

City of Lexington, Virginia



ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2023

Prepared by Jennifer Bell, Finance Director

CITY OF LEXINGTON, VIRGINIA

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INTRODUCTORY SECTION

Lexington Virginia

300 E. Washington Street
Lexington, VA 24450

October 13, 2023

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, 2023.

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 unmodified ("clean") opinion on the City of Lexington's financial statements for the year ended June 30, 2023. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet requirements of the Federal Single Audit Act of 1984 and the Single Audit Amendments of 1996, and the related Uniform Guidance. The independent 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. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

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

The City of Lexington operates under the mayor-council form of government. Policy making and legislative authority are vested in the governing council (Council) consisting of the mayor

and six other members, all of whom are elected at large. Council members serve four-year terms, with three members elected every two years. The mayor is elected for a four-year term. The council appoints Lexington's City Manager, who in turn appoints its department heads.

The City of Lexington provides a full range of services, including police and fire protection; emergency medical response and transport services; refuse collection; snow and leaf removal; traffic control; on-and-off street parking; building inspections; licenses and permits; the construction and maintenance of streets and other infrastructure; and recreational and cultural activities. In conjunction with other agencies within the City, library and transit services are provided. Water distribution services and wastewater collection services are provided by the City. The water treatment plant and wastewater treatment plant are owned and operated by the Maury Service Authority (MSA). In fiscal years prior to 2017, these plants were operated under contract by the City and were included as an integral part of the City of Lexington's financial statements. Refuse disposal services are provided by the Blue Ridge Resource Authority (BRRA). The City operates an independent school system; therefore, the financial results of the school system are reported as a separate component unit. City Council appoints a five-member School Board to administer the City school operations, which consist of an elementary and a middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement.

The City's Industrial Development Authority is reported as a component unit. The Authority is authorized to be a conduit for tax exempt financing for various eligible purposes within the community. The Authority operates under the guidance of seven directors appointed by City Council.

This report includes three separate entities which are reported as Custodial Funds. The Rockbridge Regional Public Safety Communications Center (Central Dispatch) provides E-911 dispatch services for fire, rescue, and police services in Rockbridge County, the cities of Lexington and Buena Vista, and for Virginia Military Institute. 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 Board of Supervisors.

The second separate entity 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 which is appointed by an independent seven-member board. The regional board of directors includes one member appointed by each of the jurisdictions for two-year terms. Four remaining members are appointed by the three jurisdictional members for two-year terms. Two of these appointees must be from a tourism related business. The City serves as the fiscal agent for RARO, Central Dispatch, and Tourism.

The City serves as the fiscal agent for the Rockbridge Area Recreation Organization (RARO), which provides recreational activities for and is supported by the County of Rockbridge and the Cities of Lexington and Buena Vista. RARO operates under a seven-member board of directors. The financial activities of RARO are reported as a custodial fund, and additionally, is reported in a separate audit report.

Services of the Rockbridge Regional Jail, Rockbridge Regional Library, Rockbridge Area Social Services, Rockbridge Area Network Authority, Regional Transit System, Maury Service

Authority, Blue Ridge Resource Authority, and Central Shenandoah Juvenile Detention Home, have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Local Economy

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

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

Economic activity, as measured by sales, meals, and lodging taxes, was strong during fiscal year 2023 finishing ahead of fiscal year 2022 by 2.0%, 8.9%, and 14.2%, respectively.

An extremely high percentage of the City’s real property assessment (64%) is tax-exempt. This high level of tax-exempt property presents the City challenges in raising revenues sufficient to cover obligations.

Major Initiatives During the Past Year

A major initiative began during fiscal year 2017 to replace and update the City’s sewer and water distribution lines. During fiscal year 2023, the City undertook a number of water and sewer projects, as well as street reconstruction and pavement projects.

Future Plans

Lexington has major capital and infrastructure needs which will need to be addressed in the future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Planned capital projects over the next five years are estimated to cost \$18.9 million and include water and wastewater utility improvements, storm water management improvements, bridge repairs, street improvements and improvements to municipal facilities and parks.

Relevant Financial Policies

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

The City of Lexington has a policy requiring the minimum levels of unassigned fund balance in the General Fund at each fiscal year end to be at least 20% of general operating revenues. On June 30, 2023, the unassigned fund balance exceeded the required minimum by approximately \$11.5 million. On June 30, 2022, the unassigned fund balance exceeded the required minimum by \$8.7 million.

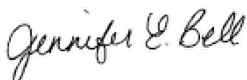
Awards and Acknowledgments

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 annual comprehensive financial report (the "Annual Report") for the fiscal year ended June 30, 2022. This was the twenty-ninth consecutive year that the government has achieved this prestigious award. To be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized Annual Report 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 Annual Report continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirement, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



Jennifer E. Bell
Director of Finance



Government Finance Officers Association

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

Presented to

**City of Lexington
Virginia**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

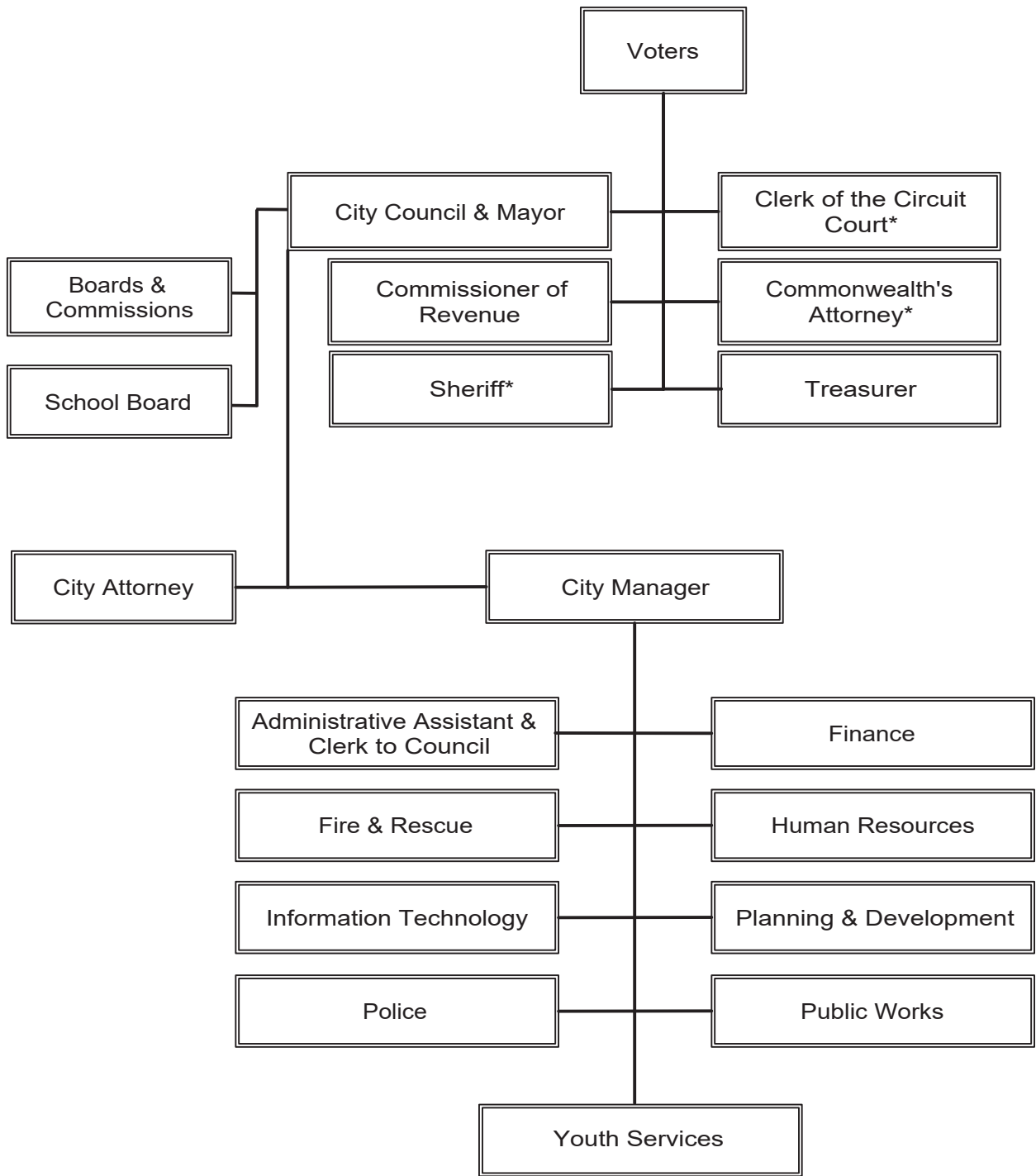
June 30, 2022

Christopher P. Morrell

Executive Director/CEO

CITY OF LEXINGTON

Organizational Chart



*Shared with County

CITY OF LEXINGTON, VIRGINIA

CITY COUNCIL

Marilyn E. Alexander	Frank W. Friedman, Mayor	J. Charles Aligood
Nick Betts		David G. Sigler
Charles “Chuck” Smith		Leslie C. Straughan

CITY SCHOOL BOARD

Michael Saunders	Timothy Diette, Chair	Tammy Dunn, Vice Chair
Sandra Hayslette		Katie Shester

OTHER OFFICIALS

City Manager	James M. Halasz
City Treasurer	Pat DeLaney
Commissioner of Revenue	Karen T. Roundy
Finance Director.....	Jennifer Bell
City Attorney.....	Jeremy Carroll
Chief of Police	Angela Greene
Fire and Rescue Chief	Ty Dickerson
Director of Planning and Development	Arne Glaeser
Director of Public Works	Patrick Madigan
Superintendent of Schools	Rebecca Walters

FINANCIAL SECTION



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023, on our consideration of City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Lexington, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lexington, Virginia's internal control over financial reporting and compliance.

Robinson, Jarmon, Cox, Associates

Blacksburg, Virginia
October 13, 2023

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, 2023. 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 \$57,693,735 (*net position*). A total of \$30,550,531 (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 \$16,977,628 or 80% of total general fund expenditures of \$21,127,770 in the year ended June 30, 2023.
- The City of Lexington's total outstanding debt increased by \$35,127 during the current fiscal year due to debt issuance for the purchase of a ladder truck for the fire department and retiring old debt.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The *statement of net position* presents information on all 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 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 water distribution and sewer collection for its customers. Water and wastewater treatment services are purchased from the Maury Service Authority.

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lexington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

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

The City of Lexington maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital

projects fund, and the cemetery trust fund, all of which are considered to be major funds, as well as the discretely presented component units- School Board and IDA. Data from the equipment replacement fund is aggregated in the presentation with the general fund.

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

Proprietary Funds

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$57,693,735 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 \$30,550,531. 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 \$24,993,405. 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 \$10,614,085 for the fiscal year ending June 30, 2023. In large part, this is due to an increase in investments in machinery and infrastructure, as well as an increased balance in investment accounts.

City of Lexington's Summary Statement of Net Position
As of June 30, 2023 and 2022
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Gov't		School Board Component Unit	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current & other assets	\$ 36,648	\$ 30,292	\$ 7,772	\$ 9,428	\$ 44,420	\$ 39,720	\$ 2,889	\$ 2,627
Capital assets	<u>39,532</u>	<u>35,788</u>	<u>15,112</u>	<u>12,555</u>	<u>54,644</u>	<u>48,343</u>	<u>656</u>	<u>707</u>
Total assets	<u>\$ 76,180</u>	<u>\$ 66,080</u>	<u>\$ 22,884</u>	<u>\$ 21,983</u>	<u>\$ 99,064</u>	<u>\$ 88,063</u>	<u>\$ 3,545</u>	<u>\$ 3,334</u>
Deferred outflows or resources	\$ 1,799	\$ 2,231	\$ 77	\$ 110	\$ 1,876	\$ 2,341	\$ 1,410	\$ 1,537
Long-term liabilities outstanding	23,606	23,132	9,960	10,398	33,566	33,530	4,745	3,945
Other liabilities	<u>6,004</u>	<u>6,046</u>	<u>1,490</u>	<u>1,238</u>	<u>7,494</u>	<u>7,284</u>	<u>582</u>	<u>437</u>
Total liabilities	<u>\$ 29,610</u>	<u>\$ 29,178</u>	<u>\$ 11,450</u>	<u>\$ 11,636</u>	<u>\$ 41,060</u>	<u>\$ 40,814</u>	<u>\$ 5,327</u>	<u>\$ 4,382</u>
Deferred inflows of resources	\$ 2,060	\$ 3,439	\$ 126	\$ 263	\$ 2,186	\$ 3,702	\$ 850	\$ 2,311
Net position:								
Net Investment in capital assets	18,885	15,302	6,108	5,287	24,993	20,589	641	677
Restricted	2,150	2,047	-	-	2,150	2,047	1,432	299
Unrestricted	<u>25,274</u>	<u>18,345</u>	<u>5,277</u>	<u>4,907</u>	<u>30,551</u>	<u>23,252</u>	<u>(3,295)</u>	<u>(2,798)</u>
Total net position	<u>\$ 46,309</u>	<u>\$ 35,694</u>	<u>\$ 11,385</u>	<u>\$ 10,194</u>	<u>\$ 57,694</u>	<u>\$ 45,888</u>	<u>\$ (1,222)</u>	<u>\$ (1,822)</u>

A portion of the City's primary government net position (3.7 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* (\$30,550,531) 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 80% 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, 2023 and 2022 (In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenues:								
Program Revenues:								
Chgs. for svcs	\$ 1,025	\$ 981	\$ 6,291	\$ 5,943	\$ 7,316	\$ 6,924	\$ 323	\$ 223
Operating grants and contributions	6,560	1,885	-	-	6,560	1,885	6,459	5,086
Capital grants and contributions	-	-	-	-	-	-	-	-
General Revenues:								
Property taxes	7,683	7,536	-	-	7,683	7,536	-	-
Other taxes	5,623	5,342	-	-	5,623	5,342	-	-
Grants and contributions not restricted to specific programs	808	827	-	-	808	827	-	-
Other	5,931	3,109	86	11	6,017	3,120	2,321	3,224
Total revenues	<u>\$ 27,630</u>	<u>\$ 19,680</u>	<u>\$ 6,377</u>	<u>\$ 5,954</u>	<u>\$ 34,007</u>	<u>\$ 25,634</u>	<u>\$ 9,103</u>	<u>\$ 8,533</u>
Expenses:								
General Gov't.	\$ 2,010	\$ 1,551	\$ -	\$ -	\$ 2,010	\$ 3,561	\$ -	\$ -
Judicial Admin.	319	358	-	-	319	358	-	-
Public Safety	4,001	3,889	-	-	4,001	3,889	-	-
Public Works	3,701	4,144	-	-	3,701	4,144	-	-
Health & Welfare	1,207	1,462	-	-	1,207	1,462	-	-
Education	3,462	3,217	-	-	3,462	3,217	8,503	7,728
Parks, Rec. & Cultural	775	674	-	-	775	674	-	-
Community Development	749	678	-	-	749	678	-	-
Interest on Debt	556	565	-	-	556	565	-	-
Water & Sewer Utility	-	-	5,421	5,183	5,421	5,183	-	-
Total Expenses	<u>\$ 16,780</u>	<u>\$ 16,538</u>	<u>\$ 5,421</u>	<u>\$ 5,183</u>	<u>\$ 22,201</u>	<u>\$ 23,731</u>	<u>\$ 8,503</u>	<u>\$ 7,728</u>
Changes in net position before transfers	\$ 10,850	\$ 3,142	\$ 956	\$ 771	\$ 11,806	\$ 3,913	\$ 600	\$ 805
Transfers	(235)	(487)	235	487	-	-	-	-
Changes in net position	<u>\$ 10,615</u>	<u>\$ 2,655</u>	<u>\$ 1,191</u>	<u>\$ 1,258</u>	<u>\$ 11,806</u>	<u>\$ 3,913</u>	<u>\$ 600</u>	<u>\$ 805</u>
Net position beginning of year	<u>35,694</u>	<u>33,039</u>	<u>10,194</u>	<u>8,936</u>	<u>45,888</u>	<u>41,975</u>	<u>(1,822)</u>	<u>(2,627)</u>
Net position end of year	<u>\$ 46,309</u>	<u>\$ 35,694</u>	<u>\$ 11,385</u>	<u>\$ 10,194</u>	<u>\$ 57,694</u>	<u>\$ 45,888</u>	<u>\$ (1,222)</u>	<u>\$ (1,822)</u>

Governmental Revenues

- Property tax collections were up 1.35%, or \$102,083. The real estate tax rate for FY23 was \$0.92 per \$100 of assessed value. The tax rate on personal property remained at \$4.25/\$100 value.
- Other local taxes increased by \$279,871 or 5.24%. Local sales taxes increased by \$27,542 or 2.0%. Restaurant food taxes increased by 8.9%, or \$162,301 and transient occupancy taxes increased by 14.2% or \$99,481 as the City saw an increase in consumer spending for a second year in a row. Business, professional, and occupation licenses increased by \$53,598 or 7.0%.
- Revenues from the use of money and property increased by \$1,337,925 as interest rates rebounded significantly.
- The City's major governmental sources of revenue are as follows:

	Amount	Percent of Total Revenue
General property taxes	\$ 7,650,189	28%
Other local taxes	5,622,263	20%
Charges for services	745,907	3%
Miscellaneous	3,157,494	11%
Recovered costs	1,176,235	4%
Intergovernmental	7,367,410	27%
Permits, privilege fees, and regu	216,011	1.0%
Fines and forfeitures	63,131	0.0%
Revenue from the use of money	1,471,960	5%

Governmental Expenses

- The general governmental administration expenses decreased by \$522,174 or 23.0%. FY22 saw higher than usual expenses due to the purchase of land by the City.
- Public safety expenses increased by \$2,155,642 or 47.3%. This large increase is the effect of purchasing several vehicles for the Police and Fire Departments including a ladder truck.
- Public Works expenses decreased by \$97,355 or 2.7%.
- Health and welfare costs increased by \$85,678 or 9.0% due to increased use of services.
- Community development costs increased by \$82,529 or 12.0% this is largely due to higher than budgeted lodging tax receipts which translated into a higher than budgeted contribution to the Virginia Horse Center.

Business-Type Activities

The increase in net position for business-type activities was \$1,190,448, or 11.7% from the prior fiscal year, with an end of the year balance of \$11,384,500.

Other significant items to note Include:

- The General Fund contributed \$300,000 for water and sewer improvements.
- A \$65,000 contribution was made to the Equipment Replacement Fund.
- Significant capital projects were under way to replace water and sewer lines.

Financial Analysis of the City's Funds

As noted earlier, the City uses 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 a particular use.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$29,238,768, an increase of \$6,344,914 in comparison with the prior year. This is the combined result of higher than expected revenues and lower than expected expenses. In addition, the City was able to recognize \$4.8 million of ARPA revenue in FY23. A total of \$3,077,904 is committed for the City's future equipment replacement purchases. The City committed fire department funds totaling \$251,337 to be used exclusively for the specific needs of the fire and rescue department, subject to City Council's appropriation. A total of \$492,234 is assigned for the carryover of committed projects not completed as of June 30, 2023 in the General Fund. A total of \$6,287,963 is committed for capital project needs. A total of \$16,977,628 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, 2023.

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 \$16,977,628, an increase of \$4,238,638 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 80% or approximately nine (9) months of total general fund expenditures and other uses of financing sources.

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

At the end of the current fiscal year, the committed fund balance of the capital projects fund, including carryover commitments for June 30, 2023, was \$6,287,963, an increase of \$1,781,394.

The permanent fund balance increased by \$102,331 for the year to \$2,149,799 as a result of investment results.

Proprietary Funds

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

Unrestricted net position of the utility fund (water and sewer services) at the end of the year amounted to \$5,276,556, an increase of \$369,682 in comparison with the prior year.

General Fund Budgetary Highlights

Differences between the original budget of \$19,515,355 and the final amended budget of \$22,738,282 reflects an increase in appropriation of \$3,222,927.

Final Budget Compared to Actual Results

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

	Estimated Revenues	Actual Revenues	Difference
General property taxes	\$ 7,702,943	\$ 7,650,189	\$ (52,754)
Other local taxes	4,811,860	5,622,263	810,403
Charges for services	669,900	745,907	76,007
Miscellaneous	3,130,120	3,157,494	27,374
Recovered costs	891,449	1,176,235	284,786
Intergovernmental	7,405,470	7,367,410	(38,060)
Revenue from the use of money and property	329,440	1,471,960	1,142,520
Permits, privilege fees, and regulatory licenses	80,000	216,011	136,011

Actual expenditures were \$1,610,512 less than budgeted for the year.

