	\$ -
Assigned:			
Carryovers	\$ 170,495	\$ -	\$ -
Unassigned	\$ 5,817,394	\$ -	\$ -
Total Fund Balance	\$ 8,318,116	\$ 982,052	\$ 1,576,118

Fund balance classifications for the component units are as follows:

	School Board	Central Dispatch	Rockbridge Area Recreation Organization	Regional Tourism
Restricted:				
Pickeral memorial	\$ -	\$ -	\$ 13,358	\$ -
Committed:				
Equipment replacement	\$ -	\$ 104,237	\$ 7,985	\$ -
Special revenue funds	953,171	-	-	393,818
Total Committed	\$ 953,171	\$ 104,237	\$ 7,985	\$ 393,818
Total Fund Balance	\$ 953,171	\$ 104,237	\$ 21,343	\$ 393,818

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 20-Adoption of Accounting Principles:**Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board:**

The City implemented the financial reporting provisions of the Governmental Accounting Standards Board No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board:

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this Statement resulted in the following restatement of net position:

	General Fund
Net Position at 7/1/2012, as previously reported	\$ 17,683,725
Unamortized Bond Issuance Costs Expensed	(300,222)
OPEB funds transferred to a trust fund	(50,650)
Net Position at 7/1/2012, as restated	<u>17,332,853</u>

Note 21-Restatement of Beginning Net Position:

During the fiscal year 2013, the City established a trust fund for the OPEB assets. Previously, the assets were held in an internal service fund. The restatement of net position is as follows:

	Internal Service Fund	OPEB Trust Fund	School Fund
Net Position at 7/1/2012, as previously reported	\$ 101,676	\$ -	\$ 2,875,601
Establish trust fund	(101,676)	101,676	(51,026)
Net Position at 7/1/2012, as restated	<u>\$ -</u>	<u>\$ 101,676</u>	<u>\$ 2,824,575</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 22-Upcoming Pronouncements:

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The City has not determined the impact of this pronouncement on its financial statements.

Required Supplementary Information

City of Lexington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 4,983,600	\$ 4,983,600	\$ 5,253,894	\$ 270,294
Other local taxes	2,983,800	2,983,800	3,120,959	137,159
Permits, privilege fees, and regulatory licenses	36,800	46,800	254,912	208,112
Fines and forfeitures	100,600	100,600	107,569	6,969
Revenue from the use of money and property	86,800	86,800	96,825	10,025
Charges for services	932,700	949,132	1,012,847	63,715
Miscellaneous	2,041,400	2,120,781	2,278,105	157,324
Recovered costs	221,500	269,292	235,022	(34,270)
Intergovernmental revenues:				
Commonwealth	2,182,438	2,525,634	1,766,924	(758,710)
Federal	27,000	217,418	107,806	(109,612)
Total revenues	<u>\$ 13,596,638</u>	<u>\$ 14,283,857</u>	<u>\$ 14,234,863</u>	<u>\$ (48,994)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,251,808	\$ 1,303,750	\$ 1,258,495	\$ 45,255
Judicial administration	277,991	277,991	284,745	(6,754)
Public safety	3,218,282	3,473,725	3,111,368	362,357
Public works	3,011,251	3,658,587	2,826,116	832,471
Health and welfare	734,082	736,965	679,526	57,439
Education	2,645,583	2,645,583	2,645,583	-
Parks, recreation, and cultural	471,427	482,427	447,827	34,600
Community development	658,376	859,117	781,631	77,486
Nondepartmental	1,077,200	1,040,214	838,565	201,649
Debt service:				
Principal retirement	630,990	630,990	849,704	(218,714)
Interest and other fiscal charges	703,667	703,667	729,011	(25,344)
Total expenditures	<u>\$ 14,680,657</u>	<u>\$ 15,813,016</u>	<u>\$ 14,452,571</u>	<u>\$ 1,360,445</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,084,019)</u>	<u>\$ (1,529,159)</u>	<u>\$ (217,708)</u>	<u>\$ 1,311,451</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 120,000	\$ 120,000
Transfers out	(406,000)	(430,675)	(419,529)	11,146
Issuance of general obligation bonds	-	-	1,582,209	1,582,209
Premium on general obligation bonds	-	-	1,408,427	1,408,427
Issuance of refunding general obligation bonds	-	-	9,545,000	9,545,000
Payment to refunded bonds escrow agent	-	-	(10,730,526)	(10,730,526)
Total other financing sources (uses)	<u>\$ (406,000)</u>	<u>\$ (430,675)</u>	<u>\$ 1,505,581</u>	<u>\$ 1,936,256</u>
Net change in fund balances	<u>\$ (1,490,019)</u>	<u>\$ (1,959,834)</u>	<u>\$ 1,287,873</u>	<u>\$ 3,247,707</u>
Fund balances - beginning	-	-	7,030,243	7,030,243
Fund balances - ending	<u>\$ (1,490,019)</u>	<u>\$ (1,959,834)</u>	<u>\$ 8,318,116</u>	<u>\$ 10,277,950</u>

**REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2013**

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.
9. 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
Schedules of Pension and OPEB Funding Progress
June 30, 2013

Primary Government:

City Retirement 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)
6/30/2012	\$ 15,931,495	\$ 22,279,887	\$ 6,348,392	71.51%	\$ 4,822,409	131.64%
6/30/2011	16,058,891	21,434,004	5,375,113	74.92%	4,256,042	126.29%
6/30/2010	15,632,479	20,486,431	4,853,952	76.31%	4,374,190	110.97%

Discretely Presented Component Unit - School Board:

Non-professional Employees Retirement 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)
6/30/2011	\$ 478,429	\$ 377,652	\$ (100,777)	126.69%	\$ 50,732	-198.65%
6/30/2010	486,719	373,106	(113,613)	130.45%	80,172	-141.71%

* As of fiscal year 2013 the non-professional employees have been absorbed by the City's plan.

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)
7/1/2012	\$ 103,338	\$ 685,457	\$ 582,119	15.08%	\$ 4,822,409	12.07%
7/1/2010R*	-	699,700	699,700	0.00%	4,306,774	16.25%
7/1/2010	-	857,800	857,800	0.00%	4,454,362	19.26%

* Actuarial valuation from 7/1/2010 numbers were rolled forward to present numbers for the FY 2011.

Other Supplementary Information

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Miscellaneous	\$ -	\$ 31,500	\$ 56,659	\$ 25,159
Intergovernmental revenues:				
Federal	-	1,340,884	513,930	(826,954)
Total revenues	\$ -	\$ 1,372,384	\$ 570,589	\$ (801,795)
EXPENDITURES				
Current:				
General government administration	\$ 305,000	\$ 965,776	\$ -	\$ 965,776
Public works	20,000	450,467	90,606	359,861
Education	-	-	65,000	(65,000)
Parks, recreation, and cultural	64,000	618,735	178,853	439,882
Community development	-	911,348	797,243	114,105
Total expenditures	\$ 389,000	\$ 2,946,326	\$ 1,131,702	\$ 1,814,624
Excess (deficiency) of revenues over (under) expenditures	\$ (389,000)	\$ (1,573,942)	\$ (561,113)	\$ 1,012,829
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 389,000	\$ 413,675	\$ 410,654	\$ (3,021)
Total other financing sources uses	\$ 389,000	\$ 413,675	\$ 410,654	\$ (3,021)
Net change in fund balances	\$ -	\$ (1,160,267)	\$ (150,459)	\$ 1,009,808
Fund balances - beginning	-	-	1,132,511	1,132,511
Fund balances - ending	\$ -	\$ (1,160,267)	\$ 982,052	\$ 2,142,319

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2013

	School Operating <u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,311,258
Receivables (net of allowance for uncollectibles):	
Accounts receivable	90
Due from other governmental units	189,394
Total assets	<u>\$ 1,500,742</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 83,163
Payroll liabilities	41,563
Contracts payable	377,450
Deferred revenue	45,395
Total liabilities	<u>\$ 547,571</u>
Fund balances:	
Committed	\$ 953,171
Total fund balances	<u>\$ 953,171</u>
Total liabilities and fund balances	<u>\$ 1,500,742</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 953,171
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 4,550
Buildings and improvements	1,660,401
Machinery and equipment	<u>44,916</u>
	1,709,867
The net OPEB asset is not an available resource and, therefore, is not reported in the funds.	34,688
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(118,028)
Net position of governmental activities	<u>\$ 2,579,698</u>

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, 2013

	School Operating Fund
REVENUES	
Revenue from the use of money and property	\$ 4,327
Charges for services	246,253
Miscellaneous	6,153
Recovered costs	12,364
Intergovernmental revenues:	
Local government	2,710,583
Commonwealth	2,622,004
Federal	260,211
Total revenues	<u>\$ 5,861,895</u>
EXPENDITURES	
Current:	
Education	\$ 5,892,438
Capital projects	134,299
Total expenditures	<u>\$ 6,026,737</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (164,842)</u>
Net change in fund balances	\$ (164,842)
Fund balances - beginning	1,118,013
Fund balances - ending	<u>\$ 953,171</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	\$ (164,842)
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 of depreciation expense in the current period.	
Depreciation expenses	(151,232)
OPEB costs are recognized as expenditures in the fund statements, but are deferred in the government-wide statements.	85,714
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.	
Decrease (increase) in compensated absences	(14,517)
Change in net position of governmental activities	<u>\$ (244,877)</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, 2013

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 4,600	\$ 4,600	\$ 4,327	\$ (273)
Charges for services	244,801	244,801	246,253	1,452
Miscellaneous	130,600	600	6,153	5,553
Recovered costs	-	-	12,364	12,364
Intergovernmental revenues:				
Local government	2,645,583	2,645,583	2,710,583	65,000
Commonwealth	2,543,469	2,543,469	2,622,004	78,535
Federal	215,657	262,798	260,211	(2,587)
Total revenues	<u>\$ 5,784,710</u>	<u>\$ 5,701,851</u>	<u>\$ 5,861,895</u>	<u>\$ 160,044</u>
EXPENDITURES				
Current:				
Education	\$ 5,934,710	\$ 6,292,163	\$ 5,892,438	\$ 399,725
Capital projects	-	69,326	134,299	(64,973)
Total expenditures	<u>\$ 5,934,710</u>	<u>\$ 6,361,489</u>	<u>\$ 6,026,737</u>	<u>\$ 334,752</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (150,000)</u>	<u>\$ (659,638)</u>	<u>\$ (164,842)</u>	<u>\$ 494,796</u>
Net change in fund balances	\$ (150,000)	\$ (659,638)	\$ (164,842)	\$ 494,796
Fund balances - beginning	-	-	1,118,013	1,118,013
Fund balances - ending	<u>\$ (150,000)</u>	<u>\$ (659,638)</u>	<u>\$ 953,171</u>	<u>\$ 1,612,809</u>

