

CITY OF LEXINGTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

Prepared by:
C. F. Higgins, Jr., Finance Director

CITY OF LEXINGTON, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2010

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INTRODUCTORY SECTION



December 1, 2010

The Honorable City Council
City of Lexington, Virginia

The Comprehensive Annual Financial Report (CAFR) of the City of Lexington, Virginia for the fiscal year ended June 30, 2010 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the government. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and has been reported in a manner designed to present fairly the financial position and results have been included. Also, additional data is provided in the City Management's Discussion and Analysis of operations of the various funds and financial statements of the government. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities analysis narrative overview are included with this report.

This report has been prepared following the guidelines recommended by the Government Finance Officers Association (GFOA) and the Governmental Accounting Standards Board (GASB). Also, this report is in accordance with uniform financial reporting standards for counties, cities, and towns issued by the Commonwealth of Virginia's Auditor of Public Accounts (APA). Further, this report is in conformity with the provisions of the Single Audit Act of 1996 and U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

This report includes all funds of the City of Lexington including four separate component units. Component units are legally separate entities for which the primary government is financially accountable. The Rockbridge Area Recreation Organization (RARO) provides recreational activities for all age groups in the Rockbridge County area. RARO functions independent of the City and serves under a seven-member board of directors. The City provides financial services to RARO and this report includes RARO as a separate component unit.

A second separate component unit is the Lexington School System that consists of an elementary and middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement. City Council appoints a five-member school board to administer the City school operations.

A third component unit is the Central Dispatch that provides E-911 dispatch for fire, rescue, and police services in Rockbridge County and both the City of Lexington and Buena Vista. The Rockbridge County Sheriff's department is not directly served under this center. The Central Dispatch serves under an executive director that is appointed by an independent seven-member board. The Central Dispatch regional board includes the City Manager and Police Chief of both cities and the Rockbridge County Administrator, as well as one representative each from the County Firefighters and Rescue Squad Associations.

A fourth component unit is the Regional Tourism Program serving the City of Buena Vista, the City of Lexington, and Rockbridge County. The regional tourism operation serves under an executive director that is appointed by an independent seven-member board. The regional board of directors includes two members appointed by each of the jurisdictions (one of which must be from a tourism related industry) for two year terms. One remaining member is to be appointed from a tourism related business by the six jurisdictional members for a two-year term.

The City provides a full range of municipal services including police, rescue and fire protection, sanitation services, the construction and maintenance of streets and infrastructure, community development/housing rehabilitation services, and support of cultural and recreational activities. In addition to general government services, the City also operates a water and sewer enterprise fund and four previously mentioned separate component units. The City serves as the fiscal agent for the first, third and fourth component units. However, the City services of the Rockbridge Regional Jail, Rockbridge Regional Library, Rockbridge Area Social Services, Maury Service Authority, Central Shenandoah Juvenile Detention Home and Industrial Development Authority have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Economic Outlook

The City of Lexington is located in the Shenandoah Valley region of central Virginia and is blessed with both historic and natural beauty. These two attributes have helped Lexington to attract thousands of tourists and visitors annually. Two colleges, the Virginia Military Institute and Washington & Lee University, have also been instrumental in the rich cultural and educational heritage of Lexington. The City is ideally located to meet transportation needs, with the junction of interstates I-81 and I-64 just outside the city limits and the intersection of US highway routes 11 and 60 in the middle of the downtown business district.

As a result of an agreement between the City and Rockbridge County, Lexington is precluded from extending its current boundaries through conventional annexation. As compensation for the agreement not to annex, the two governments entered into a revenue sharing agreement based upon annual payments to the City of portions of economic growth related revenues collected by the County. This cooperative agreement continues to afford revenue growth necessary to meet the City's long-term financial needs, while minimizing property tax rate increases.

The City of Lexington is first and foremost a college town. As such, its economic base is fairly stable, with both schools maintaining strong financial bases and stable enrollments. The lack of available land for industrial development along with concentrated planning efforts has helped to create Lexington's reputation as a retail and service activity center for Rockbridge County and many surrounding communities. The City continues to look for ways to expand its economic base with limited space and land development capabilities, while focusing on the high quality of life and natural and historic charm to attract clean, environmentally safe, and compatible businesses to the City.

Major Initiatives

For the past year:

The City real estate tax rate increased from 0.635/\$100 to 0.65/\$100 of assessed value. This tax increase was needed to meet inflationary operational cost increases and to help offset State funding reductions. The City completed a reassessment of real estate in FY 10 with the next three-year reassessment scheduled for FY 13. Should the economy continue to experience a slow recovery, the City could opt to delay the reassessment of real estate for one year until FY 14. The FY 10 current real estate tax collections translated to approximately \$57,178 per penny of the tax rate.