Capital Asset and Debt Administration

Capital assets

The City's investments in capital assets for its governmental, (including schools) and business-type activities as of June 30, 2023 amounts to \$54,643,383 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and infrastructure. The increase in capital assets for the current fiscal year was 13%.

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

	Primary Government						Component Unit	
	Governmental Activities		Business-type Activities		Total Primary Gov't		School Board Component Unit	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	\$ 3,714	\$ 3,366	\$ -	\$ -	\$ 3,714	\$ 3,366	\$ 359	\$ 359
Buildings	24,202	24,939	-	-	24,202	24,939	113	126
Improvements other than buildings	542	647	18	19	560	666	55	68
Infrastructure	6,279	4,140	7,660	7,936	13,939	12,076	-	-
Machinery & Equip.	4,225	2,473	436	544	4,661	3,017	129	154
Construction in Progress	570	223	6,998	4,055	7,568	4,278	-	-
Totals	<u>\$ 39,532</u>	<u>\$ 35,788</u>	<u>\$ 15,112</u>	<u>\$ 12,554</u>	<u>\$ 54,644</u>	<u>\$ 48,342</u>	<u>\$ 656</u>	<u>\$ 707</u>

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

Long-term debt

City of Lexington's Outstanding Debt General Obligation Bonds

	<u>2023</u>	<u>2022</u>
Governmental activities	\$ 23,605,721	\$ 23,132,230
Business-type activities	9,959,820	10,398,184
TOTAL	<u>\$ 33,565,541</u>	<u>\$ 33,530,414</u>

The City's total general obligation debt decreased by \$35,127, or 0.1% 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 \$67,766,970 which is significantly in excess of the City's outstanding general obligation debt.

Revenue Bonds

In FY 2023, the City repaid \$340,000 of revenue bond principal used to finance water and sewer projects.

Additional information on the City of Lexington's long-term debt can be found in Notes 8 and 9 to the financial statements. Also, additional information can be found in the statistical section under Tables 12 through 17.

Economic Factors and Next Year's Budgets and Rates

As of June 2023, the unemployment rate for the City of Lexington and the surrounding County was 4.8%. This is a 0.2% increase from the previous year.

Sixty-four percent of the City's assessed real estate values are tax exempt. Based on the results of the real estate tax assessment, the real estate tax rate was recommended to be fixed at \$0.92 per \$100 of assessed value for FY24. Personal property tax rates shall be \$4.25 per \$100 valuation from July 1, 2023, through June 30, 2024. Tax relief shall be provided in accordance with Section 366-3D of the City Code. The Personal Property Tax Relief Act (PPTRA) shall be calculated at 60% of the first \$20,000 in value of each such qualifying vehicle in order to use all available state PPTRA relief for January 1, 2023 through December 31, 2023. No change in the meals or transient occupancy taxes rates were implemented in support of the FY 2024 Budget. Funding of \$1,288,470 for future capital expenditures is included in the Budget.

The water and sewer utility fund rates were increased by approximately 8% for the 2024 budget due to continuing cost increases by the Maury Service Authority for treating raw water and wastewater and to support budgeted water and sewer capital improvements.

Contacting the City's Financial Management

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

Basic Financial Statements

City of Lexington, Virginia
Statement of Net Position
June 30, 2023

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 1,328,812	\$ 324,274	\$ 1,653,086	\$ 468,741	\$ 113,736
Investments	29,748,245	5,450,000	35,198,245	1,900,000	200,000
Receivables (net of allowance for uncollectibles):					
Taxes receivable	1,091,993	-	1,091,993	-	-
Accounts receivable	341,022	877,071	1,218,093	-	-
Due from other governmental units	1,483,519	-	1,483,519	236,686	-
Long-term receivable	499,654	-	499,654	-	-
Prepaid items	1,903	-	1,903	1,200	-
Restricted assets:					
Cash and cash equivalents	52,289	-	52,289	-	-
Investments	2,100,592	1,120,133	3,220,725	-	-
Net Pension asset	-	-	-	282,657	-
Capital assets not being depreciated	4,283,980	6,997,827	11,281,807	359,494	-
Capital assets, net of accumulated depreciation	35,247,485	8,114,091	43,361,576	296,760	-
Total assets	\$ 76,179,494	\$ 22,883,396	\$ 99,062,890	\$ 3,545,538	\$ 313,736
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	\$ 954,316	\$ -	\$ 954,316	\$ -	\$ -
Pension related items	751,328	72,009	823,337	1,157,295	-
OPEB related items	93,824	4,839	98,663	252,658	-
Total deferred outflows of resources	\$ 1,799,468	\$ 76,848	\$ 1,876,316	\$ 1,409,953	\$ -
LIABILITIES					
Accounts payable	\$ 369,713	\$ 1,011,542	\$ 1,381,255	\$ 215,040	\$ 74,821
Construction and retainage payable	-	255,006	255,006	-	-
Payroll liabilities	172,832	9,204	182,036	312,120	-
Accrued interest payable	189,758	83,508	273,266	-	-
Unearned revenue	-	-	-	54,736	-
Deposits held in escrow	1,515	130,576	132,091	-	-
Unearned grant revenue	5,269,971	-	5,269,971	-	-
Long-term liabilities:					
Due within one year	1,980,688	495,258	2,475,946	44,468	-
Due in more than one year	21,625,033	9,464,562	31,089,595	4,700,872	-
Total liabilities	\$ 29,609,510	\$ 11,449,656	\$ 41,059,166	\$ 5,327,236	\$ 74,821
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	\$ 681,874	\$ -	\$ 681,874	\$ -	\$ -
Pension related items	1,296,808	121,028	1,417,836	757,372	-
OPEB related items	81,535	5,060	86,595	92,650	-
Total deferred inflows of resources	\$ 2,060,217	\$ 126,088	\$ 2,186,305	\$ 850,022	\$ -
NET POSITION					
Net investment in capital assets	\$ 18,885,461	\$ 6,107,944	\$ 24,993,405	\$ 641,142	\$ -
Restricted:					
Net pension asset	-	-	-	282,657	-
Non-expendable - perpetual cemetery care	180,562	-	180,562	-	-
Expendable - perpetual cemetery care	1,969,237	-	1,969,237	-	-
School Construction	-	-	-	1,149,123	-
Unrestricted (deficit)	25,273,975	5,276,556	30,550,531	(3,294,689)	238,915
Total net position	\$ 46,309,235	\$ 11,384,500	\$ 57,693,735	\$ (1,221,767)	\$ 238,915

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, 2023

Functions/Programs	Net (Expense) Revenue and Changes in Net Position									
	Program Revenues			Primary Government			Component Units			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	
PRIMARY GOVERNMENT:										
Governmental activities:										
General government administration	\$ 2,009,956	\$ 94,946	\$ 234,280	\$ -	\$ (1,680,730)	\$ -	\$ (1,680,730)	\$ -	\$ -	
Judicial administration	319,450	63,131	(33,902)	-	(290,221)	-	(290,221)	-	-	
Public safety	4,001,242	604,204	5,199,934	-	1,802,896	-	1,802,896	-	-	
Public works	3,700,681	235,494	702,173	-	(2,763,014)	-	(2,763,014)	-	-	
Health and welfare	1,207,267	8,058	452,648	-	(746,561)	-	(746,561)	-	-	
Education	3,461,583	-	-	-	(3,461,583)	-	(3,461,583)	-	-	
Parks, recreation, and cultural	774,844	19,216	4,500	-	(751,128)	-	(751,128)	-	-	
Community development	749,481	-	-	-	(749,481)	-	(749,481)	-	-	
Interest on long-term debt	555,670	-	-	-	(555,670)	-	(555,670)	-	-	
Total governmental activities	\$ 16,780,174	\$ 1,025,049	\$ 6,559,633	\$ -	\$ (9,195,492)	\$ -	\$ (9,195,492)	\$ -	\$ -	
Business-type activities:										
Utility Fund	\$ 5,421,678	\$ 6,291,244	\$ -	\$ -	\$ -	\$ 869,566	\$ 869,566	\$ -	\$ -	
Total primary government	\$ 22,201,852	\$ 7,316,293	\$ 6,559,633	\$ -	\$ (9,195,492)	\$ 869,566	\$ (8,325,926)	\$ -	\$ -	
COMPONENT UNITS:										
School Board	\$ 8,493,843	\$ 323,174	\$ 6,449,895	\$ -	\$ -	\$ -	\$ -	\$ (1,720,774)	\$ -	
Industrial Development Authority	258,571	-	-	-	-	-	-	-	(258,571)	
Total component units	\$ 8,752,414	\$ 323,174	\$ 6,449,895	\$ -	\$ -	\$ -	\$ -	\$ (1,720,774)	\$ (258,571)	
General revenues:										
General property taxes					\$ 7,683,005	\$ -	\$ 7,683,005	\$ -	\$ -	
Other local taxes:										
Local sales and use taxes					1,391,331	-	1,391,331	-	-	
Consumers' utility taxes					304,524	-	304,524	-	-	
Cigarette taxes					63,648	-	63,648	-	-	
Business license taxes					819,177	-	819,177	-	-	
Restaurant food taxes					1,983,662	-	1,983,662	-	-	
Hotel and motel room taxes					801,766	-	801,766	-	-	
Other local taxes					258,155	-	258,155	-	-	
Unrestricted revenues from use of money and property					1,619,915	71,924	1,691,839	4,328	-	
Miscellaneous					952,961	13,958	966,919	4,024	28,750	
Revenue sharing payments					2,209,533	-	2,209,533	-	-	
Payments from the City of Lexington/School Board					1,149,123	-	1,149,123	2,312,460	258,571	
Grants and contributions not restricted to specific programs					807,777	-	807,777	-	-	
Transfers					(235,000)	235,000	-	-	-	
Total general revenues and transfers					\$ 19,809,577	\$ 320,882	\$ 20,130,459	\$ 2,320,812	\$ 287,321	
Change in net position					\$ 10,614,085	\$ 1,190,448	\$ 11,804,533	\$ 600,038	\$ 28,750	
Net position - beginning					35,695,150	10,194,052	45,889,202	(1,821,805)	210,165	
Net position - ending					\$ 46,309,235	\$ 11,384,500	\$ 57,693,735	\$ (1,221,767)	\$ 238,915	

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

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2023

	General	Capital Projects	Permanent	Total
ASSETS				
Cash and cash equivalents	\$ 1,044,716	\$ 284,096	\$ -	\$ 1,328,812
Investments	23,660,334	6,087,911	-	29,748,245
Receivables (net of allowance for uncollectibles):				
Taxes receivable	1,091,993	-	-	1,091,993
Accounts receivable	341,022	-	-	341,022
Due from other governmental units	1,483,519	-	-	1,483,519
Long-term receivable	499,654	-	-	499,654
Prepaid items	1,903	-	-	1,903
Restricted assets:				
Cash and cash equivalents	3,082	-	49,207	52,289
Investments	-	-	2,100,592	2,100,592
Total assets	<u>\$ 28,126,223</u>	<u>\$ 6,372,007</u>	<u>\$ 2,149,799</u>	<u>\$ 36,648,029</u>
LIABILITIES				
Accounts payable	\$ 286,669	\$ 83,044	\$ -	\$ 369,713
Payroll liabilities	172,832	-	-	172,832
Deposits held in escrow	515	1,000	-	1,515
Unearned grant revenue	5,269,971	-	-	5,269,971
Total liabilities	<u>\$ 5,729,987</u>	<u>\$ 84,044</u>	<u>\$ -</u>	<u>\$ 5,814,031</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 1,095,576	\$ -	\$ -	\$ 1,095,576
Unavailable revenue - long-term receivable	499,654	-	-	499,654
Total deferred inflows of resources	<u>\$ 1,595,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,595,230</u>
FUND BALANCES				
Nonspendable	\$ 1,903	\$ -	\$ 180,562	\$ 182,465
Restricted	-	-	1,969,237	1,969,237
Committed	3,329,241	6,287,963	-	9,617,204
Assigned	492,234	-	-	492,234
Unassigned	16,977,628	-	-	16,977,628
Total fund balances	<u>\$ 20,801,006</u>	<u>\$ 6,287,963</u>	<u>\$ 2,149,799</u>	<u>\$ 29,238,768</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 28,126,223</u>	<u>\$ 6,372,007</u>	<u>\$ 2,149,799</u>	<u>\$ 36,648,029</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, 2023

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$ 29,238,768
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets not depreciated	\$ 4,283,980	
Capital assets being depreciated	35,247,485	39,531,465
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Unavailable revenue - property taxes	\$ 413,702	
Unavailable revenue - long-term receivable	499,654	913,356
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Deferred charge on refunding	\$ 954,316	
Pension related items	751,328	
OPEB related items	93,824	1,799,468
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	\$ (20,184,124)	
Loan payable	(1,655,510)	
Accrued interest payable	(189,758)	
Net OPEB liabilities	(298,918)	
Net pension liability	(781,989)	
Unamortized bond premium	(365,083)	
Unamortized bond discount	9,103	
Compensated absences	(329,200)	(23,795,479)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$ (1,296,808)	
OPEB related items	(81,535)	(1,378,343)
Net position of governmental activities		\$ 46,309,235

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, 2023

	General	Capital Projects	Permanent	Total
REVENUES				
General property taxes	\$ 7,650,189	\$ -	\$ -	\$ 7,650,189
Other local taxes	5,622,263	-	-	5,622,263
Permits, privilege fees, and regulatory licenses	216,011	-	-	216,011
Fines and forfeitures	63,131	-	-	63,131
Revenue from the use of money and property	1,471,960	-	147,955	1,619,915
Charges for services	745,907	-	-	745,907
Miscellaneous	3,162,494	-	-	3,162,494
Recovered costs	1,176,235	-	-	1,176,235
Intergovernmental	7,367,410	1,149,123	-	8,516,533
Total revenues	\$ 27,475,600	\$ 1,149,123	\$ 147,955	\$ 28,772,678
EXPENDITURES				
Current:				
General government administration	\$ 1,749,432	\$ 26,130	\$ -	\$ 1,775,562
Judicial administration	319,450	-	-	319,450
Public safety	6,708,674	-	-	6,708,674
Public works	3,517,254	2,676,705	-	6,193,959
Health and welfare	1,038,612	-	-	1,038,612
Education	3,461,583	-	-	3,461,583
Parks, recreation, and cultural	612,108	50,305	43,854	706,267
Community development	768,720	-	-	768,720
Nondepartmental	704,804	-	-	704,804
Debt service:				
Principal retirement	1,711,516	-	-	1,711,516
Interest and other fiscal charges	535,617	-	-	535,617
Total expenditures	\$ 21,127,770	\$ 2,753,140	\$ 43,854	\$ 23,924,764
Excess (deficiency) of revenues over (under) expenditures	\$ 6,347,830	\$ (1,604,017)	\$ 104,101	\$ 4,847,914
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 66,770	\$ 3,385,411	\$ -	\$ 3,452,181
Transfers out	(3,685,411)	-	(1,770)	(3,687,181)
Issuance of loan payable	1,732,000	-	-	1,732,000
Total other financing sources (uses)	\$ (1,886,641)	\$ 3,385,411	\$ (1,770)	\$ 1,497,000
Net change in fund balances	\$ 4,461,189	\$ 1,781,394	\$ 102,331	\$ 6,344,914
Fund balances - beginning	16,339,817	4,506,569	2,047,468	22,893,854
Fund balances - ending	\$ 20,801,006	\$ 6,287,963	\$ 2,149,799	\$ 29,238,768

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

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

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

Net change in fund balances - total governmental funds	\$	6,344,914
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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. These are the details of items supporting this adjustment:

Capital outlays	\$ 5,352,497		
Depreciation expense	(1,607,449)		3,745,048

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

Gain (loss) on sale of assets			(1,351)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	\$ 32,816		
Long-term receivable	(92,596)		(59,780)

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

Debt issued or incurred:			
Issuance of loan payable	\$ (1,732,000)		
Principal repayments:			
General obligation bonds	1,635,026		
Loan payable	76,490		(20,484)

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

Change in compensated absences	\$ (25,643)		
Change in accrued interest payable	9,703		
Changes in pension related items	611,834		
Changes in OPEB related items	39,600		
Amortization of deferred charge on refunding	(105,430)		
Amortization of bond discount	(4,552)		
Amortization of bond premium	80,226		605,738

Change in net position of governmental activities	\$	<u>10,614,085</u>
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The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Net Position
Proprietary Fund
June 30, 2023

	Enterprise Fund Utility Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 324,274
Investments	5,450,000
Accounts receivable, net of allowance for uncollectibles	877,071
Total current assets	<u>\$ 6,651,345</u>
Noncurrent assets:	
Restricted assets:	
Investments - unspent bond proceeds	\$ 1,120,133
Capital assets:	
Capital assets not being depreciated	\$ 6,997,827
Capital assets, net of accumulated depreciation	8,114,091
Total capital assets	<u>\$ 15,111,918</u>
Total noncurrent assets	<u>\$ 16,232,051</u>
Total assets	<u>\$ 22,883,396</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	\$ 72,009
OPEB related items	4,839
Total deferred outflows of resources	<u>\$ 76,848</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,011,542
Construction and retainage payable	255,006
Payroll liabilities	9,204
Accrued interest payable	83,508
Deposits held in escrow	130,576
Bonds payable - current portion	495,258
Total current liabilities	<u>\$ 1,985,094</u>
Noncurrent liabilities:	
Bonds payable - net of current portion	\$ 9,373,843
Net pension liability	71,370
Net OPEB liability	19,349
Total noncurrent liabilities	<u>\$ 9,464,562</u>
Total liabilities	<u>\$ 11,449,656</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related items	\$ 121,028
OPEB related items	5,060
Total deferred outflows of resources	<u>\$ 126,088</u>
NET POSITION	
Net investment in capital assets	\$ 6,107,944
Unrestricted	5,276,556
Total net position	<u>\$ 11,384,500</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, 2023

	Enterprise Fund Utility Fund
OPERATING REVENUES	
Charges for services:	
Water and sewer revenues	\$ 6,291,244
Miscellaneous	13,958
Total operating revenues	<u>\$ 6,305,202</u>
OPERATING EXPENSES	
Administration	\$ 355,271
Water treatment plant	1,480
Water distribution	1,474,368
Wastewater collection	2,573,258
Water meter replacement	38,360
Public works personnel	89,584
Campbell Lane pump station	250
Public works labor pool	330
Internal services	274,621
Depreciation	398,697
Total operating expenses	<u>\$ 5,206,219</u>
Operating income (loss)	<u>\$ 1,098,983</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ 71,924
Interest expense	<u>(215,459)</u>
Total nonoperating revenues (expenses)	<u>\$ (143,535)</u>
Income before transfers and capital contributions	<u>\$ 955,448</u>
Capital contributions from City	\$ 300,000
Transfers out	<u>(65,000)</u>
Change in net position	<u>\$ 1,190,448</u>
Net position - beginning	10,194,052
Net position - ending	<u><u>\$ 11,384,500</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, 2023

	Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 6,482,617
Payments to suppliers	(4,023,413)
Payments to and for employees	(591,420)
Net cash provided by (used for) by operating activities	<u>\$ 1,867,784</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (to) from other funds	<u>\$ 235,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (2,949,186)
Principal payments on bonds	(340,000)
Interest payments	(368,644)
Net cash provided by (used for) capital and related financing activities	<u>\$ (3,657,830)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale (purchase) of investments	\$ 1,463,623
Interest and dividends received	71,924
Net cash provided by (used for) investing activities	<u>\$ 1,535,547</u>
Net increase (decrease) in cash and cash equivalents	\$ (19,499)
Cash and cash equivalents - beginning	343,773
Cash and cash equivalents - ending	<u><u>\$ 324,274</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ 1,098,983</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	\$ 398,697
(Increase) decrease in accounts receivable	173,302
(Increase) decrease in deferred outflows of resources	33,294
Increase (decrease) in accounts payable	246,698
Increase (decrease) in payroll liabilities	3,783
Increase (decrease) in net OPEB liability	377
Increase (decrease) in deferred inflows of resources	(136,622)
Increase (decrease) in net pension liability	45,159
Increase (decrease) deposits held in escrow	4,113
Total adjustments	<u>\$ 768,801</u>
Net cash provided by (used for) operating activities	<u><u>\$ 1,867,784</u></u>
Schedule of noncash capital and related financing activities:	
Capital and related financing activities:	
Capital asset additions included in construction and retainage payable	\$ 255,006

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, 2023

	<u>OPEB Trust</u>	<u>Custodial Funds</u>
ASSETS		
Cash and cash equivalents	\$ 236,113	\$ 585,257
Investments	-	200,000
Accounts receivable	-	13,786
Total assets	<u>\$ 236,113</u>	<u>\$ 799,043</u>
LIABILITIES		
Accrued liabilities	\$ -	\$ 292,615
Total liabilities	<u>\$ -</u>	<u>\$ 292,615</u>
NET POSITION		
Restricted for:		
Net position restricted for postemployment benefits other than pensions	\$ 236,113	\$ -
Central Dispatch operations	-	157,966
RARO operations	-	30,490
Regional Tourism operations	-	317,972
Total net position	<u>\$ 236,113</u>	<u>\$ 506,428</u>

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

City of Lexington, Virginia
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2023

	OPEB Trust	Custodial Funds
ADDITIONS		
Contributions:		
Employer	\$ 62,749	\$ -
Other governments	-	3,477,326
Contributions from others	-	9,000
Participant fees	-	69,020
Miscellaneous	-	66,029
Total contributions	<u>\$ 62,749</u>	<u>\$ 3,621,375</u>
Investment income:		
Net increase in fair value of investments	\$ 16,363	\$ -
Interest and dividends	393	-
Investment expense	(765)	-
Net investment income	<u>\$ 15,991</u>	<u>\$ -</u>
Total additions	<u>\$ 78,740</u>	<u>\$ 3,621,375</u>
DEDUCTIONS		
Benefit payments	\$ 62,749	\$ -
Personnel charges	-	1,934,248
Advertising	-	238,092
Supplies	-	346,809
Buildings and equipment charges	-	516,417
Professional services	-	289,618
Other	-	355,830
Total deductions	<u>\$ 62,749</u>	<u>\$ 3,681,014</u>
Net increase (decrease) in fiduciary net position	<u>\$ 15,991</u>	<u>\$ (59,639)</u>
Net position, beginning	<u>\$ 220,122</u>	<u>\$ 566,067</u>
Net position, ending	<u><u>\$ 236,113</u></u>	<u><u>\$ 506,428</u></u>

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

Note 1-Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

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

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

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations -

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

The City of Lexington and the County of Rockbridge participate in the Blue Ridge Resource Authority which operates a regional landfill. The Authority is governed by a committee comprised of seven members appointed by the participating jurisdictions. City Council appoints two members and has control over the budget and financing of the Authority only to the extent of representation by the members appointed; therefore, the Authority's operations are not included in this financial report.