City of Lexington, Virginia
Combining Balance Sheet
Discretely Presented Nonmajor Component Units
June 30, 2013

	Rockbridge Area Recreation			
	Central Dispatch	Organization	Regional Tourism	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 68,414	\$ 7,454	\$ 421,376	\$ 497,244
Receivables (net of allowance for uncollectibles):				
Accounts receivable	72,815	33,050	210	106,075
Due from other governmental units	8,989	17,133	-	26,122
Total assets	<u>\$ 150,218</u>	<u>\$ 57,637</u>	<u>\$ 421,586</u>	<u>\$ 629,441</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 37,283	\$ 6,233	\$ 27,768	\$ 71,284
Due to primary government	-	30,061	-	30,061
Due to other governmental units	8,698	-	-	8,698
Total liabilities	<u>\$ 45,981</u>	<u>\$ 36,294</u>	<u>\$ 27,768</u>	<u>\$ 110,043</u>
Fund balances:				
Restricted	\$ -	\$ 13,358	\$ -	\$ 13,358
Committed	104,237	7,985	393,818	506,040
Total fund balances	<u>\$ 104,237</u>	<u>\$ 21,343</u>	<u>\$ 393,818</u>	<u>\$ 519,398</u>
Total liabilities and fund balances	<u>\$ 150,218</u>	<u>\$ 57,637</u>	<u>\$ 421,586</u>	<u>\$ 629,441</u>

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because

Total fund balances per above \$ 519,398

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

Machinery and equipment 449,176

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

Compensated absences (62,356)

Net position of governmental activities \$ 906,218

City of Lexington, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Units
For the Year Ended June 30, 2013

	Rockbridge Area Recreation			
	Central Dispatch Fund	Organization Fund	Regional Tourism Fund	Total
REVENUES				
Revenue from the use of money and property	\$ 4,724	\$ 22	\$ -	\$ 4,746
Charges for services	-	111,313	6,637	117,950
Miscellaneous	100	32,003	6,952	39,055
Recovered costs	888,427	261,308	403,444	1,553,179
Intergovernmental revenues:				
Local government	208,999	66,134	185,581	460,714
Commonwealth	104,921	-	-	104,921
Federal	2,977	-	-	2,977
Total revenues	<u>\$ 1,210,148</u>	<u>\$ 470,780</u>	<u>\$ 602,614</u>	<u>\$ 2,283,542</u>
EXPENDITURES				
Current:				
Public safety	\$ 1,148,574	\$ -	\$ -	\$ 1,148,574
Parks, recreation, and cultural	-	470,756	-	470,756
Community development	-	-	616,195	616,195
Total expenditures	<u>\$ 1,148,574</u>	<u>\$ 470,756</u>	<u>\$ 616,195</u>	<u>\$ 2,235,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 61,574</u>	<u>\$ 24</u>	<u>\$ (13,581)</u>	<u>\$ 48,017</u>
Net change in fund balances	\$ 61,574	\$ 24	\$ (13,581)	\$ 48,017
Fund balances - beginning	42,663	21,319	407,399	471,381
Fund balances - ending	<u>\$ 104,237</u>	<u>\$ 21,343</u>	<u>\$ 393,818</u>	<u>\$ 519,398</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 \$ 48,017

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 of depreciation expense in the current period.

Depreciation expenses (92,656)

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.

Decrease (increase) in compensated absences 2,526

Change in net position of governmental activities \$ (42,113)

City of Lexington, Virginia
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Discretely Presented Nonmajor Component Units
 For the Year Ended June 30, 2013

	Central Dispatch Fund				Rockbridge Area Recreation Organization (RARO)				Regional Tourism			
	Budgeted Amounts		Actual		Budgeted Amounts		Actual		Budgeted Amounts		Actual	
	Original	Final			Original	Final			Original	Final		
REVENUES												
Revenue from the use of money and property	\$ -	\$ -	\$ 4,724	\$ 4,724	\$ -	\$ -	\$ 22	\$ 22	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	126,095	126,095	111,313	(14,782)	6,800	6,800	6,637	(163)
Miscellaneous	-	-	100	100	15,000	15,000	32,003	17,003	2,700	2,700	6,952	4,252
Recovered costs	921,823	921,823	888,427	(33,396)	227,454	227,454	261,308	33,854	403,444	403,444	403,444	-
Intergovernmental revenues:												
Local government	217,496	217,496	208,999	(8,497)	96,195	96,195	66,134	(30,061)	185,581	185,581	185,581	-
Commonwealth	104,000	104,000	104,921	921	-	-	-	-	-	-	-	-
Federal	-	-	2,977	2,977	-	-	-	-	-	-	-	-
Total revenues	\$ 1,243,319	\$ 1,243,319	\$ 1,210,148	\$ (33,171)	\$ 464,744	\$ 464,744	\$ 470,780	\$ 6,036	\$ 598,525	\$ 598,525	\$ 602,614	\$ 4,089
EXPENDITURES												
Current:												
Public safety	\$ 1,254,692	\$ 1,254,692	\$ 1,148,574	\$ 106,118	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, recreation, and cultural	-	-	-	-	464,744	464,744	470,756	(6,012)	-	-	-	-
Community development	-	-	-	-	-	-	-	-	598,525	598,525	616,195	(17,670)
Total expenditures	\$ 1,254,692	\$ 1,254,692	\$ 1,148,574	\$ 106,118	\$ 464,744	\$ 464,744	\$ 470,756	\$ (6,012)	\$ 598,525	\$ 598,525	\$ 616,195	\$ (17,670)
Excess (deficiency) of revenues over (under) expenditures	\$ (11,373)	\$ (11,373)	\$ 61,574	\$ 72,947	\$ -	\$ -	\$ 24	\$ 24	\$ -	\$ -	\$ (13,581)	\$ (13,581)
Net change in fund balances	\$ (11,373)	\$ (11,373)	\$ 61,574	\$ 72,947	\$ -	\$ -	\$ 24	\$ 24	\$ -	\$ -	\$ (13,581)	\$ (13,581)
Fund balances - beginning	-	-	42,663	42,663	-	-	21,319	21,319	-	-	407,399	407,399
Fund balances - ending	\$ (11,373)	\$ (11,373)	\$ 104,237	\$ 115,610	\$ -	\$ -	\$ 21,343	\$ 21,343	\$ -	\$ -	\$ 393,818	\$ 393,818

Supporting Schedules

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 4,257,700	\$ 4,257,700	\$ 4,399,095	\$ 141,395
Real and personal public service corporation taxes	98,500	98,500	132,043	33,543
Personal property taxes	583,300	583,300	647,771	64,471
Penalties	27,700	27,700	42,499	14,799
Interest	16,400	16,400	32,486	16,086
Total general property taxes	\$ 4,983,600	\$ 4,983,600	\$ 5,253,894	\$ 270,294
Other local taxes:				
Local sales and use taxes	\$ 819,000	\$ 819,000	\$ 852,197	\$ 33,197
Consumers' utility taxes	311,300	311,300	308,964	(2,336)
Consumption taxes	27,100	27,100	26,265	(835)
Business license taxes	542,700	542,700	631,105	88,405
Bank stock taxes	118,500	118,500	107,265	(11,235)
Taxes on recordation and wills	48,100	48,100	59,632	11,532
Hotel and motel room taxes	230,000	230,000	245,797	15,797
Restaurant food taxes	887,100	887,100	889,734	2,634
Total other local taxes	\$ 2,983,800	\$ 2,983,800	\$ 3,120,959	\$ 137,159
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 5,700	\$ 5,700	\$ 5,954	\$ 254
Building permits	30,000	40,000	241,348	201,348
Excavation permits	1,000	1,000	2,050	1,050
Hunting and fishing permits	100	100	107	7
Permits and other licenses	-	-	5,453	5,453
Total permits, privilege fees, and regulatory licenses	\$ 36,800	\$ 46,800	\$ 254,912	\$ 208,112
Fines and forfeitures:				
Court fines and forfeitures	\$ 51,200	\$ 51,200	\$ 55,955	\$ 4,755
Parking fines	39,500	39,500	41,320	1,820
Courthouse fees	9,200	9,200	10,294	1,094
Asset Forfeiture	700	700	-	(700)
Total fines and forfeitures	\$ 100,600	\$ 100,600	\$ 107,569	\$ 6,969
Revenue from use of money and property:				
Revenue from use of money	\$ 50,900	\$ 50,900	\$ 53,867	\$ 2,967
Revenue from use of property	35,900	35,900	42,958	7,058
Total revenue from use of money and property	\$ 86,800	\$ 86,800	\$ 96,825	\$ 10,025
Charges for services:				
Charges for finance	\$ 63,100	\$ 63,100	\$ 63,018	\$ (82)
Charges for public safety	14,900	15,332	17,232	1,900
Charges for youth services	7,900	7,900	8,178	278
Charges for public works	56,000	38,000	47,201	9,201
Charges for grave openings	40,900	40,900	35,675	(5,225)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for rescue services	\$ 350,000	\$ 384,000	\$ 457,689	\$ 73,689
Charges for burial spaces	29,800	29,800	17,750	(12,050)
Charges for recreation	92,000	92,000	70,599	(21,401)
Charges for sanitation and waste removal	138,600	138,600	138,579	(21)
Charges for landfill fees	129,600	129,600	144,370	14,770
Charges for community activity support	6,800	6,800	6,880	80
Charges for farmer's market	3,000	3,000	3,190	190
Charges for other services	100	100	2,486	2,386
Total charges for services	\$ 932,700	\$ 949,132	\$ 1,012,847	\$ 63,715
Miscellaneous revenue:				
Miscellaneous	\$ 336,600	\$ 415,981	\$ 559,346	\$ 143,365
County revenue sharing	1,704,800	1,704,800	1,718,759	13,959
Total miscellaneous revenue	\$ 2,041,400	\$ 2,120,781	\$ 2,278,105	\$ 157,324
Recovered costs:				
Joint services fire and rescue	\$ 219,700	\$ 219,700	\$ 187,585	\$ (32,115)
Parking Garage	1,800	1,800	1,202	(598)
Insurance	-	47,792	46,235	(1,557)
Total recovered costs	\$ 221,500	\$ 269,292	\$ 235,022	\$ (34,270)
Total revenue from local sources	\$ 11,387,200	\$ 11,540,805	\$ 12,360,133	\$ 819,328
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 300	\$ 300	\$ -	\$ (300)
Mobile home titling tax	100	100	180	80
Motor vehicle rental tax	2,000	2,000	4,404	2,404
State recordation tax	16,100	16,100	15,535	(565)
Communications tax	298,200	298,200	328,996	30,796
Personal property tax relief funds	581,200	581,200	360,865	(220,335)
Other noncategorical aid	1,000	1,000	850	(150)
Total noncategorical aid	\$ 898,900	\$ 898,900	\$ 710,830	\$ (188,070)
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 183,600	\$ 183,600	\$ 191,280	\$ 7,680
Commissioner of revenue	69,300	69,300	70,943	1,643
Treasurer	54,700	54,700	55,187	487
Registrar/electoral board	28,400	28,400	27,370	(1,030)
Reduction in state aid	-	-	(23,050)	(23,050)
Total shared expenses	\$ 336,000	\$ 336,000	\$ 321,730	\$ (14,270)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid:				
Street maintenance	\$ 618,900	\$ 957,065	\$ 375,585	\$ (581,480)
Welfare payments	229,300	229,300	206,815	(22,485)
Comprehensive services	69,138	68,138	78,940	10,802
Fire program grant	18,200	24,231	8,701	(15,530)
Four for life	3,500	3,500	3,781	281
Forfeited asset sharing	-	-	11,928	11,928
Arts grant	5,000	5,000	5,000	-
RSIF Grant	-	-	8,500	8,500
DOF grant	-	-	3,034	3,034
Criminal justice services grant	3,500	3,500	500	(3,000)
Other categorical aid	-	-	31,580	31,580
Total other categorical aid	<u>\$ 947,538</u>	<u>\$ 1,290,734</u>	<u>\$ 734,364</u>	<u>\$ (556,370)</u>
Total categorical aid	<u>\$ 1,283,538</u>	<u>\$ 1,626,734</u>	<u>\$ 1,056,094</u>	<u>\$ (570,640)</u>
Total revenue from the Commonwealth	<u>\$ 2,182,438</u>	<u>\$ 2,525,634</u>	<u>\$ 1,766,924</u>	<u>\$ (758,710)</u>
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ 22,000	\$ 22,000	\$ 4,526	\$ (17,474)
Department of motor vehicles grant	5,000	7,418	6,651	(767)
FEMA grant	-	188,000	96,629	(91,371)
Total categorical aid	<u>\$ 27,000</u>	<u>\$ 217,418</u>	<u>\$ 107,806</u>	<u>\$ (109,612)</u>
Total revenue from the federal government	<u>\$ 27,000</u>	<u>\$ 217,418</u>	<u>\$ 107,806</u>	<u>\$ (109,612)</u>
Total General Fund	<u>\$ 13,596,638</u>	<u>\$ 14,283,857</u>	<u>\$ 14,234,863</u>	<u>\$ (48,994)</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Capital Projects Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ 31,500	\$ 56,659	\$ 25,159
Revenue from the federal government:				
Categorical aid:				
TEA - 21 grant	\$ -	\$ 674,097	\$ 92,592	\$ (581,505)
CDBG	-	466,787	421,338	(45,449)
Other Categorical aid	-	200,000	-	(200,000)
Total categorical aid	\$ -	\$ 1,340,884	\$ 513,930	\$ (826,954)
Total revenue from the federal government	\$ -	\$ 1,340,884	\$ 513,930	\$ (826,954)
Total Capital Projects Fund	\$ -	\$ 1,372,384	\$ 570,589	\$ (801,795)
Permanent Fund				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 207,544	\$ 207,544
Total Permanent Fund	\$ -	\$ -	\$ 207,544	\$ 207,544
Total Primary Government	\$ 13,596,638	\$ 15,656,241	\$ 15,012,996	\$ (643,245)
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	\$ 394	\$ 94
Revenue from the use of property	4,300	4,300	3,933	(367)
Total revenue from use of money and property	\$ 4,600	\$ 4,600	\$ 4,327	\$ (273)
Charges for services:				
Cafeteria sales	\$ 80,000	\$ 80,000	\$ 56,992	\$ (23,008)
Tuition and payments from other divisions	164,801	164,801	189,261	24,460
Total charges for services	\$ 244,801	\$ 244,801	\$ 246,253	\$ 1,452
Miscellaneous revenue:				
Other miscellaneous	\$ 130,600	\$ 600	\$ 6,153	\$ 5,553
Recovered costs:				
Other recovered costs	\$ -	\$ -	\$ 12,364	\$ 12,364
Total revenue from local sources	\$ 380,001	\$ 250,001	\$ 269,097	\$ 19,096

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 2,645,583	\$ 2,645,583	\$ 2,710,583	\$ 65,000
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 427,616	\$ 427,616	\$ 406,724	\$ (20,892)
Basic school aid	1,453,160	1,453,160	1,524,998	71,838
Remedial summer education	14,023	14,023	14,490	467
Gifted and talented	14,349	14,349	14,976	627
Remedial education	21,197	21,197	22,123	926
Special education	154,248	154,248	160,991	6,743
Textbook payment	29,261	29,261	30,541	1,280
Regional programs	-	-	15,075	15,075
Social security fringe benefits	88,701	88,701	92,578	3,877
Retirement fringe benefits	148,052	148,052	154,524	6,472
Group life insurance instructional	5,544	5,544	5,786	242
Early reading intervention	9,256	9,256	6,171	(3,085)
Homebound education	81	81	-	(81)
At risk payments	8,280	8,280	8,649	369
School food	1,761	1,761	-	(1,761)
Technology	102,000	102,000	102,000	-
Vocational education	28,371	28,371	29,611	1,240
Mentor teacher program	-	-	491	491
English as a second language	17,971	17,971	9,133	(8,838)
National Board Certified	-	-	2,500	2,500
Other state funds	19,598	19,598	20,643	1,045
Total categorical aid	\$ 2,543,469	\$ 2,543,469	\$ 2,622,004	\$ 78,535
Total revenue from the Commonwealth	\$ 2,543,469	\$ 2,543,469	\$ 2,622,004	\$ 78,535
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 51,096	\$ 56,033	\$ 53,822	\$ (2,211)
Title VI-B - Special education, grants to states	115,291	126,678	103,623	(23,055)
Title VI-B - Special education, pre-school grant	-	-	2,942	2,942
National School lunch program	35,000	35,000	50,085	15,085
National School breakfast program	-	-	8,758	8,758
Title II, part A	-	28,288	20,156	(8,132)
Title III, part A	-	2,529	3,726	1,197

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the federal government: (Continued)				
Categorical aid: (Continued)				
Headstart	\$ 12,545	\$ 12,545	\$ 15,373	\$ 2,828
ARRA Ed jobs fund	1,725	1,725	1,726	1
Total categorical aid	\$ 215,657	\$ 262,798	\$ 260,211	\$ (2,587)
Total revenue from the federal government	\$ 215,657	\$ 262,798	\$ 260,211	\$ (2,587)
Total Discretely Presented Component Unit - School Board	\$ 5,784,710	\$ 5,701,851	\$ 5,861,895	\$ 160,044
Nonmajor Funds:				
Central Dispatch Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ -	\$ -	\$ 4,724	\$ 4,724
Miscellaneous revenue:				
Other miscellaneous	\$ -	\$ -	\$ 100	\$ 100
Recovered costs:				
City of Buena Vista	\$ 207,926	\$ 207,926	\$ 200,393	\$ (7,533)
County of Rockbridge	668,552	668,552	644,332	(24,220)
VMI	45,345	45,345	43,702	(1,643)
Total recovered costs	\$ 921,823	\$ 921,823	\$ 888,427	\$ (33,396)
Total revenue from local sources	\$ 921,823	\$ 921,823	\$ 893,251	\$ (28,572)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 217,496	\$ 217,496	\$ 208,999	\$ (8,497)
Revenue from the Commonwealth:				
Categorical aid:				
Virginia wireless	\$ 104,000	\$ 104,000	\$ 104,127	\$ 127
Other categorical aid	-	-	794	794
Total categorical aid	104,000	104,000	104,921	921
Total revenue from the Commonwealth	104,000	104,000	104,921	921
Revenue from the Federal Government:				
Categorical aid:				
FEMA grant	\$ -	\$ -	\$ 2,977	\$ 2,977
Total Central Dispatch Fund	\$ 1,243,319	\$ 1,243,319	\$ 1,210,148	\$ (33,171)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Rockbridge Area Recreation Organization (RARO):				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 22	\$ 22
Charges for services:				
Charges for programs	\$ 126,095	\$ 126,095	\$ 111,313	\$ (14,782)
Miscellaneous revenue:				
Other miscellaneous	\$ 15,000	\$ 15,000	\$ 32,003	\$ 17,003
Recovered costs:				
County of Rockbridge	\$ 227,454	\$ 227,454	\$ 261,308	\$ 33,854
Total revenue from local sources	\$ 368,549	\$ 368,549	\$ 404,646	\$ 36,097
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 96,195	\$ 96,195	\$ 66,134	\$ (30,061)
Total Rockbridge Area Recreation Organization (RARO)	\$ 464,744	\$ 464,744	\$ 470,780	\$ 6,036
Regional Tourism:				
Revenue from local sources:				
Charges for services:				
Charges for tours	\$ 3,200	\$ 3,200	\$ 3,692	\$ 492
Other charges for services	3,600	3,600	2,945	(655)
Total charges for services	\$ 6,800	\$ 6,800	\$ 6,637	\$ (163)
Miscellaneous revenue:				
Other miscellaneous	\$ 2,700	\$ 2,700	\$ 6,952	\$ 4,252
Recovered costs:				
City of Buena Vista	\$ 35,876	\$ 35,876	\$ 35,876	\$ -
County of Rockbridge	367,568	367,568	367,568	-
Total recovered costs	\$ 403,444	\$ 403,444	\$ 403,444	\$ -
Total revenue from local sources	\$ 412,944	\$ 412,944	\$ 417,033	\$ 4,089
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 185,581	\$ 185,581	\$ 185,581	\$ -
Total Regional Tourism	\$ 598,525	\$ 598,525	\$ 602,614	\$ 4,089
Total Nonmajor Component Units	\$ 2,306,588	\$ 2,306,588	\$ 2,283,542	\$ (23,046)