B. Government-wide and fund financial statements

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

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

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

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.

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

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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of recognition in the financial statements of various kinds of transactions or events.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and 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 principal and interest expenditures on general long-term debt, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City's fiduciary funds are presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

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

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

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.

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

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

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 owns a sewage collection and treatment system and a water treatment plant and distribution system. The City works with Maury Service Authority who operates the system on a day-to-day basis. The activities of the system are accounted for in the Utility Fund.

The government reports the following fiduciary funds:

Fiduciary Funds (Trust and Custodial Funds) account for assets held by the City in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. The OPEB Trust Fund is one of the fiduciary funds of the City. The Central Dispatch Fund, Regional Area Recreation Organization (RARO), and Regional Tourism (custodial funds) are other fiduciary funds of the City. The City is the fiscal agent for these Organizations and has control over the underlying assets, which are each comprised of different revenue streams. All of the fiduciary funds utilize the accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements.

The School Board reports the following major fund types:

The *School Operating Fund* is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from appropriations from the County and state and federal grants.

The *School Activity Fund* is a special revenue fund and accounts for and reports all funds received from extracurricular school activities, such as entertainment, athletic contests, club dues, fundraisers, etc., and from any and all activities of the individual schools.

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

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

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

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

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

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

1. Cash and cash equivalents

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

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

2. Receivables and payables

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

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

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.

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

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

4. Inventory

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

5. Prepaid Items

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

6. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$71,350 and \$39,915 for property taxes and utility billings, respectively, on June 30, 2023.

7. Use of Estimates

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

8. Capital assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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

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

8. Capital assets (Continued)

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:

Assets	Years
Buildings	20 - 50
Improvements other than buildings	10 - 15
Structures, lines, and accessories	20 - 40
Machinery and equipment	2 - 20
Infrastructure	50

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

9. Compensated Absences

Employees accumulate vacation and sick leave hours for subsequent use. In the governmental funds, compensated absences for vacation leave are reported only if matured (unused, reimbursable leave, still outstanding following an employee's termination, resignation, death, or retirement). In the primary government and the discretely presented nonmajor component unit - IDA Fund, an employee can accumulate from 24 to 42 days of vacation, based on years of service, and unlimited sick leave. Compensated absences are accrued when incurred in governmental and proprietary funds and reported as a fund liability. In the discretely presented component unit - school board, an employee can accumulate up to 36 days of vacation and 200 days of sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation or retirement. Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it.

10. Long-term obligations

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

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

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

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

11. Fund Balance

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, 2023 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 can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;

Committed - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;

Assigned - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

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

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. A fund balance commitment, which does not lapse at year-end, 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).

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

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

12. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

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

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.

13. 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)

13. 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.

14. Pensions

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

15. Other Postemployment Benefits (OPEB)

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

16. Deferred Outflows/Inflows of Resources

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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

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

16. Deferred Outflows/Inflows of Resources (Continued)

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

Note 2-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2023, no funds had expenditures in excess of appropriations. Appropriations are not required for the permanent fund; therefore, none have been reported in the schedules.

B. Deficit fund balance

At June 30, 2023, there were no funds with deficit fund balance.

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 that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 3-Deposits and Investments: (Continued)**Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2023 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, 2023 were held in the City's name by the City's custodial bank; except \$148,184 of U.S. Treasuries, \$587,146 of Mutual Fund Bonds, and \$915,263 of Common Stocks where the underlying securities were uninsured and held by the investment's counterparty's trust department or agent but not in the name of the City. The Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk of Debt Securities

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

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings	
	AAAm	
Local Government Investment Pool	\$	36,948,245
SNAP		1,120,133

Concentration of Credit Risk

At June 30, 2023, 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	Maturity Date	Call Options
Mutual Fund Bonds:			
Brandy Wineglobal Corporate Credit FD	\$ 78,381	Upon demand	None
Dodge & Cox Income FD	159,478	Upon demand	None
Ishares 0-5 Year High Yield Corp Bond	77,719	Upon demand	None
Pimco Income FD	82,183	Upon demand	None
Pimco Investment Grade Credit Bond	62,559	Upon demand	None
Vanguard Total Market Index Fund	126,826	Upon demand	None
Local Government Investment Pool	36,948,245	Upon demand	None
SNAP	1,120,133	Upon demand	None

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 3-Deposits and Investments: (Continued)Interest Rate Risk (Continued)

Investment Type	Investment Maturities (in years)	
	Fair Value	Less Than 1 Year
Local Government Investment Pool	\$ 36,948,245	\$ 36,948,245
SNAP	1,120,133	1,120,133
Totals	\$ 38,068,378	\$ 38,068,378

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

External Investment Pools

The value of the positions in the external investment pools (Local Government Investment Pool) and (State Non-Arbitrage Pool) are the same as the value of the pool shares. As LGIP and SNAP are not SEC registered, regulatory oversight of the pools rest with the Virginia State Treasury. LGIP and SNAP are an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

Note 4-Fair Value Measurements:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 4-Fair Value Measurements: (Continued)**

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

Investment	6/30/2023	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds Bonds	\$ 587,146	\$ 587,146	\$ -	\$ -
Common Stocks	915,263	915,263	-	-
U.S. Treasuries	148,184	148,184	-	-

Note 5-Due from Other Governmental Units:

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

	Primary Government	Component Unit- School Board
<u>Local Governments:</u>		
Rockbridge County	\$ 1,005,194	
Buena Vista	70,715	
<u>Commonwealth of Virginia:</u>		
Local sales tax	232,104	\$ -
Communications sales and use tax	35,420	-
State sales tax	-	67,669
Categorical aid-shared expenses	13,768	-
Other categorical aid	-	96,873
Virginia public assistance funds	17,608	-
Children's services act	108,710	-
<u>Federal Government:</u>		
School grants	-	72,144
Totals	<u>\$ 1,483,519</u>	<u>\$ 236,686</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 6-Interfund Transfers and Balances:

Interfund transfers for the fiscal year ended June 30, 2023 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 66,770	\$ 3,685,411
Capital Projects Fund	3,385,411	-
Cemetery Fund	-	1,770
Utility Fund (1)	300,000	65,000
Component Unit:		
School Operating Fund	-	32,047
School Activity Fund	32,047	-
Total	<u>\$ 3,784,228</u>	<u>\$ 3,784,228</u>

- (1) The \$300,000 was a transfer for capital assets and is therefore reported as a capital contribution on Exhibit 8.

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.

There were no interfund balances for the fiscal year ended June 30, 2023.

Note 7-Long-Term Receivable:

The City entered into an agreement with the Counties of Rockbridge and Buena Vista, whereby debt was issued in the City's name for the regional jail. Each locality is responsible for a percentage of the debt payments as they become due each year. As of June 30, 2023, the outstanding balance of the debt was \$595,294 and the long-term receivable balance was \$499,654.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 8-Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2023:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
General Obligation Bonds	\$ 21,113,536	\$ -	\$ (1,524,706)	\$ 19,588,830
Less: Discount on Issuance	(13,655)	-	4,552	(9,103)
Plus: Premiums on Issuance	445,309	-	(80,226)	365,083
Direct Borrowings and Placements:				
General Obligation Bonds	705,614	-	(110,320)	595,294
Loan Payable	-	1,732,000	(76,490)	1,655,510
Net OPEB Liabilities	295,611	166,416	(163,109)	298,918
Net Pension Liability	282,258	1,933,663	(1,433,932)	781,989
Compensated Absences	303,557	107,943	(82,300)	329,200
Total	<u>\$ 23,132,230</u>	<u>\$ 3,940,022</u>	<u>\$ (3,466,531)</u>	<u>\$ 23,605,721</u>

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

Year Ending June 30,	General Obligation Bonds		Direct Borrowings and Placements	
	Principal	Interest	Principal	Interest
2024	\$ 1,559,704	\$ 444,945	\$ 263,010	\$ 71,373
2025	1,589,704	411,527	271,186	63,198
2026	1,614,704	390,075	279,577	54,806
2027	1,634,718	371,776	288,235	46,148
2028	1,065,000	350,964	297,157	37,226
2029-2033	5,710,000	1,373,321	851,639	75,520
2034-2038	5,050,000	597,623	-	-
2039-2040	1,365,000	50,615	-	-
Totals	<u>\$ 19,588,830</u>	<u>\$ 3,990,846</u>	<u>\$ 2,250,804</u>	<u>\$ 348,271</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 8-Long-Term Obligations: (Continued)**Primary Government - Governmental Activities Indebtedness: (Continued)**

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Direct Borrowings and Placements:						
General Obligation Bond	2.52%	4/12/2013	2028	\$ 1,582,209	\$ 595,294	\$ 113,097
Loan Payable (2)	3.47%	12/22/2022	2033	1,732,000	1,655,510	149,913
Subtotal Direct Borrowings and Placements					\$ 2,250,804	\$ 263,010
General Obligation Bond	0.00%	11/13/2009	2026	8,410,000	\$ 1,978,830	\$ 494,704
VPSA Bond	0.00%	7/8/2010	2027	1,525,000	360,000	90,000
General Obligation Bond (1)	2.01-4.83%	6/5/2013	2035	9,545,000	415,000	415,000
VPSA Bond	2.675-5.05%	5/15/2014	2040	11,615,000	9,060,000	395,000
VRA Refunding Bond 2020C	0.394-2.298%	11/18/2020	2036	7,965,000	7,775,000	165,000
Subtotal General Obligation Bonds					\$ 19,588,830	\$ 1,559,704
Plus: Premium on Issuance					\$ 365,083	\$ 80,226
Less: Discount on Issuance					(9,103)	(4,552)
Total General Obligation Bonds					\$ 22,195,614	\$ 1,898,388
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 329,200	\$ 82,300
Net OPEB Liabilities	n/a	n/a	n/a	n/a	298,918	-
Net Pension Liability	n/a	n/a	n/a	n/a	781,989	-
Total Other Obligations					\$ 1,410,107	\$ 82,300
Total Long-term Obligations					\$ 23,605,721	\$ 1,980,688

(1) In the event of default of this general obligation bond, the lender may declare the entire unpaid principal and interest as due and payable.

(2) Secured by the underlying equipment for which the loan was issued.

Compensated absences and the pension and OPEB liabilities are liquidated by the City's general fund.

The City is subject to a legal debt limit of 10% of the assessed value of real estate which totaled \$67,512,770 at June 30, 2023.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 8-Long-Term Obligations: (Continued)

Primary Government-Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2023:

	Beginning Balance	Increases	Decreases	Ending Balance
Direct Borrowings and Placements:				
General Obligation Bonds	\$ 9,355,000	\$ -	\$ (340,000)	\$ 9,015,000
Plus: Premium on Issuance	998,001	-	(143,900)	854,101
Net Pension Liability	26,211	176,481	(131,322)	71,370
Net OPEB Liability	18,972	11,746	(11,369)	19,349
Total	<u>\$ 10,398,184</u>	<u>\$ 188,227</u>	<u>\$ (626,591)</u>	<u>\$ 9,959,820</u>

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

Year Ending June 30,	Direct Borrowings and Placements	
	General Obligation Bonds	
	Principal	Interest
2024	\$ 360,000	\$ 350,705
2025	375,000	331,870
2026	390,000	312,267
2027	410,000	291,768
2028	440,000	269,986
2029-2033	2,570,000	980,686
2034-2038	2,970,000	406,265
2039-2042	1,500,000	60,115
Totals	<u>\$ 9,015,000</u>	<u>\$ 3,003,662</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 8-Long-Term Obligations: (Continued)Primary Government-Business-type Activities Indebtedness: (Continued)

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Direct Borrowings and Placements:						
General Obligation Bonds:						
General Obligation Bond	4.125%-5.125%	11/18/2016	2037	\$ 2,180,000	\$ 1,735,000	\$ 90,000
General Obligation Bond	4.125%-5.125%	11/14/2018	2039	2,645,000	2,305,000	95,000
General Obligation Bond	2.036%-5.125%	8/4/2021	2042	5,310,000	4,975,000	175,000
					<u>\$ 9,015,000</u>	<u>\$ 360,000</u>
Plus: Premium on Issuance					\$ 854,101	\$ 135,258
Total General Obligation Bonds					<u>\$ 9,869,101</u>	<u>\$ 495,258</u>
Other Obligations:						
Net Pension Liability	n/a	n/a	n/a	n/a	\$ 71,370	\$ -
Net OPEB Liability	n/a	n/a	n/a	n/a	19,349	-
Total Other Obligations					<u>\$ 90,719</u>	<u>\$ -</u>
Total Long-term Obligations					<u>\$ 9,959,820</u>	<u>\$ 495,258</u>

The pension and OPEB liabilities are liquidated by the utility fund.

In the event of default, the lender may declare the entire unpaid principal and interest on the general obligation bonds as due and payable. The general obligation bonds also have requirements that net revenues available for debt service will equal at least 115% of the amount required during the current fiscal year to pay the principal and interest of all parity bonds. The City is in compliance with the aforementioned covenant.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 9-Long-Term Obligations-Component Unit:**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, 2023.

	Beginning Balance	Increases	Decreases	Ending Balance
Direct Borrowings and Placements:				
Loan Payable	\$ 29,671	\$ -	\$ (14,559)	\$ 15,112
Compensated Absences	105,239	41,542	(29,356)	117,425
Net Pension Liability	2,976,372	2,984,501	(2,249,744)	3,711,129
Net OPEB Liabilities	833,795	336,946	(269,067)	901,674
Total	<u>\$ 3,945,077</u>	<u>\$ 3,362,989</u>	<u>\$ (2,562,726)</u>	<u>\$ 4,745,340</u>

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

Year Ending June 30,	Direct Borrowings and Placements	
	Loan Payable	
	Principal	Interest
2024	<u>\$ 15,112</u>	<u>\$ 574</u>

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Direct Borrowings and Placements:						
Loan Payable	3.80%	5/8/2017	2024	\$ 97,766	\$ 15,112	\$ 15,112
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 117,425	\$ 29,356
Net Pension Liability	n/a	n/a	n/a	n/a	3,711,129	-
Net OPEB Liabilities	n/a	n/a	n/a	n/a	901,674	-
Total Other Obligations					<u>\$ 4,730,228</u>	<u>\$ 29,356</u>
Total Long-term Obligations					<u>\$ 4,745,340</u>	<u>\$ 44,468</u>

Compensated absences and the pension and OPEB liabilities are liquidated by the School Operating Fund.

Note 10-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through the City of Lexington, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

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

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

Note 10-Pension Plan: (Continued)

Average Final Compensation and Service Retirement Multiplier

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

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

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

Contributions

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

The City's contractually required employer contribution rate for the year ended June 30, 2023 was 11.73% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$527,397 and \$502,431 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net Pension Liability

At June 30, 2023, the City reported a liability of \$853,359 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2022 and June 30, 2021 were used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2022 and 2021, the City's proportion was 78.5837% and 79.0815%, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - General Employees

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)**Actuarial Assumptions - General Employees (Continued)**

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

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

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

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)**

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)*****Long-Term Expected Rate of Return***

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY 2020 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2022, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City's proportionate share of the City's Net Pension Liability	\$ 3,799,147	\$ 853,359	\$ (1,572,274)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)*****Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2023, the City recognized pension expense of \$(138,960). Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 721,424
Change in assumptions	294,166	-
Net difference between projected and actual earnings on pension plan investments	-	682,347
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,774	14,065
Employer contributions subsequent to the measurement date	527,397	-
Total	\$ <u>823,337</u>	\$ <u>1,417,836</u>

\$527,397 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2024	\$ (494,345)
2025	(484,783)
2026	(461,543)
2027	318,775

Pension Plan Data

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)****Component Unit School Board (Nonprofessional)**

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

Employees Covered by Benefit Terms

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

	Component Unit School Board (Nonprofessional)
Inactive members or their beneficiaries currently receiving benefits	8
Inactive members:	
Vested inactive members	1
Non-vested inactive members	0
Inactive members active elsewhere in VRS	1
Total inactive members	<u>2</u>
Active members	<u>0</u>
Total covered employees	<u><u>10</u></u>

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2023 was 0.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$0 and \$0 for the years ended June 30, 2032 and June 30, 2022, respectively, as there are currently no active members in the plan.

Net Pension Asset

The net pension liability asset (NPA) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Component Unit School Board's (nonprofessional) net pension asset was measured as of June 30, 2022. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to the measurement date of June 30, 2022.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)****Component Unit School Board (Nonprofessional) (Continued)****Changes in Net Pension Liability (Asset)**

	Component School Board (Nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2021	\$ 291,251	\$ 589,818	\$ (298,567)
Changes for the year:			
Interest	\$ 18,859	\$ -	\$ 18,859
Differences between expected and actual experience	(3,548)	-	(3,548)
Net investment income	-	(239)	239
Benefit payments, including refunds of employee contributions	(23,725)	(23,725)	-
Administrative expenses	-	(373)	373
Other changes	-	13	(13)
Net changes	\$ (8,414)	\$ (24,324)	\$ 15,910
Balances at June 30, 2022	\$ 282,837	\$ 565,494	\$ (282,657)

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

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Component Unit School Board (Nonprofessional) Net Pension Liability (Asset)	\$ (259,571)	\$ (282,657)	\$ (302,854)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)****Component Unit School Board (Nonprofessional) (Continued)*****Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2023, the Component Unit School Board (nonprofessional) recognized pension expense of \$(30,458). At June 30, 2023, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (Nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 17,621

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

Year ended June 30	Component Unit School Board (Nonprofessional)
2024	\$ (6,668)
2025	(7,048)
2026	(11,752)
2027	7,847

Component Unit School Board (Professional)***Plan Description***

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

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were \$599,219 and \$579,109 for the years ended June 30, 2023 and June 30, 2022, respectively.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)****Component Unit School Board (Professional) (Continued)*****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2023, the school division reported a liability of \$3,711,129 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2022, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion was 0.03900% as compared to 0.03834% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized pension expense of \$297,286. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. Beginning with the June 30, 2022 measurement date, the difference between expected and actual contributions is included with the pension expense calculation.