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
General government administration:				
Legislative:				
City council	\$ 49,668	\$ 49,668	\$ 47,767	\$ 1,901
General and financial administration:				
City manager	\$ 183,306	\$ 188,645	\$ 190,838	\$ (2,193)
Director of finance	274,587	290,426	277,369	13,057
City attorney	62,267	82,067	81,721	346
Commissioner of revenue	228,436	228,436	228,807	(371)
Assessment board	2,500	2,500	282	2,218
Treasurer	163,908	174,872	173,378	1,494
Human Resources	68,093	68,093	66,171	1,922
Information technology	158,078	158,078	135,397	22,681
Total general and financial administration	\$ 1,141,175	\$ 1,193,117	\$ 1,153,963	\$ 39,154
Board of elections:				
Electoral board and officials	\$ 60,965	\$ 60,965	\$ 56,765	\$ 4,200
Total general government administration	\$ 1,251,808	\$ 1,303,750	\$ 1,258,495	\$ 45,255
Judicial administration:				
Courts:				
Judicial services	\$ 200,882	\$ 200,882	\$ 213,463	\$ (12,581)
VJCCCA services	77,109	77,109	71,282	5,827
Total courts	\$ 277,991	\$ 277,991	\$ 284,745	\$ (6,754)
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,557,018	\$ 1,568,821	\$ 1,507,797	\$ 61,024
Contributions to Central dispatch - component unit	217,496	217,496	208,999	8,497
Total law enforcement and traffic control	\$ 1,774,514	\$ 1,786,317	\$ 1,716,796	\$ 69,521
Fire and rescue services:				
Fire department	\$ 1,028,573	\$ 1,117,213	\$ 950,455	\$ 166,758
Fire department - reserve activity	15,200	15,200	12,586	2,614
Rescue services - reserve activity	220,000	375,000	216,768	158,232
Total fire and rescue services	\$ 1,263,773	\$ 1,507,413	\$ 1,179,809	\$ 327,604
Correction and detention:				
Juvenile probation and detention	\$ 96,292	\$ 96,292	\$ 71,841	\$ 24,451
Special services	83,703	83,703	78,847	4,856
Contributions to rockbridge regional jail	-	-	64,075	(64,075)
Total correction and detention	\$ 179,995	\$ 179,995	\$ 214,763	\$ (34,768)
Total public safety	\$ 3,218,282	\$ 3,473,725	\$ 3,111,368	\$ 362,357

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 450,504	\$ 788,669	\$ 339,997	\$ 448,672
Public works labor pool	247,800	273,607	114,344	159,263
Equipment operations	268,783	268,783	279,878	(11,095)
Pavement Maintenance	48,693	48,693	35,045	13,648
Drain Maintenance	61,156	61,156	44,979	16,177
Snow Removal	75,585	75,585	50,620	24,965
Traffic	266,940	267,865	211,632	56,233
Parking Garage	18,224	18,224	12,143	6,081
Emergency Need	2,300	2,300	-	2,300
Community activity support	46,151	47,779	47,579	200
Public works administration	167,650	184,764	182,050	2,714
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,653,786	\$ 2,037,425	\$ 1,318,267	\$ 719,158
Sanitation and waste removal:				
Solid waste management	\$ 880,461	\$ 1,065,461	\$ 1,058,340	\$ 7,121
Maintenance of general buildings and grounds:				
General properties	\$ 122,324	\$ 131,911	\$ 104,093	\$ 27,818
Park maintenance	207,848	275,742	207,777	67,965
Cemeteries maintenance	146,832	148,048	137,639	10,409
Total maintenance of general buildings and grounds	\$ 477,004	\$ 555,701	\$ 449,509	\$ 106,192
Total public works	\$ 3,011,251	\$ 3,658,587	\$ 2,826,116	\$ 832,471
Health and welfare:				
Health:				
Health and welfare	\$ 661,755	\$ 664,638	\$ 607,639	\$ 56,999
Youth services administration	72,327	72,327	71,887	440
Total health	\$ 734,082	\$ 736,965	\$ 679,526	\$ 57,439
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	\$ 2,645,583	\$ 2,645,583	\$ 2,645,583	\$ -
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 254,808	\$ 265,808	\$ 269,447	\$ (3,639)
Municipal swimming pool	120,424	120,424	112,246	8,178
Contribution to RARO - component unit	96,195	96,195	66,134	30,061
Total parks and recreation	\$ 471,427	\$ 482,427	\$ 447,827	\$ 34,600

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning and development	\$ 125,283	\$ 213,283	\$ 207,036	\$ 6,247
Housing program	4,900	4,900	5,548	(648)
City Arborist	33,916	33,916	27,828	6,088
Community development contributions	303,696	403,781	355,638	48,143
Water quality management	5,000	17,656	-	17,656
Contribution to regional tourism - component unit	185,581	185,581	185,581	-
Total planning and community development	<u>\$ 658,376</u>	<u>\$ 859,117</u>	<u>\$ 781,631</u>	<u>\$ 77,486</u>
Nondepartmental:				
Nondepartmental	\$ 1,077,200	\$ 1,040,214	\$ 838,565	\$ 201,649
Debt service:				
Principal retirement	\$ 630,990	\$ 630,990	\$ 849,704	\$ (218,714)
Interest and other fiscal charges	703,667	703,667	729,011	(25,344)
Total debt service	<u>\$ 1,334,657</u>	<u>\$ 1,334,657</u>	<u>\$ 1,578,715</u>	<u>\$ (244,058)</u>
Total General Fund	<u>\$ 14,680,657</u>	<u>\$ 15,813,016</u>	<u>\$ 14,452,571</u>	<u>\$ 1,360,445</u>
Capital Projects Fund:				
General government administration:				
General and financial administration:				
City hall improvements	\$ 250,000	\$ 333,000	\$ -	\$ 333,000
WES-Replace	55,000	555,000	-	555,000
E.E. Project	-	77,776	-	77,776
Total general and financial administration	<u>\$ 305,000</u>	<u>\$ 965,776</u>	<u>\$ -</u>	<u>\$ 965,776</u>
Total general government administration	<u>\$ 305,000</u>	<u>\$ 965,776</u>	<u>\$ -</u>	<u>\$ 965,776</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Courthouse square lot improvement	\$ -	\$ 20,000	\$ -	\$ 20,000
Randolph street utility line	-	332,076	29,211	302,865
E. Nelson/Walker traffic	-	-	24,417	(24,417)
Miscellaneous access improvements	5,000	5,000	1,220	3,780
Nelson street bridge	15,000	52,588	19,442	33,146
Public works improvements	-	40,803	16,316	24,487
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 20,000</u>	<u>\$ 450,467</u>	<u>\$ 90,606</u>	<u>\$ 359,861</u>
Total public works	<u>\$ 20,000</u>	<u>\$ 450,467</u>	<u>\$ 90,606</u>	<u>\$ 359,861</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Capital Projects Fund: (Continued)				
Education:				
Capital projects:				
Contribution to City School Board - component unit	\$ -	\$ -	\$ 65,000	(65,000)
Parks, recreation, and cultural:				
Parks and recreation:				
Jordan's point park	\$ -	\$ 121,240	\$ 111,695	\$ 9,545
Jordan's point park trail connection	-	400,000	208	399,792
Skateboard park	-	8,820	-	8,820
Sarah run	-	24,675	-	24,675
Swimming pool	64,000	64,000	66,950	(2,950)
Total parks and recreation	\$ 64,000	\$ 618,735	\$ 178,853	\$ 439,882
Total parks, recreation, and cultural	\$ 64,000	\$ 618,735	\$ 178,853	\$ 439,882
Community development				
Planning and community development				
Thompson's knoll housing project	\$ -	\$ 911,348	\$ 797,243	114,105
Total community development	\$ -	\$ 911,348	\$ 797,243	\$ 114,105
Total Capital Projects Fund	\$ 389,000	\$ 2,946,326	\$ 1,131,702	\$ 1,814,624
Permanent Fund:				
Parks, recreation, and cultural:				
Parks and recreation:				
Cemetery	\$ -	\$ -	\$ 42,741	(42,741)
Total Permanent Fund	\$ -	\$ -	\$ 42,741	(42,741)
Total Primary Government	\$ 15,069,657	\$ 18,759,342	\$ 15,627,014	\$ 3,132,328
Discretely Presented Component Units:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration, attendance, & health	\$ 364,298	\$ 364,298	\$ 359,105	\$ 5,193
Instruction costs:				
Classroom instruction	\$ 4,911,450	\$ 5,227,903	\$ 4,847,753	\$ 380,150
OPEB contribution	2,300	2,300	-	2,300
Total instruction costs	4,913,750	5,230,203	4,847,753	382,450

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
School Operating Fund: (Continued)				
Education: (Continued)				
School food services:				
Administration of school food program	\$ 172,759	\$ 177,759	\$ 174,352	\$ 3,407
Operating costs:				
Operation and maintenance of school plant	\$ 483,903	\$ 519,903	\$ 511,228	\$ 8,675
Total education	\$ 5,934,710	\$ 6,292,163	\$ 5,892,438	\$ 399,725
Capital projects:				
Middle school	\$ -	\$ 69,326	\$ 69,299	\$ 27
Wadell Improvements	-	-	65,000	(65,000)
Total capital projects	\$ -	\$ 69,326	\$ 134,299	\$ (64,973)
Total Discretely Presented Component Unit - School Board	\$ 5,934,710	\$ 6,361,489	\$ 6,026,737	\$ 334,752
Nonmajor Funds:				
Central Dispatch Fund:				
Public safety:				
Law enforcement and traffic control:				
Central dispatch	\$ 1,254,692	\$ 1,254,692	\$ 1,148,574	\$ 106,118
Total Central Dispatch Fund	\$ 1,254,692	\$ 1,254,692	\$ 1,148,574	\$ 106,118
Rockbridge Area Recreation Organization (RARO):				
Parks, recreation, and cultural:				
Parks and recreation:				
Administration	\$ 303,421	\$ 303,421	\$ 306,888	\$ (3,467)
Programs	161,323	161,323	163,868	(2,545)
Total parks and recreation	\$ 464,744	\$ 464,744	\$ 470,756	\$ (6,012)
Total Rockbridge Area Recreation Organization (RARO)	\$ 464,744	\$ 464,744	\$ 470,756	\$ (6,012)
Regional Tourism:				
Community development:				
Planning and community development:				
Tourism	\$ 598,525	\$ 598,525	\$ 616,195	\$ (17,670)
Other planning and community development	-	-	-	-
Total planning and community development	\$ 598,525	\$ 598,525	\$ 616,195	\$ (17,670)
Total Regional Tourism	\$ 598,525	\$ 598,525	\$ 616,195	\$ (17,670)
Total Nonmajor Component Units	\$ 2,317,961	\$ 2,317,961	\$ 2,235,525	\$ 82,436