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

	Component Unit School Board (Professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 255,897
Change in assumptions	349,885	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	208,191	-
Net difference between projected and actual earnings on pension plan investments	-	483,854
Employer contributions subsequent to the measurement date	599,219	-
Total	\$ 1,157,295	\$ 739,751

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)

Component Unit School Board (Professional) (Continued)

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

\$599,219 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (Professional)</u>
2024	\$ (33,545)
2025	(99,894)
2026	(281,476)
2027	233,240

Actuarial Assumptions

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)**Component Unit School Board (Professional) (Continued)*****Actuarial Assumptions (Continued)***

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 10-Pension Plan: (Continued)****Component Unit School Board (Professional) (Continued)****Net Pension Liability**

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

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

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

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

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

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 6,628,361	\$ 3,711,129	\$ 1,335,861

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Pension Plan: (Continued)**Component Unit School Board (Professional) (Continued)*****Pension Plan Fiduciary Net Position***

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

Primary Government and Component Unit School Board***Aggregate Pension Information***

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
VRS Pension Plans:								
Primary Government	\$ 823,337	\$ 1,417,836	\$ 853,359	\$ (138,960)	\$ -	\$ -	\$ -	\$ -
School Board Nonprofessional	-	-	-	-	-	17,621	(282,657)	(30,458)
School Board Professional	-	-	-	-	1,157,295	739,751	3,711,129	297,286
Totals	\$ 823,337	\$ 1,417,836	\$ 853,359	\$ (138,960)	\$ 1,157,295	\$ 757,372	\$ 3,428,472	\$ 266,828

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 11-Unearned and Deferred/Unavailable Revenue:**

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

Unearned Revenue:

Primary Government:

Unearned Grants - Grant revenue collected by the City for various purposes that has not met the revenue criteria totaled \$5,269,971.

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 \$54,736.

Deferred/Unavailable Revenue - Primary Government:

	Government-wide		Balance Sheet	
	Statements		Governmental Funds	
	Governmental Activities		Governmental Funds	
Unavailable long-term receivable	\$	-	\$	499,654
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures		-		413,702
Tax assessments due after June 30		602,201		602,201
Prepaid property taxes due after June 30 but paid in advance by taxpayers		79,673		79,673
Total	\$	681,874	\$	1,595,230

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 12-Capital Assets:**

Capital asset activity for the year ended June 30, 2023 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 3,366,160	\$ 348,014	\$ -	\$ 3,714,174
Construction in progress	222,737	2,602,211	(2,255,142)	569,806
Total capital assets not being depreciated	<u>\$ 3,588,897</u>	<u>\$ 2,950,225</u>	<u>\$ (2,255,142)</u>	<u>\$ 4,283,980</u>
Capital assets, being depreciated:				
Buildings	\$ 32,943,181	\$ -	\$ -	\$ 32,943,181
Improvements other than buildings	2,001,406	-	-	2,001,406
Infrastructure	7,977,692	2,353,885	-	10,331,577
Machinery and equipment	8,450,173	2,303,529	(17,950)	10,735,752
Total capital assets being depreciated	<u>\$ 51,372,452</u>	<u>\$ 4,657,414</u>	<u>\$ (17,950)</u>	<u>\$ 56,011,916</u>
Accumulated depreciation:				
Buildings	\$ (8,003,624)	\$ (737,682)	\$ -	\$ (8,741,306)
Improvements other than buildings	(1,354,371)	(105,046)	-	(1,459,417)
Infrastructure	(3,837,997)	(214,974)	-	(4,052,971)
Machinery and equipment	(5,977,589)	(549,747)	16,599	(6,510,737)
Total accumulated depreciation	<u>\$ (19,173,581)</u>	<u>\$ (1,607,449)</u>	<u>\$ 16,599</u>	<u>\$ (20,764,431)</u>
Total capital assets being depreciated, net	<u>\$ 32,198,871</u>	<u>\$ 3,049,965</u>	<u>\$ (1,351)</u>	<u>\$ 35,247,485</u>
Governmental activities capital assets, net	<u>\$ 35,787,768</u>	<u>\$ 6,000,190</u>	<u>\$ (2,256,493)</u>	<u>\$ 39,531,465</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 12-Capital Assets: (Continued)**Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities:</i>				
Capital assets, not being depreciated				
Construction in progress	\$ 4,055,332	\$ 2,942,495	\$ -	\$ 6,997,827
Capital assets, being depreciated:				
Improvements other than buildings	\$ 77,717	\$ -	\$ -	\$ 77,717
Infrastructure	10,814,640	-	-	10,814,640
Machinery and equipment	1,537,492	17,837	(180,173)	1,375,156
Total capital assets being depreciated	\$ 12,429,849	\$ 17,837	\$ (180,173)	\$ 12,267,513
Accumulated depreciation:				
Improvements other than buildings	\$ (58,273)	\$ (1,028)	\$ -	\$ (59,301)
Infrastructure	(2,879,020)	(276,343)	-	(3,155,363)
Machinery and equipment	(993,312)	(121,326)	175,880	(938,758)
Total accumulated depreciation	\$ (3,930,605)	\$ (398,697)	\$ 175,880	\$ (4,153,422)
Total capital assets being depreciated, net	\$ 8,499,244	\$ (380,860)	\$ (4,293)	\$ 8,114,091
Business-type activities capital assets, net	\$ 12,554,576	\$ 2,561,635	\$ (4,293)	\$ 15,111,918

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

Governmental activities:	
General government administration	\$ 13,745
Public safety	382,429
Public works	593,856
Education	510,073
Parks, recreation, and cultural	105,644
Community development	1,702
Total depreciation expense-governmental activities	\$ 1,607,449
Business-type activities:	
Utility Fund	\$ 398,697

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 12-Capital Assets: (Continued)Discretely Presented Component Unit - School Board:

Capital asset activity for the School Board for the year ended June 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 359,494	\$ -	\$ -	\$ 359,494
Capital assets, being depreciated:				
Buildings	\$ 1,271,364	\$ -	\$ -	\$ 1,271,364
Improvements other than buildings	131,136	-	-	131,136
Machinery and equipment	343,596	-	-	343,596
Total capital assets being depreciated	\$ 1,746,096	\$ -	\$ -	\$ 1,746,096
Accumulated depreciation:				
Buildings	\$ (1,145,390)	\$ (12,645)	\$ -	\$ (1,158,035)
Improvements other than buildings	(63,383)	(13,113)	-	(76,496)
Machinery and equipment	(189,980)	(24,825)	-	(214,805)
Total accumulated depreciation	\$ (1,398,753)	\$ (50,583)	\$ -	\$ (1,449,336)
Total capital assets being depreciated, net	\$ 347,343	\$ (50,583)	\$ -	\$ 296,760
School board capital assets, net	\$ 706,837	\$ (50,583)	\$ -	\$ 656,254

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

Education	\$ 50,583
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 13-Risk Management:

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

Note 14-Contingent Liabilities:

The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction and upgrades of its current wastewater treatment plant. The MSA's debt totaled \$2,584,068 as of June 30, 2023 and is scheduled to be completely retired by June of 2031. The City paid \$161,504 to the MSA in FY 23 for half of the debt service; the County of Rockbridge pays an equal assessment. An annual assessment of \$161,504 per year is scheduled through fiscal year ending June 30, 2031.

Note 15-Surety Bonds:

Primary Government:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 16-Service Contracts:

Maury Service Authority: The Maury Service Authority (MSA) provides water filtration and potable water to the City and to Rockbridge County, which in turn sell these same services to their respective residents. During fiscal year 2023, the City paid the MSA \$3,455,265 for bulk purchases of water and sewer services, as well as a \$161,504 assessment for debt service.

Blue Ridge Resource Authority: The City of Lexington, along with other localities, participates in the Blue Ridge Resource Authority, 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 2023 was \$61.50/ton, \$59.50/ton, and \$74.38/ton for refuse disposal for commercial and citizen and municipal customers, respectively, at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and the County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,641,196 for high school student tuition in 2023.

Note 17-Annexation/Revenue Sharing:

In 1983, the City filed a petition with the Virginia Commission on Local Government to annex 6.8 square miles of land in the County of Rockbridge adjoining the City. The proposed annexation would have increased the City's size by approximately 542 residents and would have increased its tax base. Negotiations between the City and the County, in an effort to resolve the annexation issues, resulted in a revenue sharing agreement between the two jurisdictions. The voters of the County of Rockbridge in a special referendum approved the agreement on March 6, 1986, and both governing bodies have passed an ordinance adopting the agreement. During fiscal year 2023, the City received \$2,209,533 from the County representing the revenue sharing payment under this agreement.

Note 18-Litigation:

At June 30, 2023, there were no significant matters of litigation pending involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to the City.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 19-Other Postemployment Benefits - Health Insurance:****Plan Description**

In addition to the pension benefits described in Note 11, the City administers a cost-sharing defined benefit healthcare plan, the Lexington Post-Retirement Medical Plan (LPRMP). 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 LPRMP may change the terms of the Plan at any time. The LPRMP does not issue a publicly available financial report.

	Primary Government	Component Unit School Board
Total active employees with coverage	102	53
Total retirees with coverage	3	3
Total	105	56

Plan Administration

Investments for the LPRMP are the responsibility of the LPRMP Board.

Benefits Provided

Postemployment benefits are provided to eligible retirees to include healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan.

Contributions

The LPRMP Board establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The LPRMP Board 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. Retirees of the City pay 100% of the premium, there is no employer subsidy provided. Retirees of the School Board pay the VRS Healthcare Credit plus the additional difference between the current employee premium and the employer subsidy at retirement, if any. The amount is fixed at retirement and no employer subsidy is provided for dependents. The current School Board subsidy provided is \$653.36 per month. For fiscal year 2023, the City and School Board contributed \$17,425 and \$45,324, respectively, in total on a pay-as-you-go basis.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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

The City of Lexington's OPEB Trust is invested in and administered by the Virginia Pooled OPEB Trust, which establishes the allocation of invested assets. The following was the asset allocation as of June 30, 2023:

Asset Class	Allocation
Domestic Equity	35.59%
Fixed Income	21.74%
International Equity	16.47%
Real Estate	10.16%
Private Equity	7.18%
Long/Short Equity	6.28%
Cash	2.57%
	<u>100.0%</u>

Concentrations

The Trust does not hold investments in any one organization that represents five percent or more of the OPEB Trust's Fiduciary Net Position.

Rate of Return

For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 7.26%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 19-Other Postemployment Benefits - Health Insurance: (Continued)**Net OPEB Liability

The net OPEB liability (NOL) for the plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2023 NOL amounts for the plan are as follows (amounts expressed in thousands):

	OPEB Plan	
	City	School Board
Total OPEB Liability	\$ 190,138	\$ 358,957
Plan Fiduciary Net Position	103,223	132,890
Net OPEB Liability (Asset)	<u>\$ 86,915</u>	<u>\$ 226,067</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.29%	37.02%

Net OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2023, the City and School Board reported liabilities of \$86,915 and \$226,067, respectively, for their proportionate share of the Net OPEB Liability. The total OPEB liability is based on June 1, 2023 and January 1, 2023 valuation data, for the City and School Board respectively, rolled forward to June 30, 2023. At June 30, 2023, the City and School Board's proportion was 27.77% and 72.23%, respectively.

For the year ended June 30, 2023, the City and School Board recognized OPEB expense of \$16,013 and \$46,970, respectively.

At June 30, 2023, the City and School Board reported for the following deferred outflows of resources and deferred inflows of resources related to the LPRMP OPEB from the following sources:

	City		School Board	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,794	\$ 7,946	\$ 87,899	\$ 20,670
Change in assumptions	3,056	2,794	7,950	7,269
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,981	15,363	15,363	3,981
Net difference between projected and actual earnings on OPEB plan investments	<u>632</u>	<u>-</u>	<u>1,645</u>	<u>-</u>
Total	<u>\$ 41,463</u>	<u>\$ 26,103</u>	<u>\$ 112,857</u>	<u>\$ 31,920</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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

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

<u>Fiscal Year Ended June 30</u>	<u>City</u>	<u>School Board</u>
2024	\$ 5,587	\$ 19,842
2025	5,147	18,695
2026	3,125	16,897
2027	1,727	15,732
2028	(226)	9,771

Schedule of Investment Returns

Last Ten Fiscal Years

<u>Annual Money-Weighted Rate of Return Net of Investment Expense</u>	
6/30/2017	12.28%
6/30/2018	9.14%
6/30/2019	4.19%
6/30/2020	2.67%
6/30/2021	29.64%
6/30/2022	-9.52%
6/30/2023	7.26%

The chart is intended to show information for 10 years. More data will be added as it becomes available.

Actuarial Assumptions

The total OPEB liability was determined based on June 1, 2023 and January 1, 2023 valuation data, for the City and School Board respectively, rolled forward to June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	2.50%
Investment rate of return	5.50%
Healthcare cost trend rates	7.50% for 2022-2024, decreasing to 5.20% in 2025, and decreasing incrementally to 3.94% in 2075 and thereafter

Mortality rates were based on the PubT.H-2010 Mortality Table (general and teacher, headcount-weighted), fully generational, projected using Scale MP-2021 and base year 2010.

The actuarial assumptions used in the June 30, 2023 valuation were based on June 1, 2023 and January 1, 2023 valuation data, for the City and School Board respectively. The methods, assumptions, and participant data used can be found in the June 1, 2023 and January 1, 2023, for the City and School Board respectively, actuarial valuation report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 19-Other Postemployment Benefits - Health Insurance: (Continued)**Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2023 (see the discussion of LPRMP's investment policy) are summarized in the following table:

Asset Class	Target Asset Allocation
Core Bonds	5.00%
Core Plus	11.00%
Liquid Absolute Return	4.00%
U.S. Large Cap Equity	21.00%
U.S. Small Cap Equity	10.00%
International Developed Equity	13.00%
Emerging Market Equity	5.00%
Long/Short Equity	6.00%
Private Equity	10.00%
Core Real Estate	10.00%
Opportunistic Real Estate	5.00%
	100.00%

Discount Rate

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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

Discount Rate (Continued)

The long term expected rate of return on assets has stayed consistent with prior year at 5.5%. The long term expected real rate of return by asset class was based on a survey of several investment firms. The rate was determined based on the following analysis:

Asset Class	Long Term	Long Term	Long Term
	Arithmetic Average	Arithmetic Average	Arithmetic Average
	Nominal Return (1)	Real Return (2)	Weighted Average
			Real Return
Core Bonds	5.33%	2.58%	0.13%
Core Plus	5.64%	2.89%	0.32%
Liquid Absolute Return	6.00%	3.25%	0.13%
U.S. Large Cap Equity	9.92%	7.17%	1.51%
U.S. Small Cap Equity	11.36%	8.61%	0.86%
International Developed Equi	10.81%	8.06%	1.05%
Emerging Market Equity	12.08%	9.33%	0.47%
Long/Short Equity	8.52%	5.77%	0.35%
Private Equity	13.30%	10.55%	1.06%
Core Real Estate	9.29%	6.54%	0.65%
Opportunistic Real Estate	12.29%	9.54%	0.48%
Total			7.01%
Inflation			2.75%
Expected arithmetic nominal return			9.76%

(1) Long-Term Arithmetic Average Nominal Return is the average return assumption for any given year derived from long-term risk premiums and a long-term average risk-free rate.

(2) Long-Term Arithmetic Average Real Return is the Long-Term Arithmetic Average Nominal Return minus an average annual inflation rate of 2.75%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

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

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in Discount Rate

The following presents the net OPEB liability of the City and School Board, as well as what the City's and School Board's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (4.50%) or one-percentage-point higher (6.50%) than the current discount rate:

	Discount Rate		
	1% Decrease (4.50%)	Current Discount (5.50%)	1% Increase (6.50%)
City's proportionate share of the LPRMP Net OPEB Liability	\$ 95,974	\$ 86,915	\$ 78,454
School Board's proportionate share of the LPRMP Net OPEB Liability	\$ 249,630	\$ 226,067	\$ 204,059

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City and School Board, as well as what the City's and School Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	Healthcare Costs		
	1% Decrease (2.94%)	Trend Rate (3.94%)	1% Increase (4.94%)
City's proportionate share of the LPRMP Net OPEB Liability	\$ 77,386	\$ 86,915	\$ 97,722
School Board's proportionate share of the LPRMP Net OPEB Liability	\$ 201,280	\$ 226,067	\$ 254,175

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

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

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

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

Eligible Employees

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

Benefit Amounts

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

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2023, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the City were \$25,778 and \$22,568 for the years ended June 30, 2023 and June 30, 2022, respectively. Contributions to the GLI Plan from the School Board were \$20,083 and \$19,267 for the years ended June 30, 2023 and June 30, 2022, respectively.

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

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2023, the City and the Component Unit-School Board (professional) reported a liability of \$231,352 and \$197,472, respectively, for their proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2022, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the City's proportion was 0.01917% as compared to 0.01922% at June 30, 2021. At June 30, 2022, the Component-Unit School Board's (professional) proportion was 0.01640% as compared to 0.01610% at June 30, 2021.

For the year ended June 30, 2023, the City and Component Unit-School Board (professional) recognized GLI OPEB expense of \$(302) and \$10,920, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

At June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	City		Component Unit-School Board (Professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,321	\$ 9,281	\$ 15,637	\$ 7,922
Net difference between projected and actual earnings on GLI OPEB plan investments	-	14,457	-	12,339
Change in assumptions	8,630	22,535	7,365	19,235
Changes in proportionate share	4,471	14,219	11,567	25
Employer contributions subsequent to the measurement date	25,778	-	20,083	-
Total	\$ 57,200	\$ 60,492	\$ 54,652	\$ 39,521

\$25,778 and \$20,083 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date from the City and Component Unit-School Board (professional), respectively, will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	City	Component Unit-School Board (Professional)
2024	\$ (8,150)	\$ 413
2025	(6,277)	(101)
2026	(13,788)	(7,624)
2027	511	3,094
2028	(1,366)	(734)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021 using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

Inflation	2.50%
Salary increases, including inflation:	
Teachers	3.50%-5.95%
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

Mortality Rates - Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

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

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

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**Actuarial Assumptions: (Continued)****Mortality Rates - Non-Largest Ten Locality Employers - General Employees (Continued)**

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

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

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees**Pre-Retirement:**

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement Scale:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)****Actuarial Assumptions: (Continued)****Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees (Continued)**

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

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2022, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

		GLI OPEB Plan
		<hr/>
Total GLI OPEB Liability	\$	3,672,085
Plan Fiduciary Net Position		2,467,989
GLI Net OPEB Liability (Asset)	\$	<hr/> <hr/> 1,204,096
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		67.21%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)*****Long-Term Expected Rate of Return***

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 20-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)**Discount Rate**

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy and at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Proportionate share of the Group Life Insurance Plan Net OPEB Liability:			
City	\$ 336,644	\$ 231,352	\$ 146,261
Component Unit-School Board (Professional)	\$ 287,345	\$ 197,472	\$ 124,842

GLI Plan Fiduciary Net Position

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

Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan):

Plan Description

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC Plan. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher HIC Plan OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Teacher Employee Retiree HIC Plan was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

Benefit Amounts

The Teacher Employee HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: \$4.00 per month, multiplied by twice the amount of service credit, or \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 1.21% of covered employee compensation for employees in the VRS Teacher Employee HIC Plan. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee HIC Plan were \$45,000 and \$43,171 for the years ended June 30, 2023 and June 30, 2022, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)*****Contributions (Continued)***

In June 2022, the Commonwealth made a special contribution of approximately \$12 million to the VRS Teacher HIC Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

Teacher Employee HIC OPEB Liabilities, Teacher Employee HIC OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB

At June 30, 2023, the school division reported a liability of \$478,135 for its proportionate share of the VRS Teacher Employee HIC Net OPEB Liability. The Net VRS Teacher Employee HIC OPEB Liability was measured as of June 30, 2022 and the total VRS Teacher Employee HIC OPEB liability used to calculate the Net VRS Teacher Employee HIC OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net VRS Teacher Employee HIC Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC OPEB plan for the year ended June 30, 2021, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion of the VRS Teacher Employee HIC was 0.03828% as compared to 0.03755% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized VRS Teacher Employee HIC OPEB expense of \$44,545. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Net OPEB expense was related to deferred amounts from changes in proportionate share and differences between actual and expected contributions.

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 19,490
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	480
Change in assumptions	13,969	1,221
Change in proportionate share and differences between actual and expected contributions	26,180	18
Employer contributions subsequent to the measurement date	45,000	-
Total	\$ 85,149	\$ 21,209

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Teacher Employee HIC OPEB Liabilities, Teacher Employee HIC OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB: (Continued)

\$45,000 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2024	\$	4,874
2025		4,560
2026		3,780
2027		4,344
2028		1,349
Thereafter		33

Actuarial Assumptions

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

Inflation	2.50%
Salary increases, including inflation:	
Teacher employees	3.50%-5.95%
Investment rate of return	6.75%, net of investment expenses, including inflation

Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**Actuarial Assumptions: (Continued)****Mortality Rates - Teachers****Pre-Retirement:**

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee HIC Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the VRS Teacher Employee HIC Plan is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$	1,470,891
Plan Fiduciary Net Position		221,845
Teacher Employee Net HIC OPEB Liability (Asset)	\$	<u>1,249,046</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		15.08%

The total Teacher Employee HIC OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023**Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)*****Long-Term Expected Rate of Return***

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

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

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

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

Note 21-Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**Discount Rate**

The discount rate used to measure the total Teacher Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by each school division for the VRS Teacher Employee HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 538,864	\$ 478,135	\$ 426,657

Teacher Employee HIC OPEB Fiduciary Net Position

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 22-Line of Duty Act (LODA) (OPEB Benefits):

The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

The City has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the City to VRSA. VRSA assumes all liability for the City's LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The City's LODA coverage is fully covered or "insured" through VRSA. This is built into the LODA coverage cost presented in the annual renewals. The City's LODA premium for the year ended June 30, 2023 was \$40,975.

Note 23-Aggregate OPEB Information:

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
VRS OPEB Plans:								
Group Life Insurance Plan:								
City	\$ 57,200	\$ 60,492	\$ 231,352	\$ (302)	\$ -	\$ -	\$ -	\$ -
School Board Professional	-	-	-	-	54,652	39,521	197,472	10,920
Teacher Health Insurance Credit Plan	-	-	-	-	85,149	21,209	478,135	44,545
City Stand-Alone Plan	41,463	26,103	86,915	16,013	-	-	-	-
School Stand-Alone Plan	-	-	-	-	112,857	31,920	226,067	46,970
Totals	\$ 98,663	\$ 86,595	\$ 318,267	\$ 15,711	\$ 252,658	\$ 92,650	\$ 901,674	\$ 102,435

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 24-Fund Balance Classifications:

Fund balance classifications for the primary government are as follows:

	General Fund	Capital Projects Fund	Permanent Fund
Nonspendable:			
Prepays	\$ 1,903	\$ -	\$ -
Corpus	-	-	180,562
Total Nonspendable	\$ 1,903	\$ -	\$ 180,562
Restricted:			
Perpetual cemetery care	\$ -	\$ -	\$ 1,969,237
Committed:			
Fire	\$ 251,337	\$ -	\$ -
Equipment replacement	3,077,904	-	-
Capital projects	-	6,287,963	-
Total Committed	\$ 3,329,241	\$ 6,287,963	\$ -
Assigned:			
Carryovers	\$ 492,234	\$ -	\$ -
Unassigned	\$ 16,977,628	\$ -	\$ -
Total Fund Balance	\$ 20,801,006	\$ 6,287,963	\$ 2,149,799

Fund balance classifications for the component units are as follows:

	School Operating Fund	School Activity Fund	Industrial Development Authority
Nonspendable:			
Prepays	\$ 1,200		\$ -
Restricted:			
School Construction	\$ 1,149,123	\$ -	\$ -
Committed:			
Special revenue funds	\$ 817,508	\$ 56,900	\$ 238,915
Total Fund Balance	\$ 1,967,831	\$ 56,900	\$ 238,915

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 25-Commitments and Contingencies:

The City was involved in major construction projects during the fiscal year as presented below, along with the anticipated funding source.

<u>Project</u>	<u>Contract Amount</u>	<u>Contract Amount Outstanding at June 30, 2023</u>
Diamond Hill Area Water & Sewer System	\$ 5,757,675	\$ 912,571

Note 26-Subsequent Events:

The COVID-19 pandemic and its impact on operations continues to evolve. Specific to the City, COVID-19 impacted various parts of its 2021 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Federal relief has been received through various programs. Management believes the City is taking appropriate actions to mitigate the negative impact. The extent to which COVID-19 may impact operations in subsequent years remains uncertain, and management is unable to estimate the effects on future results of operations, financial condition, or liquidity for fiscal year 2024.

ARPA Funding

On March 11, 2021, the American Rescue Plan (ARPA) Act of 2021 was passed by the federal government. A primary component of the ARPA was the establishment of the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). Local governments are to receive funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.

On June 30, 2021, the City received its share of the first half of the CSLFRF funds. As a condition of receiving CSLFRF funds, any funds unobligated by December 31, 2024, and unexpended by December 31, 2026, will be returned to the federal government. Unspent funds in the amount of \$4,369,301 from the initial allocation are reported as unearned revenue as of June 30.

ESF Funding

The CARES Act also established the Education Stabilization Fund (ESF) and allocated \$30.75 billion to the U.S. Department of Education. The ESF is composed of three primary emergency relief funds: (1) a Governor's Emergency Education Relief (GEER) Fund, (2) an Elementary and Secondary School Emergency Relief (ESSER) Fund, and (3) a Higher Education Emergency Relief (HEER) Fund. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act) was signed into law on December 27, 2020 and added \$81.9 billion to the ESF. In March 2021, the American Rescue Plan Act (ARP Act), in support of ongoing state and institutional COVID-19 recovery efforts, added more than \$170 billion to the ESF. The School Board is receiving this funding from the Virginia Department of Education on a reimbursement basis.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 27-Upcoming Pronouncements:

Statement No. 99, *Omnibus 2022*, addresses (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to for fiscal years beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, provides more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability for accounting changes and error corrections. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021, with dates ranging from reporting periods beginning after June 15, 2022 to reporting periods beginning after June 15, 2023*.

Implementation Guide No. 2023-1, *Implementation Guidance Update—2023, effective for fiscal years beginning after June 15, 2023*.

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

Required Supplementary Information

City of Lexington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 7,702,943	\$ 7,702,943	\$ 7,650,189	\$ (52,754)
Other local taxes	4,811,860	4,811,860	5,622,263	810,403
Permits, privilege fees, and regulatory licenses	80,000	80,000	216,011	136,011
Fines and forfeitures	51,800	51,800	63,131	11,331
Revenue from the use of money and property	329,440	329,440	1,471,960	1,142,520
Charges for services	669,900	669,900	745,907	76,007
Miscellaneous	3,130,120	3,130,120	3,162,494	32,374
Recovered costs	891,449	891,449	1,176,235	284,786
Intergovernmental:				
Commonwealth	2,536,129	2,536,129	2,442,107	(94,022)
Federal	11,500	4,869,341	4,925,303	55,962
Total revenues	\$ 20,215,141	\$ 25,072,982	\$ 27,475,600	\$ 2,402,618
EXPENDITURES				
Current:				
General government administration	\$ 1,903,052	\$ 1,771,752	\$ 1,749,432	\$ 22,320
Judicial administration	388,972	388,972	319,450	69,522
Public safety	5,407,987	7,216,919	6,708,674	508,245
Public works	3,670,782	4,290,923	3,517,254	773,669
Health and welfare	964,402	1,091,295	1,038,612	52,683
Education	3,461,583	3,461,583	3,461,583	-
Parks, recreation, and cultural	526,835	612,107	612,108	(1)
Community development	773,367	790,943	768,720	22,223
Nondepartmental	22,130	717,543	704,804	12,739
Debt service:				
Principal retirement	1,812,306	1,812,306	1,711,516	100,790
Interest and other fiscal charges	583,939	583,939	535,617	48,322
Total expenditures	\$ 19,515,355	\$ 22,738,282	\$ 21,127,770	\$ 1,610,512
Excess (deficiency) of revenues over (under) expenditures	\$ 699,786	\$ 2,334,700	\$ 6,347,830	\$ 4,013,130
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 45,000	\$ 45,000	\$ 66,770	\$ 21,770
Transfers out	(738,500)	(3,676,411)	(3,685,411)	(9,000)
Issuance of refunding bonds	-	-	1,732,000	1,732,000
Total other financing sources (uses)	\$ (693,500)	\$ (3,631,411)	\$ (1,886,641)	\$ 1,744,770
Net change in fund balances	\$ 6,286	\$ (1,296,711)	\$ 4,461,189	\$ 5,757,900
Fund balances - beginning	(6,286)	1,296,711	16,339,817	15,043,106
Fund balances - ending	\$ -	\$ -	\$ 20,801,006	\$ 20,801,006

**REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2023**

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
Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)
Pension Plans
For the Measurement Dates of June 30, 2014 through June 30, 2022

Date	Employer's Proportion of the Net Pension Liability (Asset) (NPLA)	Employer's Proportionate Share of the NPLA	Employer's Covered Payroll	Employer's Proportionate Share of the NPLA as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)
(1)	(2)	(3)	(4)	(5)	(6)
Primary Government - City Retirement Plan					
2022	78.5837% \$	853,359 \$	4,221,735	20.21%	102.40%
2021	79.0815%	308,469	3,937,022	7.84%	80.92%
2020	78.8502%	3,853,193	4,128,976	93.32%	101.31%
2019	80.7397%	2,817,797	3,944,658	71.43%	97.16%
2018	79.8557%	2,072,163	4,023,170	51.51%	90.19%
2017	81.3379%	2,877,592	3,884,004	74.09%	86.55%
2016	84.0663%	4,361,811	4,274,309	102.05%	80.00%
2015	83.4641%	3,563,259	4,312,572	82.62%	82.87%
2014	83.4641%	3,610,518	4,326,786	83.45%	83.25%
Component Unit School Board (professional)					
2022	0.03900% \$	3,711,129 \$	3,567,883	104.01%	82.61%
2021	0.03834%	2,976,372	3,321,276	89.62%	85.46%
2020	0.03760%	5,476,153	3,236,628	169.19%	71.47%
2019	0.03688%	4,853,617	3,057,892	158.72%	73.51%
2018	0.03561%	4,188,000	2,835,144	147.72%	74.81%
2017	0.03517%	4,325,000	2,774,517	155.88%	72.92%
2016	0.03438%	4,818,000	2,619,420	183.93%	68.28%
2015	0.03474%	4,372,000	2,586,134	169.06%	70.68%
2014	0.03517%	4,250,000	2,585,154	164.40%	70.88%

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

City of Lexington, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Component Unit School Board (nonprofessional)

For the Measurement Dates of June 30, 2014 through June 30, 2022										
Pension Plans										
	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Total pension liability										
Interest	\$ 18,859	\$ 18,936	\$ 20,518	\$ 20,664	\$ 21,153	\$ 21,652	\$ 22,411	\$ 21,938	\$ 22,650	
Differences between expected and actual experience	(3,548)	(10,883)	(18,652)	11,962	-	1,154	(1,766)	16,718	-	
Changes of assumptions	-	14,820	-	6,071	4,587	1,754	-	-	-	
Benefit payments	(23,725)	(24,314)	(26,286)	(33,557)	(31,896)	(31,498)	(31,460)	(32,349)	(33,291)	
Net change in total pension liability	(8,414)	(1,441)	(24,420)	5,140	(6,156)	(6,938)	(10,815)	6,307	(10,641)	
Total pension liability - beginning	291,251	292,692	317,112	311,972	318,128	325,066	335,881	329,574	340,215	
Total pension liability - ending (a)	282,837	291,251	292,692	317,112	311,972	318,128	325,066	335,881	329,574	
Plan fiduciary net position										
Contributions - employee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,850	\$ -	
Net investment income	(239)	129,881	9,453	32,154	36,150	56,045	7,854	22,550	70,087	
Benefit payments	(23,725)	(24,314)	(26,286)	(33,557)	(31,896)	(31,498)	(31,460)	(32,349)	(33,291)	
Administrator charges	(373)	(338)	(338)	(345)	(332)	(348)	(325)	(326)	(402)	
Other	13	12	(11)	(20)	(31)	(49)	(4)	(4)	4	
Net change in plan fiduciary net position	(24,324)	105,241	(17,182)	(1,768)	3,891	24,150	(23,935)	2,721	36,398	
Plan fiduciary net position - beginning	589,818	484,577	501,759	503,527	499,636	475,486	499,421	496,700	460,302	
Plan fiduciary net position - ending (b)	565,494	589,818	484,577	501,759	503,527	499,636	475,486	499,421	496,700	
School Division's net pension liability (asset) - ending (a) - (b)	\$ (282,657)	\$ (298,567)	\$ (191,885)	\$ (184,647)	\$ (191,555)	\$ (181,508)	\$ (150,420)	\$ (163,540)	\$ (167,126)	
Plan fiduciary net position as a percentage of the total pension liability	199.94%	202.51%	165.56%	158.23%	161.40%	157.06%	146.27%	148.69%	150.71%	
Covered payroll (1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
School Division's net pension liability as a percentage of covered payroll	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	

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

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

City of Lexington, Virginia
Schedule of Employer Contributions
Pension Plans
For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2023	\$ 527,397	\$ 527,397	\$ -	\$ 4,762,606	11.07%
2022	502,431	502,431	-	4,221,735	11.90%
2021	472,545	472,545	-	3,937,022	12.00%
2020	412,191	412,191	-	4,128,976	9.98%
2019	409,125	409,125	-	3,944,658	10.37%
2018	471,254	471,254	-	4,023,170	11.71%
2017	451,906	451,906	-	3,884,004	11.64%
2016	575,760	575,760	-	4,274,309	13.47%
2015	581,632	581,632	-	4,312,572	13.49%
Component Unit School Board (Professional)					
2023	\$ 599,219	\$ 599,219	\$ -	\$ 3,719,006	16.11%
2022	579,109	579,109	-	3,567,883	16.23%
2021	542,378	542,378	-	3,321,276	16.33%
2020	507,503	507,503	-	3,236,628	15.68%
2019	472,576	472,576	-	3,057,892	15.45%
2018	455,833	455,833	-	2,835,144	16.08%
2017	400,198	400,198	-	2,774,517	14.42%
2016	365,738	365,738	-	2,619,420	13.96%
2015	373,732	373,732	-	2,586,134	14.45%
2014	301,429	301,429	-	2,585,154	11.66%

* Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

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

City of Lexington, Virginia
Notes to Required Supplementary Information
Pension Plans
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

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

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

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

All Others (Non 10 Largest) - Hazardous Duty:

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

Component Unit School Board - Professional Employees

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

CITY OF LEXINGTON, VIRGINIA
Schedule of Changes in the City's Net OPEB Liability and Related Ratios
Health Insurance - LPRMP
For the Years Ended June 30, 2017 through June 30, 2023

	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability							
Service cost	\$ 24,908	\$ 23,951	\$ 21,725	\$ 22,117	\$ 20,748	\$ 20,780	\$ 20,000
Interest	24,293	25,685	23,474	25,975	22,109	24,170	26,000
Differences between expected and actual experience	78,862	(34,230)	56,954	(9,723)	82,009	-	-
Changes in assumptions	7,752	-	3,857	(23,483)	8,197	-	-
Benefit payments	(62,749)	(46,930)	(53,862)	(73,216)	(57,561)	(80,717)	(70,000)
Net change in total OPEB liability	\$ 73,066	\$ (31,524)	\$ 52,148	\$ (58,330)	\$ 75,502	\$ (35,767)	\$ (24,000)
Total OPEB liability - beginning	476,029	507,553	455,405	513,735	438,233	474,000	498,000
Total OPEB liability - ending (a)	\$ 549,095	\$ 476,029	\$ 507,553	\$ 455,405	\$ 513,735	\$ 438,233	\$ 474,000
Plan fiduciary net position							
Contributions - employer	\$ 62,749	\$ 46,930	\$ 53,862	\$ 73,216	\$ 57,561	\$ 80,717	\$ 70,000
Net investment income	15,991	(23,156)	55,618	4,877	7,355	14,691	17,576
Benefit payments	(62,749)	(46,930)	(53,862)	(73,216)	(57,561)	(80,717)	(70,000)
Net change in plan fiduciary net position	\$ 15,991	\$ (23,156)	\$ 55,618	\$ 4,877	\$ 7,355	\$ 14,691	\$ 17,576
Plan fiduciary net position - beginning	220,122	243,278	187,660	182,783	175,428	160,737	143,161
Plan fiduciary net position - ending (b)	\$ 236,113	\$ 220,122	\$ 243,278	\$ 187,660	\$ 182,783	\$ 175,428	\$ 160,737
City's net OPEB liability - ending (a) - (b)	\$ 312,982	\$ 255,907	\$ 264,275	\$ 267,745	\$ 330,952	\$ 262,805	\$ 313,263
Plan fiduciary net position as a percentage of the total OPEB liability	43.00%	46.24%	47.93%	41.21%	35.58%	40.03%	33.91%
Covered-employee payroll	\$ 9,779,565	\$ 8,940,161	\$ 8,314,316	\$ 8,350,563	\$ 7,997,624	\$ 7,781,386	\$ 7,394,172
City's net OPEB liability as a percentage of covered-employee payroll	3.20%	2.86%	3.18%	3.21%	4.14%	3.38%	4.24%

City of Lexington, Virginia
Schedule of City's Share of Net OPEB Liability
Health Insurance - LPRMP
For the Years Ended June 30, 2017 through June 30, 2023

Date (1)	Employer's Proportion of the Net OPEB Liability (2)	Employer's Proportionate Share of the Net OPEB Liability (3)		Employer's Covered Employee Payroll (4)	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-employee Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (6)	
Primary Government							
2023	27.77%	\$	86,915	\$	6,060,559	1.43%	43.00%
2022	35.68%		91,307		5,372,278	1.70%	46.24%
2021	35.77%		94,531		4,993,040	1.89%	47.93%
2020	36.51%		97,753		5,113,935	1.91%	41.21%
2019	34.63%		114,609		4,939,732	2.32%	35.58%
2018	33.32%		87,567		4,946,242	1.77%	40.03%
2017	33.32%		104,379		4,619,654	2.26%	33.91%
Component Unit School Board							
2023	72.23%	\$	226,067	\$	3,719,006	6.08%	43.00%
2022	64.32%		164,600		3,567,883	4.61%	46.24%
2021	64.23%		169,744		3,321,276	5.11%	47.93%
2020	63.49%		169,992		3,236,628	5.25%	41.21%
2019	65.37%		216,343		3,057,892	7.07%	35.58%
2018	66.68%		175,238		2,835,144	6.18%	40.03%
2017	66.68%		208,884		2,774,518	7.53%	33.91%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Lexington, Virginia
Schedule of Employer Contributions
Health Insurance - LPRMP
For the Years Ended June 30, 2017 through June 30, 2023

<u>Date</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to Actuarially Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a % of Covered Employee Payroll</u>
City:					
2023	\$ 17,425	\$ 17,425	\$ -	\$ 6,060,559	0.29%
2022	16,745	16,745	-	5,372,278	0.31%
2021	19,266	19,266	-	4,993,040	0.39%
2020	26,731	26,731	-	5,113,935	0.52%
2019	19,933	19,933	-	4,939,732	0.40%
2018	26,895	26,895	-	4,946,242	0.54%
2017	12,000	13,000	(1,000)	4,619,654	0.28%
School Board:					
2023	\$ 45,324	\$ 45,324	\$ -	\$ 3,719,006	1.22%
2022	30,185	30,185	-	3,567,883	0.85%
2021	34,596	34,596	-	3,321,276	1.04%
2020	46,485	46,485	-	3,236,628	1.44%
2019	37,628	37,628	-	3,057,892	1.23%
2018	53,822	53,822	-	2,835,144	1.90%
2017	25,000	54,000	(29,000)	2,774,518	1.95%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period	Closed, 30 years as of July 1, 2021
Asset valuation method	Market Value of Assets
Inflation	2.50 percent
Healthcare cost trend rates	Based on Society of Actuaries Long-Run Medical Cost Trend Model. The rate in 2022-2024 is 7.50%, increasing to 5.2% in 2025 and decreasing incrementally to 3.94% in 2075 and thereafter.
Salary increases	2.50 percent
Investment rate of return	5.50 percent
Retirement age	Expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Assumed life expectancies were adjusted as a result of adopting the PubT.H-2010 Mortality Table (general and teacher, headcount-weighted), Fully Generational, Projected using Scale MP-2021 and base year 2010.