STATISTICAL SECTION

STATISTICAL SECTION

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

Contents	Page
Financial Trends	90
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	100
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	104
<i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	108
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	110
<i>These shedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

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

Table 1

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Invested in capital assets, net of related debt	\$ 2,164	\$ 6,443	\$ (4,091)	\$ 9,404	\$ 11,611	\$ 6,086	\$ 7,378	\$ 6,955	\$ 7,401	\$ 7,497
Restricted	1,322	1,404	1,394	1,522	1,434	1,269	1,314	1,479	1,403	1,576
Unrestricted	6,930	7,101	18,925	7,113	4,219	7,682	9,977	9,721	8,880	10,005
Total governmental activities net assets	\$ 10,416	\$ 14,948	\$ 16,228	\$ 18,039	\$ 17,264	\$ 15,037	\$ 18,669	\$ 18,155	\$ 17,684	\$ 19,078
Business-type activities										
Invested in capital assets, net of related debt	\$ 963	\$ 1,247	\$ 1,332	\$ 1,635	\$ 1,812	\$ 1,864	\$ 1,921	\$ 2,036	\$ 2,769	\$ 2,660
Unrestricted	1,542	1,188	954	546	561	627	834	1,204	2,066	2,419
Total business-type activities	\$ 2,505	\$ 2,435	\$ 2,286	\$ 2,181	\$ 2,373	\$ 2,491	\$ 2,755	\$ 3,240	\$ 4,835	\$ 5,079
Primary Government										
Invested in capital assets, net of related debt	\$ 3,127	\$ 7,690	\$ (2,759)	\$ 11,039	\$ 13,423	\$ 7,950	\$ 9,299	\$ 8,991	\$ 10,170	\$ 10,156
Restricted for perpetual care	1,322	1,404	1,394	1,522	1,434	1,269	1,314	1,479	1,403	1,576
Unrestricted	8,472	8,289	19,879	7,659	4,780	8,309	10,811	10,925	10,946	12,424
Total primary government net assets	\$ 12,921	\$ 17,383	\$ 18,514	\$ 20,220	\$ 19,637	\$ 17,528	\$ 21,424	\$ 21,395	\$ 22,519	\$ 24,156

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government administration	\$ 1,114	\$ 929	\$ 1,036	\$ 1,121	\$ 1,299	\$ 1,252	\$ 1,292	\$ 1,222	\$ 1,394	\$ 1,202
Judicial administration	433	474	551	1,281	3,252	2,813	258	264	254	285
Public safety	1,863	2,082	2,151	2,178	2,425	2,684	2,586	2,569	2,739	2,945
Public works	2,036	2,468	2,793	2,362	3,005	3,063	2,971	3,046	2,564	3,210
Health and welfare	749	746	654	569	628	565	652	751	736	680
Education	2,066	1,758	1,806	1,893	2,187	2,553	1,874	3,008	2,559	2,873
Parks, recreation and cultural	401	468	529	518	672	871	600	530	589	572
Community development	518	541	558	811	759	706	716	1,196	1,108	782
Non-departmental	188	156	38	0	0	10	0	0	0	0
Interest on long-term debt	6	3	383	725	615	584	562	602	563	734
Total governmental activities expenses	\$ 9,374	\$ 9,625	\$ 10,499	\$ 11,458	\$ 14,842	\$ 15,101	\$ 11,511	\$ 13,188	\$ 12,506	\$ 13,283
Business-type activities:										
Utility fund	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254	\$ 5,251
Total business type activities	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254	\$ 5,251
Total primary government expenses	\$ 13,104	\$ 13,744	\$ 14,847	\$ 15,769	\$ 19,320	\$ 19,598	\$ 16,021	\$ 17,912	\$ 17,760	\$ 18,534

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Program Revenues										
Governmental activities:										
Charges for services:										
General government administration	\$ 312	\$ 47	\$ 51	\$ 60	\$ 52	\$ 57	\$ 68	\$ 58	\$ 61	\$ 66
Judicial administration	-	61	60	-	106	124	95	104	103	108
Public safety	164	388	318	274	386	410	455	415	452	730
Public works	272	322	375	407	349	365	384	370	429	383
Health and welfare	2	2	2	3	3	5	4	4	8	8
Parks, recreation and cultural	123	67	73	84	93	88	97	98	88	81
Community development	3	-	-	1	2	2	-	-	-	-
Operating grants	1,264	1,327	1,269	1,332	1,327	1,188	1,327	1,256	1,257	1,608
Capital grants and contributions	-	15	44	136	100	61	120	126	9	92
Total governmental activities program revenues	\$ 2,140	\$ 2,229	\$ 2,192	\$ 2,297	\$ 2,418	\$ 2,300	\$ 2,560	\$ 2,431	\$ 2,417	\$ 3,076
Business-type activities:										
Charges for services:										
Utility fund	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669	\$ 4,615	\$ 4,733	\$ 5,209	\$ 5,649	\$ 5,605
Capital grants and contributions	-	-	-	-	-	-	40	-	-	9
Total business-type activities program revenues	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669	\$ 4,615	\$ 4,773	\$ 5,209	\$ 5,649	\$ 5,614
Total primary government program revenues	\$ 5,613	\$ 6,278	\$ 6,404	\$ 6,503	\$ 7,087	\$ 6,915	\$ 7,333	\$ 7,640	\$ 8,066	\$ 8,690
Net (expense)/revenue:										
Government activities	\$ (7,234)	\$ (7,396)	\$ (8,307)	\$ (9,161)	\$ (12,424)	\$ (12,801)	\$ (8,951)	\$ (10,757)	\$ (10,089)	\$ (10,207)
Business-type activities	(257)	(70)	(136)	(105)	191	118	263	485	395	363
Total primary government net expense	\$ (7,491)	\$ (7,466)	\$ (8,443)	\$ (9,266)	\$ (12,233)	\$ (12,683)	\$ (8,688)	\$ (10,272)	\$ (9,694)	\$ (9,844)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes:										
Property taxes	\$ 3,048	\$ 3,085	\$ 3,922	\$ 3,990	\$ 4,141	\$ 4,337	\$ 4,507	\$ 4,309	\$ 4,770	\$ 5,384
Local sales and use taxes	661	646	710	749	795	791	773	786	818	852
Taxes on recordings and wills	46	67	70	75	61	47	49	50	44	60
Motor vehicle license taxes	65	65	65	64	65	63	28	-	-	-

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and Other Changes in Net Assets (Continued)										
Governmental activities (Continued)										
Taxes: (Continued)										
Consumer utility taxes	\$ 515	\$ 520	\$ 504	\$ 399	\$ 310	\$ 312	\$ 312	\$ 313	\$ 305	\$ 309
Business license taxes	473	488	528	552	608	603	534	513	548	631
Restaurant food taxes	542	553	551	580	597	634	620	645	709	890
Hotel and motel room taxes	109	175	188	203	207	204	205	217	233	246
Communication taxes	-	-	-	158	369	335	337	-	-	-
Other local taxes	180	180	195	135	66	72	141	164	134	133
Unrestricted grants and contributions	604	554	590	613	638	573	603	938	927	688
Unrestricted revenues from use of money and property	130	416	684	1,204	797	222	169	188	144	304
Miscellaneous	1,683	1,451	1,568	1,999	2,995	2,382	2,279	2,120	2,185	2,335
Transfers	-	-	12	-	-	-	-	-	(1,200)	120
Gain on Sale of assets	-	-	-	-	-	-	1,926	-	-	-
Total governmental activities	\$ 8,056	\$ 8,200	\$ 9,587	\$ 10,721	\$ 11,649	\$ 10,575	\$ 12,583	\$ 10,243	\$ 9,617	\$ 11,952
Business-type activities:										
Unrestricted revenues from use of money and property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1	\$ -	\$ -	\$ -
Miscellaneous	13	-	-	-	-	-	-	-	-	-
Transfers	-	-	(12)	-	-	-	-	-	1,200	(120)
Total business-type activities	\$ 13	\$ -	\$ (12)	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1,200	\$ (120)
Total primary government	\$ 8,069	\$ 8,200	\$ 9,575	\$ 10,721	\$ 11,649	\$ 10,575	\$ 12,584	\$ 10,243	\$ 10,817	\$ 11,832
Change in Net Assets										
Governmental activities	\$ 822	\$ 804	\$ 1,280	\$ 1,560	\$ (775)	\$ (2,226)	\$ 3,632	\$ (514)	\$ (472)	\$ 1,745
Business-type activities	(244)	(70)	(148)	(105)	191	118	264	485	1,595	243
Total primary government	\$ 578	\$ 734	\$ 1,132	\$ 1,455	\$ (584)	\$ (2,108)	\$ 3,896	\$ (29)	\$ 1,123	\$ 1,988

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
2012-13	\$ 5,253,894	\$ 852,197	\$ 308,964	\$ 631,105	\$ -	\$ -	\$ 107,265	\$ 59,632	\$ 245,797	\$ 889,734	\$ 26,265	\$ 8,374,853
2011-12	4,806,977	818,287	305,319	548,373	-	-	108,258	44,183	233,214	708,829	25,583	7,599,023
2010-11	4,400,432	785,995	312,810	513,546	-	-	136,218	50,127	217,279	644,721	27,617	7,088,745
2009-10	4,448,766	772,970	312,122	534,270	336,598	27,786	112,451	49,360	205,527	620,422	28,255	7,448,527
2008-09	4,438,289	791,395	312,078	602,665	335,199	62,657	44,386	46,559	204,461	633,501	27,963	7,499,153
2007-08	4,144,128	794,444	310,248	607,520	368,921	65,470	39,413	61,427	207,005	596,602	27,416	7,222,594
2006-07	3,914,166	749,153	398,743	552,145	158,198	63,592	50,363	74,877	202,549	580,080	84,681	6,828,547
2005-06	3,337,123	710,095	503,772	527,575	-	64,867	76,839	70,330	187,805	551,363	117,427	6,147,196
2004-05	3,125,624	646,198	519,509	488,447	-	65,320	55,932	67,102	174,923	552,946	123,657	5,819,658
2003-04	3,112,731	661,378	515,744	472,684	-	64,983	49,275	45,628	109,141	541,988	130,481	5,704,033

(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)

	2004	2005	2006	2007	2008	2009	2010	2011 (1)	2012	2013
General Fund										
Reserved	\$ -	\$ 35,900	\$ 35,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,805,400	6,902,072	7,488,971	8,573,394	8,690,276	6,842,571	8,902,100	-	147,003	61,688
Nonspendable	-	-	-	-	-	-	-	104,062	1,392,938	775,143
Committed	-	-	-	-	-	-	-	1,205,144	409,701	170,495
Assigned	-	-	-	-	-	-	-	247,525	5,080,601	7,310,790
Unassigned	-	-	-	-	-	-	-	-	-	-
Total general fund	\$ 5,805,400	\$ 6,937,972	\$ 7,524,871	\$ 8,573,394	\$ 8,690,276	\$ 6,842,571	\$ 8,902,100	\$ 8,763,033	\$ 7,030,243	\$ 8,318,116
All other governmental funds										
Reserved, reported in:										
Permanent Fund	\$ 1,321,765	\$ 1,404,436	\$ 1,394,353	\$ 1,521,393	\$ 1,434,253	\$ 1,268,677	\$ 1,314,149	\$ -	\$ -	\$ -
Capital Projects	-	-	-	-	-	-	-	-	-	-
Special revenues	183,400	-	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Capital Projects	269,430	254,488	10,890,018	8,912,026	3,033,371	224,876	185,226	-	-	-
Special revenues	1,897	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	-	-
Permanent Fund	-	-	-	-	-	-	-	180,562	180,562	180,562
Restricted	-	-	-	-	-	-	-	-	-	-
Permanent Fund	-	-	-	-	-	-	-	1,194,752	1,221,878	1,395,556
Committed	-	-	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	271,289	1,132,511	982,052
Total all other governmental funds	\$ 1,776,492	\$ 1,658,924	\$ 12,284,371	\$ 10,433,419	\$ 4,467,624	\$ 1,493,553	\$ 1,499,375	\$ 1,646,603	\$ 2,534,951	\$ 2,558,170

(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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
General property taxes	\$ 3,113	\$ 3,126	\$ 3,337	\$ 3,914	\$ 4,144	\$ 4,438	\$ 4,449	\$ 4,400	\$ 4,807	\$ 5,254
Other local taxes	2,591	2,694	2,810	2,914	3,078	3,061	3,000	2,688	2,792	3,121
Licenses and permits	50	145	56	180	108	79	100	56	94	255
Fines and forfeitures	82	105	94	104	106	124	95	100	103	108
Use of money & property	130	415	684	1,204	797	222	169	188	144	304
Charges for services	548	637	729	829	777	848	918	894	954	1,013
Miscellaneous	1,529	1,451	1,568	1,999	2,995	2,382	2,279	2,120	2,185	2,335
Recovered costs	121	158	207	208	255	180	179	155	221	235
Intergovernmental	1,867	1,896	1,903	2,082	2,065	1,821	2,050	2,320	2,193	2,388
Total revenues	\$ 10,031	\$ 10,627	\$ 11,388	\$ 13,434	\$ 14,325	\$ 13,155	\$ 13,239	\$ 12,921	\$ 13,493	\$ 15,013
Expenditures										
General government administration	\$ 865	\$ 901	\$ 1,000	\$ 1,025	\$ 1,141	\$ 1,175	\$ 1,204	\$ 1,168	\$ 1,364	\$ 1,258
Judicial administration	433	474	551	1,385	3,252	4,389	259	266	256	285
Public safety	1,905	2,100	3,049	2,340	2,377	2,689	2,540	2,490	2,715	3,111
Public works	2,271	2,583	2,738	2,140	2,630	3,002	2,624	2,719	2,224	2,917
Health and Welfare	749	745	653	569	628	565	652	751	736	680
Education	2,066	1,758	1,806	1,893	1,484	2,553	1,873	2,858	2,379	2,711
Parks, recreation and cultural	372	474	516	487	1,310	1,539	533	448	508	669
Community development	515	537	575	768	757	697	711	1,194	1,100	1,579
Nondepartmental	4	3	38	36	193	95	-	-	-	(5)
Capital outlay(1)	63	-	313	2,164	4,794	-	8,437	1,164	520	843
Debt service:										
Principal	716	668	697	748	1,000	689	1,328	835	840	850
Interest	195	167	390	681	608	574	560	534	495	529
Bond Issuance Costs	-	-	-	-	-	-	115	-	-	200
Total Expenditures	\$ 10,154	\$ 10,410	\$ 12,326	\$ 14,236	\$ 20,174	\$ 17,967	\$ 20,836	\$ 14,427	\$ 13,137	\$ 15,627
Excess (deficiency) of revenues over (under) expenditures	\$ (123)	\$ 217	\$ (938)	\$ (802)	\$ (5,849)	\$ (4,812)	\$ (7,597)	\$ (1,506)	\$ 356	\$ (614)

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Other financing sources (uses)										
Transfers in	\$ 742	\$ 758	\$ 11,457	\$ 399	\$ 970	\$ 1,640	\$ 85	\$ 177	\$ 1,100	\$ 540
Transfers out	(742)	(758)	(11,445)	(399)	(970)	(1,650)	(95)	(193)	(2,300)	(420)
Refunding general obligation bonds issued	-	-	-	-	-	-	-	-	-	9,545
General obligation bonds issued	-	-	12,000	-	-	-	8,410	1,530	-	1,582
Premium on bonds issued	-	-	-	-	-	-	-	-	-	1,408
Discount on bonds issued	-	-	-	-	-	-	(787)	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-	-	-	-	-	(10,730)
Sale of capital assets	72	-	138	-	-	-	2,049	-	-	-
Total other financing sources (uses)	\$ 72	\$ -	\$ 12,150	\$ -	\$ -	\$ (10)	\$ 9,662	\$ 1,514	\$ (1,200)	\$ 1,925
Net change in fund balances	\$ (51)	\$ 217	\$ 11,212	\$ (802)	\$ (5,849)	\$ (4,822)	\$ 2,065	\$ 8	\$ (844)	\$ 1,311
Debt service as a percentage of noncapital expenditures	9.0%	8.0%	9.0%	11.8%	10.5%	7.0%	15.4%	10.3%	10.6%	9.5%

(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
2012-13	\$ 1,258,495	\$ 284,745	\$ 4,050,943	\$ 2,916,722	\$ 679,526	\$ 5,892,438	\$ 1,074,043	\$ 2,009,488	\$ 972,864	\$ 1,578,715	\$ 20,717,979
2011-12	1,368,474	255,637	3,698,111	2,527,005	736,376	5,715,144	878,752	1,540,627	131,567	1,334,738	18,186,431
2010-11	1,177,305	266,021	3,394,205	2,726,651	750,685	5,413,345	881,224	1,535,543	1,778,862	1,369,051	19,292,892
2009-10	1,204,011	258,442	3,931,851	2,652,364	652,146	5,619,260	1,263,941	1,079,782	7,638,873	2,002,705	26,303,375
2008-09	1,174,738	4,388,867	3,528,376	3,001,609	565,015	5,686,236	1,907,914	1,047,911	359,516	1,263,770	22,923,952
2007-08	1,296,758	3,230,809	3,219,052	6,496,448	628,278	5,852,973	1,698,457	1,045,409	192,983	1,607,612	25,268,779
2006-07	1,040,800	1,384,967	3,691,711	3,713,453	569,253	5,403,947	913,248	1,069,282	35,975	1,429,796	19,252,432
2005-06	999,578	550,742	3,779,809	2,738,068	653,409	5,463,824	726,170	966,198	350,996	1,086,882	17,315,676
2004-05	900,640	474,092	2,782,569	2,583,410	745,121	5,334,003	677,883	914,091	38,249	833,905	15,283,963
2003-04	864,517	433,481	2,498,341	2,270,840	749,376	4,770,134	576,094	867,093	120,046	911,018	14,060,940

(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
2012-13	\$ 5,253,894	\$ 3,120,959	\$ 254,912	\$ 107,569	\$ 313,113	\$ 1,377,050	\$ 2,379,972	\$ 1,800,565	\$ 5,378,773	\$ 19,986,807
2011-12	4,806,977	2,792,046	94,381	102,896	149,060	1,311,018	2,344,704	1,677,147	5,477,318	18,755,547
2010-11	4,400,432	2,688,313	55,990	99,749	191,010	1,233,914	2,163,175	1,486,532	5,474,333	17,793,448
2009-10	4,448,766	2,999,761	100,173	95,052	172,102	1,269,175	2,309,581	1,525,785	6,066,781	18,987,176
2008-09	4,438,289	3,060,864	79,233	124,101	225,741	1,210,743	2,402,114	1,573,645	5,400,599	18,515,329
2007-08	4,144,128	3,078,466	108,095	106,274	803,145	1,133,526	3,022,196	1,492,906	5,514,358	19,403,094
2006-07	3,914,166	2,914,381	180,066	103,998	1,210,016	1,105,553	2,026,288	1,667,106	5,528,163	18,649,737
2005-06	3,337,123	2,810,073	56,033	93,712	693,539	955,631	1,582,795	1,368,560	5,551,689	16,449,155
2004-05	3,125,624	2,694,034	144,572	105,092	418,290	853,983	1,458,544	1,301,229	5,378,683	15,480,051
2003-04	3,112,731	2,591,302	49,637	82,184	131,132	763,937	1,542,882	1,178,062	4,485,771	13,937,638

(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 Eight Fiscal Years (1)
(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					
2013	\$ 456,949	\$ 737,275	\$ 31,662	\$ 3,524	\$ 609,984	\$ 619,426	\$ 9.825	\$ 1,229,410	50.38%
2012	456,974	735,119	29,596	3,429	609,918	615,200	9.186	1,225,117	50.22%
2011	457,743	733,849	28,783	3,575	609,459	614,491	9.045	1,223,951	50.21%
2010	481,790	651,114	27,674	3,843	529,967	634,454	8.282	1,164,421	54.49%
2009	481,194	650,986	26,873	3,386	531,597	630,842	7.936	1,162,439	54.27%
2008	484,024	650,337	31,689	4,774	531,915	638,909	7.907	1,170,824	54.57%
2007	471,783	648,314	30,109	3,610	534,495	619,321	7.456	1,153,816	53.68%
2006	317,356	553,584	30,084	3,927	460,071	444,880	9.204	904,951	49.16%

(1) City began recording this information in 2006.