City of Lexington, Virginia
Schedule of Investment Returns
Health Insurance - LPRMP

For the Years Ended June 30, 2017 through June 30, 2023

	2023	2022	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	7.26%	-9.52%	29.64%	2.67%	4.19%	9.14%	12.28%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Lexington, Virginia
Schedule of City's Share of Net OPEB Liability
Group Life Insurance (GLI) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2022	0.01917%	\$ 231,352	\$ 4,179,348	5.54%	67.21%
2021	0.01922%	223,276	3,959,425	5.64%	67.45%
2020	0.02500%	328,800	4,128,976	7.96%	52.64%
2019	0.02526%	331,878	3,996,831	8.30%	52.00%
2018	0.02610%	322,911	4,023,170	8.03%	51.22%
2017	0.02517%	318,612	3,884,004	8.20%	48.86%
Component Unit School Board (professional)					
2022	0.01640%	\$ 197,472	\$ 3,567,883	5.53%	67.21%
2021	0.01610%	187,215	3,321,276	5.64%	67.45%
2020	0.01570%	262,675	3,236,628	8.12%	52.64%
2019	0.01560%	253,853	3,057,892	8.30%	52.00%
2018	0.01513%	230,000	2,835,144	8.11%	51.22%
2017	0.01504%	227,000	2,774,517	8.18%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Lexington, Virginia
Schedule of Employer Contributions
Group Life Insurance (GLI) Plan
For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2023	\$ 25,778	\$ 25,778	\$ -	\$ 4,773,789	0.54%
2022	22,568	22,568	-	4,179,348	0.54%
2021	21,383	21,383	-	3,959,425	0.54%
2020	20,797	20,797	-	4,128,976	0.50%
2019	20,783	20,783	-	3,996,831	0.52%
2018	20,989	20,989	-	4,023,170	0.52%
2017	20,292	20,292	-	3,884,004	0.52%
Component Unit School Board (professional)					
2023	\$ 20,083	\$ 20,083	\$ -	\$ 3,719,006	0.54%
2022	19,267	19,267	-	3,567,883	0.54%
2021	17,935	17,935	-	3,321,276	0.54%
2020	16,844	16,844	-	3,236,628	0.52%
2019	15,611	15,611	-	3,057,892	0.51%
2018	14,805	14,805	-	2,835,144	0.52%
2017	14,427	14,427	-	2,774,517	0.52%
2016	12,675	12,675	-	2,619,420	0.48%
2015	12,413	12,413	-	2,586,134	0.48%
2014	12,409	12,409	-	2,585,154	0.48%

Schedule is intended to show information for 10 years. The Primary Government participates in the Group Life Insurance Plan on a cost-sharing basis; therefore, information prior to 2017 is not available. Additional information will be presented as it becomes available.

City of Lexington, Virginia
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

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

Teachers

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

Non-Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

CITY OF LEXINGTON, VIRGINIA
Schedule of City School Board's Share of Net OPEB Liability
Teacher Employee Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2022	0.03828% \$	478,135 \$	3,567,883	13.40%	15.08%
2021	0.03755%	481,980	3,321,276	14.51%	13.15%
2020	0.03690%	481,628	3,236,628	14.88%	9.95%
2019	0.03646%	477,297	3,057,892	15.61%	8.97%
2018	0.03541%	449,000	2,835,144	15.84%	8.08%
2017	0.35160%	446,000	2,774,517	16.07%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

CITY OF LEXINGTON, VIRGINIA
Schedule of Employer Contributions
Teacher Employee Health Insurance Credit (HIC) Plan
For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2023	\$ 45,000	\$ 45,000	\$ -	\$ 3,719,006	1.21%
2022	43,171	43,171	-	3,567,883	1.21%
2021	40,187	40,187	-	3,321,276	1.21%
2020	38,840	38,840	-	3,236,628	1.20%
2019	36,695	36,695	-	3,057,892	1.20%
2018	34,872	34,872	-	2,835,144	1.23%
2017	30,797	30,797	-	2,774,517	1.11%
2016	27,767	27,767	-	2,619,420	1.06%
2015	27,473	27,473	-	2,586,134	1.06%
2014	27,473	27,473	-	2,585,154	1.06%

CITY OF LEXINGTON, VIRGINIA
Notes to Required Supplementary Information
Teacher Employee Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

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

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

Other Supplementary Information

CAPITAL PROJECTS FUND

MAJOR GOVERNMENTAL FUNDS

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

City of Lexington, Virginia
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local government	\$ 1,193,400	\$ 1,193,400	\$ 1,149,123	\$ (44,277)
EXPENDITURES				
Current:				
General government administration	\$ 192,500	\$ 166,370	\$ 26,130	\$ 140,240
Public safety	42,302	42,302	-	42,302
Public works	2,601,622	3,515,713	2,676,705	839,008
Education	1,213,400	1,213,400	-	1,213,400
Parks, recreation, and cultural	30,000	84,188	50,305	33,883
Total expenditures	\$ 4,079,824	\$ 5,021,973	\$ 2,753,140	\$ 2,268,833
Excess (deficiency) of revenues over (under) expenditures	\$ (2,886,424)	\$ (3,828,573)	\$ (1,604,017)	\$ 2,224,556
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 747,500	\$ 3,385,411	\$ 3,385,411	\$ -
Net change in fund balances	\$ (2,138,924)	\$ (443,162)	\$ 1,781,394	\$ 2,224,556
Fund balances - beginning	2,138,924	443,162	4,506,569	4,063,407
Fund balances - ending	\$ -	\$ -	\$ 6,287,963	\$ 6,287,963

City of Lexington, Virginia
Combining Statement of Fiduciary Net Position
Fiduciary Funds - Custodial Funds
June 30, 2023

	Central Dispatch	RARO	Regional Tourism	Total Custodial Funds
ASSETS				
Cash and cash equivalents	\$ 416,599	\$ 37,686	\$ 130,972	\$ 585,257
Investments	-	-	200,000	200,000
Accounts receivable	-	13,786	-	13,786
Total assets	<u>\$ 416,599</u>	<u>\$ 51,472</u>	<u>\$ 330,972</u>	<u>\$ 799,043</u>
LIABILITIES				
Accrued liabilities	\$ 258,633	\$ 20,982	\$ 13,000	\$ 292,615
Total liabilities	<u>\$ 258,633</u>	<u>\$ 20,982</u>	<u>\$ 13,000</u>	<u>\$ 292,615</u>
NET POSITION				
Restricted for:				
Central Dispatch operations	\$ 157,966	\$ -	\$ -	\$ 157,966
RARO operations	-	30,490	-	30,490
Regional Tourism operations	-	-	317,972	317,972
Total net position	<u>\$ 157,966</u>	<u>\$ 30,490</u>	<u>\$ 317,972</u>	<u>\$ 506,428</u>

City of Lexington, Virginia
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Custodial Funds
For the Year Ended June 30, 2023

	Central Dispatch	RARO	Regional Tourism	Total Custodial Funds
ADDITIONS				
Contributions:				
Other governments	\$ 2,087,562	\$ 493,654	\$ 896,110	\$ 3,477,326
Participant fees	29,708	39,312	-	69,020
Contributions from others	-	9,000	-	9,000
Miscellaneous	-	49,944	16,085	66,029
Total contributions	<u>\$ 2,117,270</u>	<u>\$ 591,910</u>	<u>\$ 912,195</u>	<u>\$ 3,621,375</u>
DEDUCTIONS				
Personnel charges	\$ 1,194,919	\$ 426,019	\$ 313,310	\$ 1,934,248
Advertising	-	-	238,092	238,092
Supplies	144,318	171,922	30,569	346,809
Buildings and equipment charges	452,988	4,032	59,397	516,417
Professional services	124,030	-	165,588	289,618
Other	191,016	37,212	127,602	355,830
Total deductions	<u>\$ 2,107,271</u>	<u>\$ 639,185</u>	<u>\$ 934,558</u>	<u>\$ 3,681,014</u>
Net increase (decrease) in fiduciary net position	\$ 9,999	\$ (47,275)	\$ (22,363)	\$ (59,639)
Net position, beginning	147,967	77,765	340,335	566,067
Net position, ending	<u>\$ 157,966</u>	<u>\$ 30,490</u>	<u>\$ 317,972</u>	<u>\$ 506,428</u>

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

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

School Activity Fund - The School Activity Fund accounts for and reports the operations of the individual schools.

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2023

	School Operating Fund	School Activity Fund	Total
ASSETS			
Cash and cash equivalents	\$ 411,841	\$ 56,900	\$ 468,741
Investments	1,900,000	-	1,900,000
Due from other governmental units	236,686	-	236,686
Prepaid items	1,200	-	1,200
Total assets	<u>\$ 2,549,727</u>	<u>\$ 56,900</u>	<u>\$ 2,606,627</u>
LIABILITIES			
Accounts payable	\$ 215,040	\$ -	\$ 215,040
Payroll liabilities	312,120	-	312,120
Unearned revenue	54,736	-	54,736
Total liabilities	<u>\$ 581,896</u>	<u>\$ -</u>	<u>\$ 581,896</u>
FUND BALANCES			
Nonspendable	\$ 1,200	\$ -	\$ 1,200
Restricted	1,149,123	-	1,149,123
Committed	817,508	56,900	874,408
Total fund balances	<u>\$ 1,967,831</u>	<u>\$ 56,900</u>	<u>\$ 2,024,731</u>
Total liabilities and fund balances	<u>\$ 2,549,727</u>	<u>\$ 56,900</u>	<u>\$ 2,606,627</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Total fund balances per above			\$ 2,024,731
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Capital assets not depreciated		\$ 359,494	
Capital assets being depreciated		<u>296,760</u>	656,254
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			
Net pension asset			282,657
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			
Pension related items		\$ 1,157,295	
OPEB related items		<u>252,658</u>	1,409,953
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds.			
Compensated absences		\$ (117,425)	
Loan payable		(15,112)	
Net pension liability		(3,711,129)	
Net OPEB liabilities		<u>(901,674)</u>	(4,745,340)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.			
Pension related items		\$ (757,372)	
OPEB related items		<u>(92,650)</u>	(850,022)
Net position of governmental activities			<u>\$ (1,221,767)</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, 2023

	School Operating Fund	School Activity Fund*	Total
REVENUES			
Revenue from the use of money and property	\$ 4,328	\$ -	\$ 4,328
Charges for services	266,444	56,730	323,174
Miscellaneous	4,024	-	4,024
Recovered costs	4,715	-	4,715
Intergovernmental	9,739,042	-	9,739,042
Total revenues	<u>\$ 10,018,553</u>	<u>\$ 56,730</u>	<u>\$ 10,075,283</u>
EXPENDITURES			
Current:			
Education	\$ 8,690,138	\$ 86,780	\$ 8,776,918
Capital projects	1,149,123		1,149,123
Debt service:			
Principal retirement	14,559	-	14,559
Interest and other fiscal charges	1,128	-	1,128
Total expenditures	<u>\$ 9,854,948</u>	<u>\$ 86,780</u>	<u>\$ 9,941,728</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 163,605</u>	<u>\$ (30,050)</u>	<u>\$ 133,555</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 32,047	\$ 32,047
Transfers out	(32,047)	-	(32,047)
Total other financing sources and uses	<u>\$ (32,047)</u>	<u>\$ 32,047</u>	<u>\$ -</u>
Net change in fund balances	\$ 131,558	\$ 1,997	\$ 133,555
Fund balances - beginning	1,836,273	54,903	1,891,176
Fund balances - ending	<u>\$ 1,967,831</u>	<u>\$ 56,900</u>	<u>\$ 2,024,731</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			\$ 133,555
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.			
Depreciation expense			(50,583)
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.			
Principal repayments:			
Loan payable			14,559
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
State non-employer contribution to the pension plan		\$ 172,436	
State non-employer contribution to the OPEB plans		<u>9,591</u>	<u>182,027</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.			
Change in compensated absences		\$ (12,186)	
Change in pension related items		332,391	
Change in OPEB related items		<u>275</u>	<u>320,480</u>
Change in net position of governmental activities			<u>\$ 600,038</u>

* The School Activity Fund does not require a legally adopted budget.

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, 2023

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 1,850	\$ 2,350	\$ 4,328	\$ 1,978
Charges for services	152,000	266,444	266,444	-
Miscellaneous	500	500	4,024	3,524
Recovered costs	-	-	4,715	4,715
Intergovernmental	9,566,654	9,749,258	9,739,042	(10,216)
Total revenues	\$ 9,721,004	\$ 10,018,552	\$ 10,018,553	\$ 1
EXPENDITURES				
Current:				
Education	\$ 8,511,916	\$ 8,759,321	\$ 8,690,138	\$ 69,183
Capital projects	1,193,400	1,193,400	1,149,123	44,277
Debt service:				
Principal retirement	14,560	14,560	14,559	1
Interest and other fiscal charges	1,128	1,128	1,128	-
Total expenditures	\$ 9,721,004	\$ 9,968,409	\$ 9,854,948	\$ 113,461
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 50,143	\$ 163,605	\$ 113,462
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (32,047)	\$ (32,047)
Total other financing sources and uses	\$ -	\$ -	\$ (32,047)	\$ (32,047)
Net change in fund balances	\$ -	\$ 50,143	\$ 131,558	\$ 81,415
Fund balances - beginning	-	(50,143)	1,836,273	1,886,416
Fund balances - ending	\$ -	\$ -	\$ 1,967,831	\$ 1,967,831

DISCRETELY PRESENTED NONMAJOR COMPONENT UNIT

NON MAJOR GOVERNMENTAL FUND

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

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

City of Lexington, Virginia
Balance Sheet
Discretely Presented Nonmajor Component Unit
June 30, 2023

	<u>Industrial Development Authority</u>
ASSETS	
Cash and cash equivalents	\$ 113,736
Investments	200,000
Total assets	<u>\$ 313,736</u>
LIABILITIES	
Accounts payable	\$ 74,821
Total liabilities	<u>\$ 74,821</u>
FUND BALANCES	
Committed	\$ 238,915
Total fund balances	<u><u>\$ 238,915</u></u>

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Unit
For the Year Ended June 30, 2023

	Industrial Development Authority
REVENUES	
Miscellaneous	\$ 28,750
Intergovernmental	258,571
Total revenues	<u>\$ 287,321</u>
EXPENDITURES	
Current:	
Parks, recreation, and cultural	\$ 258,571
Total expenditures	<u>\$ 258,571</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 28,750</u>
Net change in fund balances	\$ 28,750
Fund balances - beginning	210,165
Fund balances - ending	<u><u>\$ 238,915</u></u>

City of Lexington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Nonmajor Component Unit
For the Year Ended June 30, 2023

	Industrial Development Authority			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 28,750	\$ 28,750
Intergovernmental	-	-	258,571	258,571
Total revenues	\$ -	\$ -	\$ 287,321	\$ 287,321
EXPENDITURES				
Current:				
Parks, recreation, and cultural	\$ -	\$ -	\$ 258,571	\$ (258,571)
Total expenditures	\$ -	\$ -	\$ 258,571	\$ (258,571)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 28,750	\$ 28,750
Net change in fund balances	\$ -	\$ -	\$ 28,750	\$ 28,750
Fund balances - beginning	-	-	210,165	210,165
Fund balances - ending	\$ -	\$ -	\$ 238,915	\$ 238,915

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Lexington, Virginia's annual comprehensive 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	126
<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	136
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	140
<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	146
<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	148
<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 annual comprehensive financial reports for the relevant year.

Table 1

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Governmental activities										
Net investment in capital assets	\$ 9,090	\$ 10,004	\$ 11,283	\$ 12,687	\$ 13,200	\$ 14,210	\$ 15,083	\$ 15,229	\$ 15,302	\$ 18,885
Restricted for perpetual care	1,729	1,724	1,700	1,809	1,853	1,933	1,970	2,309	1,867	2,150
Unrestricted	8,804	7,099	8,656	8,062	9,352	11,230	12,854	15,502	18,345	25,274
Total governmental activities net position	\$ 19,623	\$ 18,827	\$ 21,639	\$ 22,558	\$ 24,405	\$ 27,373	\$ 29,907	\$ 33,040	\$ 35,514	\$ 46,309
Business-type activities										
Net investment in capital assets	\$ 2,869	\$ 3,207	\$ 3,283	\$ 3,092	\$ 3,394	\$ 4,360	\$ 4,137	\$ 4,494	\$ 5,287	\$ 6,108
Restricted for debt service	-	-	-	-	189	998	-	-	-	-
Unrestricted	2,700	1,817	2,626	3,284	3,560	2,644	4,189	4,442	4,907	5,277
Total business-type activities	\$ 5,569	\$ 5,024	\$ 5,909	\$ 6,376	\$ 7,143	\$ 8,002	\$ 8,326	\$ 8,936	\$ 10,194	\$ 11,385
Primary Government										
Net investment in capital assets	\$ 11,959	\$ 13,211	\$ 14,566	\$ 15,779	\$ 16,594	\$ 18,570	\$ 19,220	\$ 19,723	\$ 20,589	\$ 24,993
Restricted	1,729	1,724	1,700	1,809	2,042	2,931	1,970	2,309	1,867	2,150
Unrestricted	11,504	8,916	11,282	11,346	12,912	13,874	17,043	19,944	23,252	30,551
Total primary government net position	\$ 25,192	\$ 23,851	\$ 27,548	\$ 28,934	\$ 31,548	\$ 35,375	\$ 38,233	\$ 41,976	\$ 45,708	\$ 57,694

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

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Expenses										
Governmental activities:										
General government administration	\$ 2,155	\$ 1,250	\$ 1,124	\$ 1,394	\$ 1,360	\$ 1,306	\$ 1,401	\$ 1,458	\$ 1,551	\$ 2,010
Judicial administration	299	310	353	334	343	365	351	329	358	319
Public Safety	3,491	3,211	3,141	3,483	3,574	3,541	3,935	4,088	3,889	4,001
Public Works	3,566	3,515	3,153	3,807	4,435	3,739	3,278	3,832	4,144	3,701
Health and welfare	816	667	510	713	835	1,496	1,369	1,449	1,462	1,207
Education	2,369	3,191	3,230	4,452	3,683	3,072	3,085	3,244	3,217	3,462
Parks, recreation and cultural	745	645	725	694	800	727	769	795	674	775
Community development	718	726	713	1,059	652	782	824	746	678	749
Interest on long-term debt	597	870	889	865	898	804	807	697	565	556
Total governmental activities expenses	\$ 14,756	\$ 14,385	\$ 13,838	\$ 16,801	\$ 16,580	\$ 15,832	\$ 15,819	\$ 16,638	\$ 16,538	\$ 16,780
Business-type activities:										
Utility fund	\$ 5,333	\$ 5,280	\$ 5,443	\$ 4,153	\$ 3,678	\$ 3,884	\$ 4,327	\$ 4,923	\$ 5,184	\$ 5,422
Total business-type activities	\$ 5,333	\$ 5,280	\$ 5,443	\$ 4,153	\$ 3,678	\$ 3,884	\$ 4,327	\$ 4,923	\$ 5,184	\$ 5,422
Total primary government expenses	\$ 20,089	\$ 19,665	\$ 19,281	\$ 20,954	\$ 20,258	\$ 19,716	\$ 20,146	\$ 21,561	\$ 21,722	\$ 22,202

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

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Program Revenues										
Governmental activities:										
Charges for services:										
General government administration	\$ 66	\$ 71	\$ 71	\$ 70	\$ 75	\$ 73	\$ 77	\$ 73	\$ 102	\$ 95
Judicial administration	86	82	58	64	72	56	53	44	67	63
Public Safety	606	498	412	489	497	687	395	452	512	604
Public Works	400	519	583	514	359	266	265	294	273	236
Health and welfare	8	9	11	11	12	13	2	3	4	8
Parks, recreation and cultural	76	80	83	94	40	21	40	18	23	19
Operating grants and contributions	1,732	1,490	1,158	1,647	2,527	2,187	1,872	2,919	1,885	6,560
Capital grants and contributions	13	150	26	-	-	-	-	-	-	-
Total governmental activities program revenues	\$ 2,987	\$ 2,899	\$ 2,402	\$ 2,889	\$ 3,582	\$ 3,303	\$ 2,704	\$ 3,803	\$ 2,866	\$ 7,585
Business-type activities:										
Charges for services:										
Utility fund	\$ 5,611	\$ 5,790	\$ 6,376	\$ 4,571	\$ 4,610	\$ 4,639	\$ 4,807	\$ 5,409	\$ 5,943	\$ 6,291
Capital grants and contributions	-	-	130	94	76	146	-	-	-	-
Total business-type activities program revenues	\$ 5,611	\$ 5,790	\$ 6,506	\$ 4,665	\$ 4,686	\$ 4,785	\$ 4,807	\$ 5,409	\$ 5,943	\$ 6,291
Total primary government program revenues	\$ 8,598	\$ 8,689	\$ 8,908	\$ 7,554	\$ 8,268	\$ 8,088	\$ 7,511	\$ 9,212	\$ 8,809	\$ 13,876
Net (expense)/revenue:										
Governmental activities	\$ (11,769)	\$ (11,486)	\$ (11,436)	\$ (13,912)	\$ (12,998)	\$ (12,529)	\$ (13,115)	\$ (12,835)	\$ (13,672)	\$ (9,195)
Business-type activities	278	510	1,063	512	1,008	901	480	486	759	869
Total primary government net expense	\$ (11,491)	\$ (10,976)	\$ (10,373)	\$ (13,400)	\$ (11,990)	\$ (11,628)	\$ (12,635)	\$ (12,349)	\$ (12,913)	\$ (8,326)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	\$ 5,372	\$ 6,434	\$ 6,621	\$ 6,754	\$ 7,007	\$ 7,001	\$ 7,262	\$ 7,438	\$ 7,536	\$ 7,683
Local sales and use taxes	860	1,009	1,041	1,015	1,062	1,066	1,164	1,253	1,364	1,391
Taxes on recordation and wills	47	30	54	58	56	50	78	99	133	70