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 (2)
					Real Estate	Personal Property	Personal Property	
2012-13	\$ 0.78	\$ 4.25	0.73	\$ 4.25	\$ 0.755	\$ 4.25	\$ 4.25	9.83
2011-12	0.73	4.25	0.73	4.25	0.715	4.25	4.25	9.19
2010-11	0.70	4.25	0.70	4.25	0.675	4.25	4.25	9.05
2009-10	0.65	4.25	0.65	4.25	0.64	3.95	3.95	8.28
2008-09	0.64	3.95	0.64	3.95	0.62	3.95	3.95	7.94
2007-08	0.60	3.95	0.60	3.95	0.58	3.95	3.95	7.91
2006-07	0.56	3.95	0.56	3.95	0.62	3.95	3.95	7.46
2005-06	0.67	3.95	0.67	3.95	0.66	3.95	3.95	9.20
2004-05	0.64	3.95	0.64	3.95	0.64	3.95	3.95	-
2003-04	0.64	3.95	0.64	3.95	0.69	3.95	3.95	-

(1) Per \$100 of assessed value.

(2) The City began recording this information in 2006.

Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia
Principal Taxpayers
June 30, 2013

Taxpayer Name	Fiscal year ended June 30, 2013			Fiscal year ended June 30, 2004		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
Central Telephone of Virginia	6,827,573	1	1.17%	7,286,132	1	1.80%
Dominion Virginia Power	6,034,067	2	1.03%	3,843,468	4	0.95%
Washington and Lee University	6,019,200	3	1.03%	3,677,800	5	0.91%
HI of Lexington, LLC	5,936,800	4	1.02%	4,338,900	2	1.07%
Walker/Wood LC & Woods Family Trust	3,511,700	5	0.60%	3,204,200	6	0.79%
Rockbridge Square Associates	3,497,400	6	0.60%	3,901,700	3	0.96%
HCMF XXII LTD Partnership	3,428,200	7	0.59%	2,641,200	9	0.65%
Bank of Rockbridge	3,090,700	8	0.53%	-		
Summit Square Partners	3,084,300	9	0.53%	-		
Kroger Partnership	3,075,600	10	0.53%	2,999,500	7	0.74%
Lexington House Associates				2,849,400	8	0.70%
Eschbach Family Trust				2,425,800	10	0.60%
	\$ 44,505,540		7.62%	\$ 37,168,100		9.18%

(1) Total assessed valuation of real estate was \$584,250,707 as of June 30, 2013.

(2) Total assessed valuation of real estate was \$404,992,739 as of June 30, 2004.

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 (4)	Outstanding Delinquent Taxes (1, 3)	Percent of Delinquent Taxes to Tax Levy
2012-13	\$ 5,860,438	\$ 5,611,621	95.75%	\$ 148,707	\$ 5,760,328	98.29%	\$ 798,636	13.63%
2011-12	5,482,776	5,221,615	95.24%	113,296	5,334,911	97.30%	711,479	12.98%
2010-11	5,259,055	4,866,471	92.54%	67,102	4,933,573	93.81%	699,266	13.30%
2009-10	5,089,509	4,891,228	96.10%	86,242	4,977,470	97.80%	711,451	13.98%
2008-09	4,842,235	4,813,870	99.41%	42,712	4,856,582	100.30%	632,988	13.07%
2007-08	4,822,549	4,669,876	96.83%	63,178	4,733,054	98.14%	734,963	15.24%
2006-07	4,434,075	4,398,602	99.20%	72,851	4,471,453	100.84%	662,871	14.95%
2005-06	3,936,642	3,780,352	96.03%	74,758	3,855,110	97.93%	568,484	14.44%
2004-05	3,787,838	3,563,524	94.08%	66,926	3,630,450	95.84%	458,027	12.09%
2003-04	3,661,319	3,557,033	97.15%	66,737	3,623,770	98.97%	543,329	14.84%

(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) Includes personal property taxes in excess of five years delinquent. Also, includes an allowance for doubtful accounts.

(4) Includes all prior year collections in addition to collections on the current levy.

Source: Commissioner of Revenue and Treasurer.

Table 12

City of Lexington, Virginia
 Ratios of Outstanding Debt by Type
 Last Eight Fiscal Years (1)

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	State Literary Fund Loan	General Obligation Bonds				
2013	\$ 20,178,093	\$ -	\$ -		\$ 20,178,093	1.75%	\$ 2,743
2012	19,570,590	-	-		19,570,590	1.76%	2,779
2011	20,410,294	-	-		20,410,294	1.82%	2,899
2010	19,715,000	-	-		19,715,000	1.76%	2,800
2009	12,632,992	-	-		12,632,992	1.21%	1,752
2008	13,322,292	-	42,806		13,365,098	1.35%	1,841
2007	14,317,241	5,000	221,411		14,543,652	1.57%	2,158
2006	15,060,606	10,000	395,038		15,465,644	1.72%	2,282

(1) City began recording this information in 2006.

Table 13

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)(5)(6)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Payable from Enterprise Fund			
2012-13	-	\$ 619,426	\$ 20,178,093	\$ -	\$ 20,178,093	3.260%	\$ 2,743
2011-12	7,356	615,200	19,570,590	-	19,570,590	3.180%	2,660
2010-11	7,197	614,491	20,410,294	-	20,410,294	3.320%	2,836
2009-10	7,042	634,453	19,715,000	-	19,715,000	3.110%	2,800
2008-09	7,282	630,842	12,632,992	-	12,632,992	2.000%	1,735
2007-08	7,211	638,909	13,365,098	42,806	13,322,292	2.090%	1,847
2006-07	7,261	619,321	14,543,660	221,411	14,322,249	2.310%	1,972
2005-06	7,206	444,880	15,465,644	395,038	15,070,606	3.390%	2,091
2004-05	7,097	445,471	4,326,780	559,080	3,767,700	0.850%	531
2003-04	6,900	437,827	5,152,857	717,546	4,435,311	1.010%	643

(1) Center for Public Service at the University of Virginia, www.coopercenter.org, Current year population not yet available.

(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 2005-06, City issued \$12,000,000 in general obligation debt to fund the city's share of costs for a new regional circuit court complex and parking deck.

(5) 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.

(6) 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.

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
2012-13	\$ 849,704	\$ 529,150	\$ 1,378,854	\$ 20,717,979	6.7%
2011-12	839,704	495,034	1,334,738	18,186,431	7.3%
2010-11	834,706	534,345	1,369,051	19,292,892	7.1%
2009-10	1,327,992	533,785	1,861,777	26,303,375	7.1%
2008-09	689,358	574,412	1,263,770	22,923,952	5.5%
2007-08	999,949	607,663	1,607,612	25,268,779	6.4%
2006-07	748,365	681,431	1,429,796	19,252,432	7.4%
2005-06	697,094	389,788	1,086,882	17,315,676	6.3%
2004-05	667,609	166,296	833,905	15,283,963	5.5%
2003-04	716,358	194,660	911,018	14,060,940	6.5%

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

(2) Information from Table 6.

Table 15

City of Lexington, Virginia
Computation of Legal Debt Margin
June 30, 2013
(amounts expressed in thousands)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	\$ 40,499	\$ 41,093	\$ 41,087	\$ 58,560	\$ 60,245	\$ 60,058	\$ 60,294	\$ 58,213	\$ 58,218	\$ 58,424
Total net debt applicable to limit	5,153	4,327	15,466	14,544	13,370	12,633	19,715	20,410	19,571	20,178
Legal debt margin	35,346	36,766	25,621	44,016	46,875	47,425	40,579	37,803	38,647	38,246
Total net debt applicable to the limit as a percentage of debt limit	12.7%	10.5%	37.6%	24.8%	22.2%	21.0%	32.7%	35.1%	33.6%	34.5%
Legal Debt Margin Calculated for Fiscal Year 2013										
Assessed value									\$	584,240
Debt limit (10% of assessed value)									\$	58,424
Debt applicable to limit:										
General Obligation Bonds										20,178
Less: amount set aside for repayment of general obligation debt										-
Total net applicable to limit										20,178
Legal debt margin									\$	38,246

Table 16

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)
2012-13	- (5)	\$ - (5)	\$ - (5)	674	12.8%
2011-12	7,356	- (5)	- (5)	667	13.2%
2010-11	7,197	1,153,183	32,028	621	11.8%
2009-10	7,042	1,110,646	30,854	619	14.5%
2008-09	7,282	1,122,581	32,617	613	12.2%
2007-08	7,211	1,118,605	32,348	615	8.3%
2006-07	7,261	1,041,089	29,712	646	5.4%
2005-06	7,206	988,969	28,442	626	5.0%
2004-05	7,097	927,803	26,936	626	5.0%
2003-04	6,900	891,371	26,165	626	2.4%

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

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

(3) Lexington City Schools.

(4) Virginia Employment Commission.

(5) Information unavailable.

Table 17

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

Employer	Fiscal year ended June 30, 2013			Fiscal year ended June 30, 2004		
	Employment Range	Rank	% of Total City Employees	Employment Range	Rank	% of Total City Employees
Washington & Lee University	over 1000	1	23.4%	500-999	1	17.8%
Virginia Military Institute	500-999	2	14.1%	500-999	2	12.5%
Carilion - Stonewall Jackson Hospital	100-249	3	4.7%	under 500	3	8.5%
City of Lexington	100-249	4	4.3%	under 500	5	3.5%
Rockbridge Area Community Services Board	100-249	5	3.2%	under 500	10	1.1%
Aramark Campus LLC	100-249	6	2.2%	-	-	-
Lexington City Schools	50-99	7	1.9%	under 500	9	1.3%
Kroger Company	50-99	8	1.7%	under 500	6	1.5%
Heritage Hall Health Care (HCMF)	50-99	9	1.5%	under 500	7	1.4%
The VMI Foundation	50-99	10	1.3%	-	-	-
Rockbridge County				under 500	4	6.5%
Rockbridge Farmers' Co-op				under 500	8	1.3%

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

Table 18

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

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government administration	13	14	14	14	14	14	14	14	14	14
Judicial administration	-	-	-	-	-	-	-	1	1	1
Public safety										
Police										
Officers	15	15	15	15	16	16	16	16	16	16
Civilians	2	2	2	2	2	2	3	3	3	3
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Fire	-	-	-	-	-	-	1	1	9	9
Public works										
Administration & maintenance	34	35	36	36	36	36	35	35	34	38
Solid waste management	11	11	11	11	11	11	12	10	10	10
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	5	5	5	5	5	5	5	5	5	5
Utilities processing										
Water treatment	6	7	7	7	7	7	7	7	7	7
Wastewater treatment	9	9	10	10	10	10	10	11	11	12
Total	98	101	103	103	104	104	106	106	113	118

Source: Government finance department

Table 19

City of Lexington, Virginia
Operating Indicators by Function
Last Eight Fiscal Years (1)

Function	Fiscal Year							
	2006	2007	2008	2009	2010	2011	2012	2013
General administration								
Business licenses issued	653	669	662	617	616	640	648	698
Public safety								
Police								
Number of calls answered	5,568	6,163	4,580	5,446	3,815	3,899	3,447	4,780
Physical arrests	247	350	346	350	334	447	304	388
Parking violations	2,036	1,818	1,217	1,502	1,908	680	922	1,548
Traffic violations	953	1,191	923	1,145	800	862	542	718
Miles Patrolled	165,332	166,629	125,240	112,217	115,676	151,441	98,021	151,254
Fire								
Number of line calls answered	524	629	732	704	649	686	716	707
Number of reserve calls answered (2)	-	-	-	-	-	2,168	2,220	2,191
Inspections	83	123	138	146	136	129	84	87
Public works								
Highways and streets								
Street resurfacing (miles)	2	1	2	2	1	1	-	-
Sanitation and waste removal								
Refuse collected (tons/day)	11	11	14	12	10	9	10	10
Recyclables collected (tons/day)	5	4	6	6	7	8	6	12
Leisure services								
Culture and recreation								
Athletic program Participants	1,356	1,618	1,536	1,498	1,499	1,453	1,557	1,373
Utilities processing								
Water								
New connections	8	12	8	9	4	7	13	6
Water main breaks	34	42	46	30	19	23	29	32
Average daily consumption (thousands of gallons)	898	889	921	903	875	788	850	876
Number of customers	2,716	2,698	2,702	2,743	2,762	2,765	2,605	2,847
Wastewater								
Average daily sewage treatment (thousands of gallons)	677	764	583	608	732	631	667	645
Community development								
Number of building permits	84	87	98	83	55	57	100	61
Building construction value (thousands)	4,032	30,914	18,520	12,858	14,703	7,263	30,648	20,086
Component unit - school board								
Education								
Students - elementary	287	313	310	308	318	318	337	341
Students - middle school	182	179	180	176	178	170	186	189
City students - joint high school	157	154	125	129	123	133	144	144
Teachers elementary & middle school	56	50	50	50	50	50	50	50
Expenditures per pupil (3)	3,609	3,708	4,300	4,480	4,783	3,814	3,567	3,925

Source: Various city departments

(1) The City began compiling this information in 2006.

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

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

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

Table 20

City of Lexington, Virginia
Capital Asset Statistics by Function
Last Eight Fiscal Years (1)

Function	Fiscal Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Public safety								
Police								
Stations	1	1	1	1	1	1	1	1
Patrol units	10	12	12	12	13	13	13	13
Fire								
Stations	1	1	1	1	1	1	1	1
Public works								
Highways and streets								
Streets (miles)	60	60	60	60	60	60	60	60
Streetlights	516	527	527	529	530	530	530	530
Traffic signal intersections	12	12	12	12	12	12	13	13
Parking garage	-	-	-	1	1	1	1	1
Cemeteries Maintenance								
Cemeteries	2	2	2	2	2	2	2	2
Health, education and welfare								
Hospitals	1	1	1	1	1	1	1	1
Number of hospital beds	25	25	25	25	25	25	25	25
Leisure services								
Parks acreage	37	37	37	37	40	40	40	43
Parks	8	8	8	8	8	8	8	8
Swimming Pools	1	1	2	2	2	2	2	2
Community centers	1	1	1	1	-	-	-	-
Utilities processing								
Water								
Water mains (miles)	30	30	30	30	30	30	30	58
Fire hydrants	266	268	268	268	268	268	268	270
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer								
Sanitary sewers (miles)	40	40	40	40	40	40	40	68
Storm sewers (miles)	5	5	5	5	5	5	5	7
Maximum daily treatment capacity (thousands of gallons)	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
Middle schools	1	1	1	1	1	1	1	1
Jointly operated high school	1	1	1	1	1	1	1	1

Source: Various city departments

(1) The city began compiling this information in 2006.

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

Table 21

City of Lexington, Virginia
Schedule of Joint Services Contract Billing
For the Year Ended June 30, 2013

	Parking Garage	Fire	Administration	Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other	RARO Total	Totals
Salaries and fringe benefits	\$ 3,005	\$ 521,757	\$ 265,726	\$ 9,613	\$ 7,038	\$ 10,798	\$ 2,412	\$ 3,522	\$ 299,109	\$ 823,871
Contractual services	-	101,206	10,500	-	-	-	-	1,303	11,803	113,009
Other expenses	9,138	211,194	30,662	318	5,924	10,663	2,849	1,150	51,566	271,898
Totals	\$ 12,143	\$ 834,157	\$ 306,888	\$ 9,931	\$ 12,962	\$ 21,461	\$ 5,261	\$ 5,975	\$ 362,478	\$ 1,208,778
Less: Revenue for Operations	\$ -	\$ (457,689)	\$ (6,237)	\$ (4,260)	\$ (6,150)	\$ (8,914)	\$ (5,230)	\$ (4,245)	\$ (35,036)	\$ (492,725)
Net Expenses	\$ 12,143	\$ 376,468	\$ 300,651	\$ 5,671	\$ 6,812	\$ 12,547	\$ 31	\$ 1,730	\$ 327,442	\$ 716,053
Rockbridge County participation	9.90%	49.83%	79.68%	75.95%	82.63%	82.90%	77.42%	80.29%	79.80%	62.86%
Rockbridge County share	\$ 1,202	\$ 187,585	\$ 239,557	\$ 4,307	\$ 5,629	\$ 10,402	\$ 24	\$ 1,389	\$ 261,308	\$ 450,095

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Lexington, Virginia's basic financial statements, and have issued our report thereon dated November 16, 2013.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

Robinson, Turner, Co. Associates

Blacksburg, Virginia

November 16, 2013

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the City Council
City of Lexington
Lexington, Virginia

Report on Compliance for Each Major Federal Program

We have audited The City of Lexington, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Lexington, Virginia's major federal programs for the year ended June 30, 2013. The City of Lexington, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lexington, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lexington, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lexington, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lexington, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Lexington, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lexington, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Virginia's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Turner, Co. Associates
Blacksburg, Virginia
November 16, 2013

City of Lexington, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Pass Through Payments:			
Department of Education:			
School Breakfast Program (Child Nutrition Cluster)	10.553	40591	\$ 8,758
National School Lunch Program (Child Nutrition Cluster)	10.555	40623	\$ 42,447
Department of Agriculture:			
Food Distribution (Child Nutrition Cluster)	10.555	40623	7,638
Total Department of Agriculture			<u>\$ 58,843</u>
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	90249, 90360	\$ 720
Temporary Assistance for Needy Families	93.558	90109, 90110, 90111, 90112 90127, 90229, 90230, 90231 90232, 90247, 90366, 90409 90411, 90412, 90413	439
Head start	93.600	Unknown	15,373
Foster Care - Title IV-E	93.658	90105, 90106, 90107, 90209	679
Social Services Block Grant	93.667	90120, 90122, 90123, 90240 90242, 90243, 90262, 90306 90312, 90322, 90339, 90340	2,688
Total Department Health and Human Services			<u>\$ 19,899</u>
Department of Transportation:			
Pass Through Payments:			
Virginia Department of Transportation:			
TEA 21 Grant	20.206	Unknown	\$ 92,592
State and Community Highway Safety	20.600	SC-2010 50357 3977	6,651
Total Department of Transportation			<u>\$ 99,243</u>
Department of Homeland Security:			
Direct payments:			
Hazard Mitigation Grant	97.039	Unknown	<u>\$ 96,629</u>
Department of Housing and Urban Development			
Pass Through Payments:			
Department of Housing and Community Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Unknown	<u>\$ 421,338</u>
Total Department of Housing and Urban Development			<u>421,338</u>
Department of Education:			
Pass Through Payments:			
Department of Education:			
Education Technology State Grants	84.318	86756, 86758	\$ 3,726
Improving Teacher Quality State Grants	84.367	61480	20,156
Title I Grants to Local Educational Agencies	84.010	42892, 42901	53,822
Special Education - Grants to States	84.027	43071	106,565
ARRA Education Jobs Fund	84.410	62700	1,726
Total Department of Education			<u>\$ 185,995</u>
Total Expenditures of Federal Awards			<u>\$ 881,947</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

City of Lexington, Virginia
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

NOTE A--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City of Lexington, Virginia under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Lexington, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Lexington, Virginia.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

(3) Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE C--RELATIONSHIP TO THE FINANCIAL STATEMENTS:

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

Intergovernmental federal revenues per the basic financial statements:

Primary Government:	
General Fund total	\$ 107,806
County CIP Fund total	<u>513,930</u>
Total Primary Government	<u>\$ 621,736</u>
Component Unit Schools:	
School Operating Fund total	<u>\$ 260,211</u>
Total Component Unit Schools	<u>\$ 260,211</u>
Total Federal Assistance	<u>\$ 881,947</u>

City of Lexington, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
Identification of major programs:	

CFDA #	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

City of Lexington, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

Section IV - Status of Prior Audit Findings and Questioned Costs

There are no financial statement or federal findings.