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

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Revenues and Other Changes in Net Position (Continued)										
Governmental activities: (Continued)										
Taxes: (Continued)										
Consumer utility taxes	\$ 313	\$ 315	\$ 310	\$ 308	\$ 311	\$ 313	\$ 305	\$ 306	\$ 312	\$ 305
Cigarette taxes	-	-	-	-	-	-	-	-	55	64
Business licenses taxes	603	640	717	698	582	669	774	696	766	819
Restaurant food taxes	927	1,074	1,461	1,461	1,467	1,502	1,370	1,473	1,821	1,984
Hotel and motel room taxes	254	382	491	535	540	557	427	473	702	802
Other local taxes	141	151	137	147	167	205	151	191	189	188
Unrestricted grants and contributions	924	914	911	903	891	874	863	823	827	808
Unrestricted revenues from use of money and property	261	112	148	282	371	571	429	442	(94)	1,620
Payments from the City of Lexington School Board	435	149	75	-	-	-	-	52	-	1,149
Miscellaneous	2,323	2,474	2,518	2,505	2,590	2,620	2,656	2,835	2,767	3,162
Transfers	(213)	148	178	56	175	69	170	(115)	(487)	(235)
Gain on sale of assets	-	-	-	109	-	-	-	-	437	-
Total governmental activities	\$ 12,247	\$ 13,832	\$ 14,662	\$ 14,831	\$ 15,219	\$ 15,497	\$ 15,649	\$ 15,966	\$ 16,328	\$ 19,810
Business-type activities:										
Unrestricted revenues from use of money and property	\$ -	\$ -	\$ -	\$ 12	\$ 17	\$ 26	\$ 8	\$ -	\$ 11	\$ 72
Miscellaneous	-	-	-	-	-	2	4	10	-	14
Transfers	213	(148)	(178)	(56)	(175)	(69)	(170)	115	488	235
Total business-type activities	\$ 213	\$ (148)	\$ (178)	\$ (44)	\$ (158)	\$ (41)	\$ (158)	\$ 125	\$ 499	\$ 321
Total primary government	\$ 12,460	\$ 13,684	\$ 14,484	\$ 14,787	\$ 15,061	\$ 15,456	\$ 15,491	\$ 16,091	\$ 16,827	\$ 20,131
Change in Net Position										
Governmental activities	\$ 478	\$ 2,346	\$ 3,226	\$ 919	\$ 2,221	\$ 2,968	\$ 2,534	\$ 3,131	\$ 2,656	\$ 10,615
Business-type activities	491	362	885	468	850	860	322	611	1,258	1,190
Total primary government	\$ 969	\$ 2,708	\$ 4,111	\$ 1,387	\$ 3,071	\$ 3,828	\$ 2,856	\$ 3,742	\$ 3,914	\$ 11,805

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	Bank Stock Tax	Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (1)	Total
2022-23	\$ 7,650,189	\$ 1,391,331	\$ 304,524	\$ 819,177	\$ 163,785	\$ 70,455	\$ 801,766	\$ 1,983,662	\$ 87,563	\$ 13,272,452
2021-22	7,548,106	1,363,789	311,970	765,579	162,412	133,337	702,285	1,821,361	81,659	12,890,498
2020-21	7,383,240	1,253,009	305,658	696,344	165,592	98,633	472,789	1,473,389	25,851	11,874,505
2019-20	7,304,081	1,163,539	304,773	773,912	126,245	78,221	427,321	1,370,215	24,895	11,573,202
2018-19	7,019,304	1,066,215	312,896	669,096	178,951	50,037	556,930	1,501,613	26,502	11,381,544
2017-18	6,966,499	1,061,956	310,540	581,873	139,703	56,353	539,706	1,467,863	26,551	11,151,044
2016-17	6,708,542	1,014,689	308,358	697,889	120,778	57,619	534,588	1,462,273	26,562	10,931,298
2015-16	6,680,922	1,041,144	309,542	716,749	112,371	53,594	490,754	1,461,197	25,420	10,891,693
2014-15	6,480,784	1,008,580	314,963	640,123	124,082	30,455	381,953	1,073,777	26,913	10,081,630
2013-14	5,777,828	860,344	312,675	603,382	113,372	46,790	254,137	927,288	27,050	8,922,866

(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)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Fund										
Nonspendable										
Restricted	\$ 3,829	\$ 3,943	\$ 117,557	\$ 754	\$ 1,446	\$ 1,292	\$ 1,177	\$ 6,195	\$ 5,880	\$ 1,903
Committed	12,006,641	9,556,723	2,227,751	-	-	-	-	-	-	-
Assigned	752,075	757,277	896,379	920,126	1,099,665	1,365,940	1,854,518	2,065,365	3,165,763	3,329,241
Unassigned	251,578	203,763	336,982	342,177	227,520	125,210	401,002	76,733	429,184	492,234
	7,157,866	8,122,812	7,924,727	7,672,653	8,625,068	9,304,100	10,282,084	12,504,385	12,738,990	16,977,628
Total general fund	\$ 20,171,989	\$ 18,644,518	\$ 11,503,396	\$ 8,935,710	\$ 9,953,699	\$ 10,796,542	\$ 12,538,781	\$ 14,652,678	\$ 16,339,817	\$ 20,801,006
All other governmental funds										
Nonspendable										
Permanent Fund	\$ 180,562	\$ 180,562	\$ 180,562	\$ 180,562	\$ 180,562	\$ 180,562	\$ 180,562	\$ 18,056	\$ 180,562	\$ 180,562
Restricted										
Permanent Fund	1,547,928	1,543,894	1,519,090	1,628,592	1,672,764	1,752,735	1,789,434	2,128,089	1,866,906	1,969,237
Committed										
Capital Projects	999,423	1,008,306	350,843	2,317,171	2,794,787	3,358,428	3,217,135	3,769,169	4,506,569	6,287,963
Total all other governmental funds	\$ 2,727,913	\$ 2,732,762	\$ 2,050,495	\$ 4,126,325	\$ 4,648,113	\$ 5,291,725	\$ 5,187,131	\$ 5,915,314	\$ 6,554,037	\$ 8,437,762

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenues										
General property taxes	\$ 5,778	\$ 6,481	\$ 6,681	\$ 6,709	\$ 6,966	\$ 7,019	\$ 7,304	\$ 7,383	\$ 7,548	\$ 7,650
Other local taxes	3,145	3,601	4,211	4,223	4,185	4,362	4,269	4,491	5,342	5,622
Licenses and permits	187	82	62	129	144	321	69	131	89	216
Fines and forfeitures	86	82	59	64	72	56	53	44	67	63
Use of money & property	261	112	148	282	371	571	429	442	(95)	1,620
Charges for services	969	1,096	1,097	1,048	838	738	711	709	826	746
Miscellaneous	2,323	2,474	2,518	2,506	2,591	2,621	2,656	2,835	2,767	3,162
Recovered costs	415	433	476	539	543	617	647	721	848	1,177
Intergovernmental	3,105	2,703	2,170	2,550	3,417	3,061	2,734	3,794	2,712	8,517
Total revenues	\$ 16,269	\$ 17,064	\$ 17,422	\$ 18,050	\$ 19,127	\$ 19,366	\$ 18,872	\$ 20,550	\$ 20,104	\$ 28,773
Expenditures										
General government administration	\$ 2,096	\$ 1,289	\$ 1,200	\$ 1,321	\$ 1,339	\$ 1,397	\$ 1,415	\$ 1,394	\$ 1,613	\$ 1,428
Judicial administration	299	310	353	333	342	365	351	329	358	319
Public safety	3,799	3,375	3,320	3,589	3,736	3,889	4,092	4,216	4,417	4,655
Public works	3,134	3,184	2,917	3,410	3,996	3,310	2,704	3,173	3,698	3,272
Health and Welfare	816	669	510	711	838	993	861	940	953	1,039
Education	2,215	3,012	3,033	3,056	3,173	3,072	3,085	3,244	3,217	3,462
Parks, recreation and cultural	474	530	594	578	637	628	669	688	575	678
Community development	714	737	725	1,059	650	791	819	739	686	769
Nondepartmental	20	7	459	371	40	22	5	38	-	705
Capital outlay(1)	1,388	3,992	8,786	2,354	868	1,336	1,220	664	1,086	5,350
Debt service:										
Principal	987	965	1,242	1,265	1,297	1,329	1,362	1,395	1,077	1,712
Interest	450	664	901	875	848	817	821	611	541	536
Bond Issuance Costs	130	-	-	-	-	-	-	116	-	-
Total Expenditures	\$ 16,522	\$ 18,734	\$ 24,040	\$ 18,922	\$ 17,764	\$ 17,949	\$ 17,404	\$ 17,547	\$ 18,221	\$ 23,925
Excess (deficiency) of revenues over (under) expenditures	\$ (253)	\$ (1,670)	\$ (6,618)	\$ (872)	\$ 1,363	\$ 1,417	\$ 1,468	\$ 3,003	\$ 1,883	\$ 4,848

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Other financing sources (uses)										
Transfers in	\$ 580	\$ 3,474	\$ 8,070	\$ 4,421	\$ 1,260	\$ 1,820	\$ 831	\$ 948	\$ 1,300	\$ 3,452
Transfers out	(460)	(3,327)	(7,892)	(4,365)	(1,085)	(1,751)	(660)	(1,064)	(1,714)	(3,687)
Refunding general obligation bonds issued	-	-	-	-	-	-	-	-	-	-
General obligation bonds issued	11,615	-	-	-	-	-	-	-	-	-
Premium on bonds issued	475	-	-	-	-	-	-	-	-	-
Proceeds from issuance of debt	-	-	-	-	-	-	-	7,965	-	1,732
Payment to refunded bonds escrow agent	-	-	-	-	-	-	-	(7,848)	-	-
Sale of capital assets	-	-	-	325	-	-	-	-	695	-
Total other financing sources (uses)	\$ 12,210	\$ 147	\$ 178	\$ 381	\$ 175	\$ 69	\$ 171	\$ 1	\$ 281	\$ 1,497
Net change in fund balances	\$ 11,957	\$ (1,523)	\$ (6,440)	\$ (491)	\$ 1,538	\$ 1,486	\$ 1,639	\$ 3,004	\$ 2,164	\$ 6,345
Debt service as a percentage of noncapital expenditures	9.6%	11.1%	14.0%	12.9%	12.7%	12.9%	13.5%	12.0%	9.4%	12.1%

(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
	\$	\$										
2022-23	\$ 1,749,432	\$ 319,450	\$ 319,450	\$ 6,708,674	\$ 3,517,254	\$ 1,038,612	\$ 12,238,501	\$ 655,962	\$ 768,720	\$ 4,607,067	\$ 2,262,820	\$ 33,866,492
2021-22	2,271,606	357,646	357,646	4,553,032	3,614,609	952,934	11,406,133	582,534	686,191	367,600	1,634,017	26,426,302
2020-21	1,436,441	328,851	328,851	4,484,385	3,369,608	939,737	10,849,490	415,780	1,002,369	272,468	2,137,627	25,236,756
2019-20	1,415,727	351,291	351,291	4,312,498	2,946,776	860,866	7,249,048	582,726	841,321	847,782	2,198,652	21,606,687
2018-19	1,396,331	364,687	364,687	4,016,389	3,555,913	992,907	7,221,742	592,712	806,550	1,068,371	2,162,478	22,178,080
2017-18	1,339,253	341,750	341,750	3,937,377	4,237,716	837,591	7,028,340	578,974	750,073	634,509	2,145,242	21,830,825
2016-17	1,320,899	333,424	333,424	3,589,118	3,409,724	711,236	6,695,174	577,713	1,137,737	2,725,544	2,139,917	22,640,486
2015-16	1,200,460	353,210	353,210	3,319,963	2,917,207	509,789	6,248,459	594,051	788,618	9,245,806	2,142,662	27,320,225
2014-15	1,299,415	309,949	309,949	3,473,764	3,306,441	669,108	9,609,873	938,158	1,309,780	385,346	1,629,039	22,930,873
2013-14	2,095,873	298,767	298,767	4,988,524	3,291,126	815,818	6,028,885	922,446	1,366,217	346,841	1,567,448	21,721,945

(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,		Revenue from the		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
			Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Use of Money and Property						
2022-23	\$ 7,650,189	\$ 5,622,263	\$ 216,011	\$ 63,131	\$ 1,624,243	\$ 1,069,081	\$ 3,195,268	\$ 1,180,950	\$ 13,644,869	\$ 34,266,005	
2021-22	7,548,106	5,342,392	88,553	66,947	(92,104)	1,048,730	2,793,436	884,939	7,774,300	25,455,299	
2020-21	7,383,240	4,491,265	130,772	43,577	444,059	875,783	2,856,743	720,456	8,225,171	25,171,066	
2019-20	7,304,081	4,269,121	68,515	53,101	433,247	933,493	2,664,764	661,213	6,724,593	23,112,128	
2018-19	7,019,304	4,362,240	321,327	55,931	577,823	956,428	2,679,182	622,159	7,046,291	23,640,685	
2017-18	6,966,499	4,184,545	144,364	72,069	377,938	1,024,579	2,649,727	575,078	7,100,900	23,095,699	
2016-17	6,708,542	4,222,756	129,414	63,826	287,607	1,242,144	2,541,432	550,137	6,146,404	21,892,262	
2015-16	6,680,922	4,210,771	62,288	58,464	155,793	1,314,508	2,567,302	488,995	5,347,959	20,887,002	
2014-15	6,480,784	3,600,846	82,094	82,296	117,913	1,433,070	2,523,031	1,136,904	5,728,830	21,185,768	
2013-14	5,777,828	3,145,038	186,917	86,086	275,322	1,300,508	2,365,705	2,073,946	5,655,511	20,866,861	

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

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

Table 8

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

Fiscal Year Ended June 30,	Real Property		Personal Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a percentage of Actual Value
	Residential Property	Commercial Property	Motor Vehicles	Other					
2023	\$538,510	\$1,492,132	\$50,945	\$6,803	\$ 1,330,616	\$ 757,774	11.734	2,088,390	36.29%
2022	455,687	1,220,179	46,058	6,743	1,073,453	655,214	13.166	1,728,667	37.90%
2021	452,593	1,219,883	42,717	7,267	1,074,619	647,841	13.057	1,722,460	37.61%
2020	449,694	1,219,552	38,709	6,463	1,074,619	639,799	13.275	1,714,418	37.32%
2019	442,383	1,220,165	38,060	6,108	1,075,903	630,813	13.224	1,706,716	36.96%
2018	412,057	1,062,469	38,342	6,266	930,038	589,096	13.469	1,519,134	38.78%
2017	410,592	1,059,482	35,308	6,021	927,958	583,445	13.131	1,511,403	38.60%
2016	408,387	1,061,175	37,414	6,374	927,890	585,460	13.251	1,513,350	38.69%
2015	405,556	1,061,707	35,559	6,172	927,491	581,503	12.579	1,508,994	38.54%
2014	458,760	737,321	33,222	5,317	610,000	624,620	10.395	1,234,620	50.59%

Source: Commissioner of Revenue

Table 9

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

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility			Total Direct Rate
					Real Estate	Personal Property	Total	
2022-23	\$ 0.92	\$ 4.25	\$ 0.92	\$ 4.25	\$ 0.99	\$ 4.25	\$ 11.734	
2021-22	1.06	4.25	1.06	4.25	1.06	4.25	13.166	
2020-21	1.06	4.25	1.06	4.25	1.06	4.25	13.057	
2019-20	1.06	4.25	1.06	4.25	1.05	4.25	13.275	
2018-19	1.04	4.25	1.04	4.25	1.07	4.25	13.224	
2017-18	1.11	4.25	1.11	4.25	1.10	4.25	13.469	
2016-17	1.09	4.25	1.09	4.25	1.09	4.25	13.131	
2015-16	1.09	4.25	1.09	4.25	1.06	4.25	13.251	
2014-15	1.03	4.25	1.03	4.25	0.93	4.25	12.579	
2013-14	0.83	4.25	0.83	4.25	0.805	4.25	10.395	

(1) Per \$100 of assessed value.

Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia
Principal Taxpayers
Current Year and 10 Years Ago

Taxpayer Name	Fiscal year ended June 30, 2023				Fiscal year ended June 30, 2014			
	Assessed Valuation	Rank	Total Assessed Valuation (1)	Percent of	Assessed Valuation	Rank	Total Assessed Valuation (2)	Percent of
Lexington Retirement Community, Inc.								
D/B/A Kendal at Lexington	\$ 8,938,900	1	1.32%					
Virginia Electric & Power Co.	8,359,399	2	1.23%		6,322,287	1	1.08%	
HI of Lexington, LLC	8,082,000	3	1.19%		5,936,800	4	1.01%	
Columbia Gas of Va, Inc.	7,481,643	4	1.10%		3,250,651	8	0.55%	
Annie P LLC	6,084,500	5	0.90%					
Andorra Properties, LLC	4,994,200	6	0.74%					
Robert E Lee Properties, LLC	4,728,900	7	0.70%					
Central Telephone Co. of Virginia	4,594,502	8	0.68%		6,068,819	2	1.03%	
Steele Lexington, LLC	4,159,100	9	0.61%					
Kroger Limited Partnership, Inc.	3,723,200	10	0.55%					
Washington & Lee University					6,019,200	3	1.03%	
Walker/ Wood LC & Woods Family Trust					3,511,700	5	0.60%	
HCFM XXII Partnership					3,428,200	6	0.58%	
Rockbridge Square Associates (RBSA)					3,387,800	7	0.58%	
BB&T Bank					3,090,700	9	0.53%	
Summit Square Partners					3,084,300	10	0.53%	
	\$ 61,146,344		9.02%		\$ 44,100,457		7.52%	

(1) Total assessed valuation of real estate was \$582,633,400 as of June 30, 2022.

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

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)	Collected within Fiscal Year of Levy		Collections in Subsequent Years (3)	Total Collections to Date	
		Current Tax Collections (1)	Percent of Levy Collected		Amount Collected (1)	Percentage of Levy
2022-23	\$ 8,524,658	\$ 7,517,732	88.19%	\$ -	\$ 7,517,732	88.19%
2021-22	8,332,686	7,288,068	87.46%	929,893	8,217,961	98.62%
2020-21	8,041,180	7,180,798	89.30%	792,037	7,972,835	99.15%
2019-20	7,975,730	7,078,336	88.75%	850,819	7,929,155	99.42%
2018-19	7,729,389	6,778,537	87.70%	914,740	7,693,277	99.53%
2017-18	7,528,950	6,727,745	89.36%	771,527	7,499,272	99.61%
2016-17	7,424,405	6,587,784	88.73%	826,476	7,414,260	99.86%
2015-16	7,515,788	6,535,830	86.96%	973,580	7,509,410	99.92%
2014-15	7,084,639	6,106,748	86.20%	971,870	7,078,618	99.92%
2013-14	6,293,593	5,434,465	86.35%	853,830	6,288,295	99.92%

(1) Exclusive of penalties and interest.

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

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

Source: Commissioner of Revenue and Treasurer.

Table 12

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

Fiscal Year	Governmental Activities		Business-Type Activities		Percentage of Personal Income (1)	Per Capita
	General Obligation Bonds		General Obligation Bonds	Total Primary Government		
2023	\$ 20,540,104		\$ 9,869,101	\$ 30,409,205	(1)	\$ 4,186
2022	22,250,804		10,353,001	32,603,805	(1)	4,420
2021	23,342,518		4,847,956	28,190,474	(1)	3,851
2020	24,663,857		5,069,815	29,733,672	(1)	3,591
2019	26,101,446		5,283,990	31,385,436	(1)	4,036
2018	27,506,558		2,463,845	29,970,403	(1)	3,865
2017	27,334,326		2,559,220	29,893,546	(1)	4,052
2016	28,598,857		-	28,598,857	10.31%	3,917
2015	29,840,929		-	29,840,929	10.82%	4,027
2014	30,805,796		-	30,805,796	12.76%	4,203

(1) Income information is unavailable.

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 (5)	Ratio of	Net
				Amounts Restricted for Debt Service (4)		Net Bonded Debt to Assessed Value	Bonded Debt per Capita
2022-23	7264	\$ 677,670	\$ 30,409,205	\$ -	\$ 30,409,205	4.49%	\$ 4,186
2021-22	7397	582,633	32,603,805	-	32,603,805	5.60%	4,408
2020-21	(6)	597,857	28,190,474	-	23,810,474	3.98%	3,253
2019-20	(6)	594,627	29,733,672	-	29,733,672	5.00%	2,980
2018-19	(6)	586,645	31,385,436	-	31,385,436	5.35%	3,356
2017-18	(6)	544,488	29,970,403	-	29,970,403	5.50%	3,575
2016-17	7,284	542,116	29,893,546	-	29,893,546	5.51%	3,744
2015-16	7,301	541,672	28,598,857	-	28,598,857	5.28%	3,917
2014-15	7,410	539,772	29,840,929	-	29,840,929	5.53%	4,027
2013-14	7,329	586,081	30,805,796	-	30,805,796	5.26%	4,203

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

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

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

(4) This is the amount restricted for debt service principal payments.

(5) FY 2013-14 the City issued \$11,615,000 in general obligation bonds to finance a new elementary school.

(6) Not available.

Table 14

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2022-23	\$ 1,711,516	\$ 535,617	\$ 2,247,133	\$ 33,866,492	6.6%
2021-22	1,077,276	541,054	1,618,330	26,426,302	6.1%
2020-21	1,394,598	611,158	2,005,756	25,236,756	7.9%
2019-20	1,361,915	821,050	2,182,965	21,606,687	10.1%
2018-19	1,329,438	817,353	2,146,791	22,178,080	9.7%
2017-18	1,296,953	848,289	2,145,242	21,830,825	9.8%
2016-17	1,264,531	875,386	2,139,917	22,640,486	9.5%
2015-16	1,242,072	900,590	2,142,662	27,320,225	7.8%
2014-15	964,863	664,176	1,629,039	22,930,873	7.1%
2013-14	987,297	449,762	1,437,059	21,721,945	6.6%

(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
Direct and Overlapping Governmental Activities Debt
As of June 30, 2023

Government Unit:	Debt Outstanding	Estimated Percentage Applicable	Amount Applicable to Primary Government
None	\$ -	0.00%	\$ -
City of Lexington, direct debt			\$ 20,540,104
Total direct and overlapping debt			\$ 20,540,104

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This table estimates the portion of the outstanding debt of those overlapping government's that is borne by the residents and businesses of the City of Lexington. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt, of each overlapping government. At June 30, 2023, the City did not have any overlapping debt.

Source: City of Lexington, Virginia

Table 16

City of Lexington, Virginia
Computation of Legal Debt Margin
June 30, 2023
(amounts expressed in thousands)

	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt limit	\$ 58,608	\$ 53,977	\$ 54,167	\$ 54,212	\$ 54,449	\$ 58,665	\$ 59,463	\$ 59,786	\$ 58,263	\$ 67,767
Total net debt applicable to limit	30,806	29,841	28,599	27,334	26,037	24,708	24,664	28,190	32,604	30,409
Legal debt margin	27,802	24,136	25,568	26,878	28,412	33,957	34,799	31,596	25,659	37,358
Total net debt applicable to the limit as a percentage of debt limit	52.6%	55.3%	52.8%	50.4%	47.8%	42.1%	41.5%	47.2%	56.0%	44.9%
Legal Debt Margin Calculated for Fiscal Year 2023										
Assessed value	\$ 677,670									
Debt limit (10% of assessed value)	\$ 67,767									
Debt applicable to limit:										
General Obligation Bonds	30,409									
Less: amount set aside for repayment of general obligation debt	-									
Total net applicable to limit	30,409									
Legal debt margin	\$ 37,358									

Table 17

City of Lexington, Virginia
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Water/Sewer Revenue Bonds					Special Assessment Bonds			
	Water/ Sewer Charges	Less:		Net Available Revenue	Debt Service (1)	Special Assessment Collections	Principal	Interest	Coverage
		Operating Expenses							
2023	\$ 6,305,202	\$ 4,807,522	\$	1,497,680	\$ 368,644	n/a	n/a	n/a	n/a
2022	5,943,094	4,452,224		1,490,870	444,863	n/a	n/a	n/a	n/a
2021	5,419,481	4,385,729		1,033,752	211,126	n/a	n/a	n/a	n/a
2020	4,812,110	3,835,644		976,466	218,444	n/a	n/a	n/a	n/a
2019	4,640,759	3,358,555		1,282,204	156,301	n/a	n/a	n/a	n/a
2018	4,612,758	3,374,530		1,238,228	100,434	n/a	n/a	n/a	n/a

Note: The City has had no special assessment bonds activity during this period.

(1) Includes amounts paid to Maury Service Authority for a portion of debt service during the year.

Schedule is intended to show ten years of information. Debt was issued during fiscal year 2017 and no payments were made until fiscal year 2018. Additional years will be shown as the information becomes available.

Source: City financial reports

Table 18

**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)
2022-23	7,264	(5)	(5)	670	4.8%
2021-22	7,397	(5)	(5)	623	4.6%
2020-21	7,397	(5)	(5)	634	6.5%
2019-20	(5)	(5)	(5)	665	4.2%
2018-19	7,432	(5)	(5)	659	2.9%
2017-18	7,362	1,456,549	40,320	667	5.4%
2016-17	7,284	1,406,907	38,981	678	7.1%
2015-16	7,301	1,363,393	37,989	659	8.2%
2014-15	7,410	1,348,251	37,210	651	8.5%
2013-14	7,329	1,262,492	34,836	650	11.3%

(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 19

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

Employer	Fiscal year ended June 30, 2023		Fiscal year ended June 30, 2014		
	Employment Range (A)	Rank	Employment Range	Rank	% of Total City Employees
Washington & Lee University	over 1000	1	over 1000	1	24.1%
Virginia Military Institute	500-999	2	500-999	2	15.0%
Carilion-Stonewall Jackson Hospital	100-249	3	250-499	4	4.0%
Parkhurst Dining		4			
City of Lexington, Virginia	100-249	5	100-249	3	4.1%
Lexington City School Board	50-99	6	50-99	7	1.8%
Kroger Company	50-99	7	50-99	6	2.2%
Heritage Hall Health Care (HCMF)	50-99	8	50-99	8	1.5%
McDonald's		9			
George's Inn LLC		10			
The VMI Foundation			50-99	9	1.2%
Aramark Campus LLC			100-249	5	2.2%
Rockbridge Farmer's Co-op				10	1.2%

(A) Note that the Virginia Employment Commission no longer reports employment range information. Same is presented in accordance with the previous year report, where applicable. Additionally, ranking information is no longer available and therefore the percentages of total City employees are no longer presented.

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

Table 20

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

Function	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General government administration	14	14	14	14	14	14	14	14	14	15
Judicial administration	1	1	1	1	1	1	1	1	0	0
Public safety										
Police										
Officers	16	16	17	16	16	18	17	16	17	18
Civilians	3	3	3	3	4	3	2	2	3	3
Parking enforcement/ animal control	1	1	1	1	1	0	1	1	1	1
Fire	10	11	11	16	17	17	17	16	17	17
Public works										
Administration & maintenance	39	41	40	40	35	36	36	30	30	31
Solid waste management	10	8	8	8	8	9	9	6	7	7
Health, Education & Welfare	2	2	2	2	2	2	2	1	1	1
Community development	4	4	2	2	2	2	2	2	2	3
Leisure Services	1	1	1	1	1	0	0	0	0	0
Utilities processing										
Water treatment	5	5	5	0	0	0	0	0	0	0
Wastewater treatment	11	11	10	0	0	0	0	0	0	0
Total	117	118	115	104	101	102	101	89	92	96

Source: Government finance department

Table 21

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

Function	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General administration										
Business licenses issued	677	662	678	668	678	752	801	823	846	814
Public safety										
Police										
Number of calls answered	4,475	6,094	5,639	5,422	5,278	5,526	4,883	4,658	7,268	8,632
Physical arrests	151	115	186	180	153	106	144	118	105	211
Parking violations	1,675	1,801	1,801	1,158	725	942	851	532	940	981
Traffic violations		137	529	577	270	668	1,078	692	780	542
Miles Patrolled	160,996	161,825	142,480	132,847	162,158	122,771	118,560	107,172	150,662	134,558
Fire										
Number of line calls answered	741	721	681	673	809	843	872	830	908	810
Number of reserve calls answered	2,099	2,094	1,704	1,817	1,820	1,866	1,769	2,049	2,238	2,231
Inspections	184	166	294	353	286	347	389	350	737	390
Public works										
Highways and streets										
Street resurfacing (miles)	-	-	-	21.64	6.50	5.42	6.40	3.94	1.64	2.14
Sanitation and waste removal										
Refuse collected (tons/day)	10	9	8	9	8	9	20	19	10	10
Recyclables collected (tons/day)	10	7	6	7	6	4	0.5	1.5	0.3	0.3
Leisure services										
Culture and recreation										
Athletic program Participants	1,250	1,124	1,495	1,628	1,481	1,472	1,021	865	1,592	1,807
Utilities processing										
Water										
New connections	6	18	24	8	18	8	11	14	10	7
Water main breaks	30	40	29	30	50	23	34	33	31	14
Average daily consumption (thousands of gallons)	884	807	804	732	698	847	483	447	532	503
Number of customers	2,851	2,860	2,864	2,811	2,751	2,821	2,655	2,657	2,788	2,794
Wastewater										
Average daily sewage treatment (thousands of gallons)	735	583	603	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Community development										
Number of building permits	87	87	74	62	124	62	63	93	73	101
Building construction value (thousands)	28,487	23,826	7,353	16,481	22,408	44,320	8,137	18,051	11,361	23,774
Component unit - school board										
Education										
Students - elementary	332	305	306	315	317	327	318	307	324	327
Students - middle school	174	187	187	204	200	172	170	174	147	177
City students - joint high school	144	159	166	159	150	160	167	153	152	166
Teachers elementary & middle school	50	50	50	49	50	50	49	46	48	46
Expenditures per pupil (1)	4,442	4,626	4,637	4,553	4,590	4,653	10,932	12,035	13,095	14,709

Source: Various city departments

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

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

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

Table 22

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

Function	Fiscal Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Function										
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	13	13	13	13	13	13	13	15	15	15
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Highways and streets										
Streets (miles)	60	60	60	60	60	60	60	60	60	60
Streetlights	530	531	531	531	531	531	531	531	531	531
Traffic signal intersections	13	13	13	13	13	13	13	13	13	13
Parking garage	1	1	1	1	1	1	1	1	1	1
Cemeteries Maintenance										
Cemeteries	2	2	2	2	2	2	2	2	2	2
Health, education and welfare										
Hospitals	1	1	1	1	1	1	1	1	1	1
Number of hospital beds	25	25	25	25	25	25	25	25	25	25
Leisure services										
Parks acreage	43	43	43	43	43	43	43	43	43	43
Parks	8	8	8	8	8	8	8	8	8	8
Swimming Pools	2	2	2	2	2	1	1	1	1	1
Community centers	-	-	-	-	-	-	-	-	-	-
Utilities processing										
Water										
Water mains (miles)	58	58	58	58	58	58	58	58	58	58
Fire hydrants	270	270	270	270	270	270	270	270	270	270
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer										
Sanitary sewers (miles)	68	68	68	68	68	68	68	68	68	68
Storm sewers (miles)	7	7	7	7	7	7	7	7	7	7
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Component unit - school board										
Education										
Elementary schools	1	1	1	1	1	1	1	1	1	1
Middle schools	1	1	1	1	1	1	1	1	1	1
Jointly operated high school	1	1	1	1	1	1	1	1	1	1

Source: Various city departments

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

Table 23

City of Lexington, Virginia
Schedule of Joint Services Contract Billing
For the Year Ended June 30, 2023

	Parking Garage	Fire	RARO Administration	Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other	RARO Total	Totals
Salaries and fringe benefits	\$ 1,984	\$ 1,287,055	\$ 361,084	\$ 26,164	\$ 6,398	\$ 22,947	\$ 7,005	\$ 2,421	\$ 426,019	\$ 1,715,058
Contractual services	-	112,013	12,014	-	-	1,797	-	-	13,811	\$ 125,824
Other expenses	27,906	248,842	145,596	7,081	12,300	17,532	6,474	10,371	199,354	\$ 476,102
Totals	\$ 29,890	\$ 1,647,910	\$ 518,694	\$ 33,245	\$ 18,698	\$ 42,276	\$ 13,479	\$ 12,792	\$ 639,184	\$ 2,316,984
Less: Revenue for Operations	\$ -	\$ (373,852)	\$ (92,737)	\$ (9,153)	\$ (6,445)	\$ (14,267)	\$ (9,447)	\$ (13,482)	\$ (145,531)	\$ (519,383)
Net Expenses	\$ 29,890	\$ 1,274,058	\$ 425,957	\$ 24,092	\$ 12,253	\$ 28,009	\$ 4,032	\$ (690)	\$ 493,653	\$ 1,797,601
Rockbridge County participation	9.90%	56.62%	53.08%	54.92%	57.14%	53.17%	58.54%	64.65%	53.30%	54.93%
Rockbridge County share	\$ 2,959	\$ 721,372	\$ 226,089	\$ 13,231	\$ 7,001	\$ 14,892	\$ 2,360	\$ (446)	\$ 263,128	\$ 987,459

COMPLIANCE SECTION



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

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

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

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, 2023, 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 October 13, 2023.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on 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 financial statements. 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*.

City of Lexington, Virginia's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on City of Lexington, Virginia's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Lexington, Virginia's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, Jarmon, Cox, Associates

Blacksburg, Virginia
October 13, 2023



**Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Lexington, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Lexington, Virginia's major federal programs for the year ended June 30, 2023. 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.

In our opinion, City of Lexington, Virginia complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Lexington, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Lexington, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Lexington, Virginia's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Lexington, Virginia's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of

internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Lexington, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Lexington, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Lexington, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Lexington, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

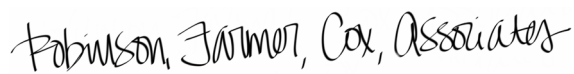
Report on Internal Control over Compliance

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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Blacksburg, Virginia
October 13, 2023

City of Lexington, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number		Federal Expenditures
Department of Agriculture:				
Pass Through Payments:				
Virginia Department of Education:				
Pandemic Electronic Benefit Transfer Administrative Costs	10.649	86556		\$ 628
<i>Child Nutrition Cluster:</i>				
National School Lunch Program	10.555	40254/41106	\$ 107,027	
COVID-19 - National School Lunch Program	10.555	86557	12,511	\$ 119,538
School Breakfast Program	10.553	41110/40253		18,536
Total Department of Agriculture				<u>\$ 138,702</u>
Department of Health and Human Services:				
Pass Through Payments:				
Virginia Department of Social Services:				
Temporary Assistance for Needy Families	93.558	0400122/0400123		\$ (1)
Foster Care - Title IV-E	93.658	1100122/1100123		8,584
Adoption Assistance	93.659	1120122/1120123		11,050
Social Services Block Grant	93.667	1000122/1000123		5,544
MaryLee Allen Promoting Safe and Stable Families Program	93.556	0950121/0950122/0950221		33
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	0500122/0500123		2,096
Elder Abuse Prevention Interventions Program	93.747	8000221		1,206
Virginia Department of Education:				
<i>Head Start Cluster:</i>				
Head Start	93.600	Unknown		12,603
Total Department Health and Human Services				<u>\$ 41,115</u>
Department of Transportation:				
Pass Through Payments:				
Virginia Department of Motor Vehicles:				
<i>Highway Safety Cluster:</i>				
National Priority Safety Programs	20.616	FOP-2022-52121-22121/ FM6OT-2022-52119-22119		\$ 2,211
Department of Justice:				
Pass through payments from:				
Department of Criminal Justice:				
COVID-19 - Coronavirus Emergency Supplemental Funding Program	16.034	20VDBX0141		\$ 11,709
Environmental Protection Agency:				
Pass through payments from:				
Department of Environmental Quality:				
Chesapeake Bay Program	66.964	Unknown		\$ 10,030
Department of Homeland Security:				
Pass through payments from:				
Department of Emergency Management:				
Emergency Management Performance Grants	98.042	EMP-2020-EP-00005		\$ 15,000
Department of Treasury:				
Direct payments:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Not applicable	\$ 4,802,345	
Pass through payments from:				
Department of Housing and Community Development:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Unknown	55,496	
Department of Education:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	60054	65,634	
Total Department of Treasury				<u>\$ 4,923,475</u>
Department of Education:				
Pass Through Payments:				
Virginia Department of Education:				
Supporting Effective Instruction State Grants	84.367	61480		\$ 19,251
Title I - Grants to Local Educational Agencies	84.010	42901		98,567
<i>Special Education Cluster:</i>				
Special Education Preschool Grants	84.173	62521	\$ 4,697	
Special Education Grants to States	84.027	40287/43071/60304	143,365	148,062
English Language Acquisition State Grants	84.365	Unknown		3,208
COVID-19 - Education Stabilization Fund - Elementary and Secondary				
Emergency Relief Fund	84.425D	50195/60042/60173	\$ 70,032	
COVID-19 - Education Stabilization Fund - American Rescue Plan -				
Elementary and Secondary School Emergency Relief (ARP ESSER)	84.425U	50175/50193	152,797	222,829
Student Support and Academic Enrichment	84.424	60281		9,331
Total Department of Education				<u>\$ 501,248</u>
Total Expenditures of Federal Awards				<u>\$ 5,643,490</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, 2023

NOTE A--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Lexington, Virginia under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, 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) The City did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE C--SUBRECIPIENTS:

No awards were passed through to subrecipients.

NOTE D--OUTSTANDING BALANCE OF FEDERAL LOANS:

The City did not have any loans or loan guarantees which are subject to reporting requirements for the current year.

NOTE E--RELATIONSHIP TO THE FINANCIAL STATEMENTS:

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

Primary Government:	
General Fund - Intergovernmental	\$ 7,367,410
Less: Revenue from the Commonwealth	(2,442,107)
Component Unit School Board:	
School Operating Fund - Intergovernmental	9,739,042
Less: Revenue from local governments	(3,461,583)
Less: Revenue from the Commonwealth	<u>(5,559,272)</u>
Total Federal Expenditures per basic financial statements	<u>\$ 5,643,490</u>

City of Lexington, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	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 2 CFR Section 200.516(a)?	No

Identification of major programs:

<u>Federal Assistance Listing #</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	No
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City of Lexington, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section II - Financial Statement Findings**2023-001 (Material Weakness)**

Criteria:	Identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness may exist.
Condition:	The City's financial statements required a few material adjusting entries by the Auditor to ensure such statements complied with Generally Accepted Accounting Principles.
Cause:	Shortly after year end, the Finance Director left the City and a new Finance Director did not start immediately. The previous Finance Director assisted the City with the closing process; however, a few items were overlooked in the transition.
Effect:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the City's internal controls over financial reporting.
Recommendation:	Management should review the current year adjusting entries and consider same during the next fiscal year close.
Management's Response:	Management will consider the recommendation(s) and determine an appropriate course of action.

Section III - Federal Award Findings and Questioned Costs

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

City of Lexington, Virginia

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

2023-001 (Material Weakness)

Condition:	The City's financial statements required a few material adjusting entries by the Auditor to ensure such statements complied with Generally Accepted Accounting
Recommendation:	Management should review the current year adjusting entries and consider same during the next fiscal year close.
Current Status:	Finding 2022-001 was repeated in the current year as 2023-001.