The City increased water and sewer rates by ten (10) percent for all customers beginning July 2009. Also, due to a decreasing trend of customer water consumption for particularly large consumption users, the City accelerated the usual annual increase of water and sewer rates by increasing rates a second time by ten (10) percent for all customers beginning April 2010. The City needs the additional revenue to provide the revenue necessary to maintain operations and to fund increasing costs for sewage treatment.

The City designates a two (2) percent transient occupancy tax to generate contribution revenue for the Virginia Horse Center Foundation. The revenue for FY 10 totaled \$68,475 and will be dedicated by the Virginia Horse Center for long-term debt service costs. The City reorganized its solid waste collection system, reducing residential collections from twice a week to once a week, in order to reduce expenditures to offset state and local revenue reductions.

The City is jointly entering cooperative measures to improve the landscaping, signage, streets, sidewalks, parking, and storm drainage needs as plans are approved for new or renovated businesses within its commercial districts. Recommendations provided from a professional corridor study are providing the City a very good basis for making entranceway corridor improvements.

The City continues to follow a master plan developed by a steering committee to develop the Jordan's Point Park next to its north corridor entranceway. During this past year, the exterior renovation of the Miller's House, the construction of permanent restroom facilities and improvements to the parking lot continue to allow this new public park to attract citizenry to enjoy outdoor recreation. Future plans include development of a pedestrian and bicycle route from both ends of the Veteran's Memorial Bridge across the Maury River to connect the Woods Creek trail to the Chessie Nature trail and to complete the interior

renovation of the old Miller's House. Over the past year, the City was once again awarded the designation of Tree City, U.S.A. In 2006, the City was ranked in a Consumer's Report international survey as one of the top six small residential communities perfect for retirees. In 2009, Budget Travel magazine named the City to its top 10 list of America's coolest small towns.

For the future:

Lexington has other major capital and infrastructure demands which will need to be addressed in the near future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Capital projects estimated to cost \$3.7 MIL over the next five years include traffic signal, bridge, street, sidewalk, and storm drainage improvements, entranceway and corridor improvements, public safety facility improvements, water and sewer utility line improvements, a water system upgrade, and recreational parks improvements.

Long-term debt financing of \$7.5 MIL in November 2009 funded a middle school renovation and addition capital project. Also, the City issued qualified school construction bonds for \$1.5 MIL in July, 2010 to complete the middle school in time for the 2010-2011 school year.

Presently, almost 52% of the City's real property is tax exempt. Also, competition for retail and business occupancy downtown versus county shopping areas challenges the City to search for additional revenue in order to offset the tax burden placed upon property owners and small businesses. The City Council has worked hard to improve its economy by partnering with the Chamber of Commerce to promote business in the downtown area of the City. The City also continues to participate in a regional economic development marketing effort provided by the combined efforts of five cities, six counties, and James Madison University located in the Shenandoah Valley area.

Budgetary and Internal Controls

The City administration is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the USA. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Compliance: As a recipient of federal and state financial assistance, the government of Lexington is also responsible for ensuring that adequate internal controls are in place to provide compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by the City administration.

As a part of the government's single audit described earlier, tests are made to determine the adequacy of the internal controls, including that portion related to intergovernmental financial assistance programs, as well as to determine that the government has complied with applicable laws and regulations.

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

Cash Management: The City maintains an aggressive Cash Management Program with the objectives of increasing non-tax revenues of the city government. The primary goals of the Cash Management Program are to maximize the amount of cash available, both to meet daily needs and to increase the amount available for investment, and to earn the maximum return on cash invested. Due to historically low market interest rates, the interest earnings of \$29,657 for governmental funds were equivalent to less than one cent on the City real estate tax rate for the fiscal year ended June 30, 2010.

Risk Management: The City is exposed to a variety of accidental losses and has established a risk management strategy that attempts to minimize losses and the carrying costs of insurance.

The City has a public safety committee continuously review City policy and procedure for public safety. Risk control techniques have been established to reasonably assure that the City's employees are aware of their responsibilities regarding personal safety and property loss exposures related to their duties. In a similar manner, risk control techniques have been established to reduce possible personal injuries to employees and citizens, and losses to property owned or under the control of the City. Furthermore, supervisory personnel are held responsible for monitoring risk control techniques on an operational basis.

The primary technique used for risk financing is the purchase of adequate insurance coverage from a State liability self-insurance program. The City insurance coverages include policies for business automobile, legal, public official, law enforcement, property damage, and general liability exposures of risk. Also, boiler and machinery, data processing, miscellaneous volunteer portable equipment, contractors' equipment, builders' risk, crime, and difference in condition risk categories are defined and protected by coverages recommended by the VML insurance advisors. The City participates in the State self-insurance program for workers' compensation benefits. A separate commercial carrier provides workers' compensation coverage for the volunteer life saving and first-aid crew.

Also, separate coverages for the volunteer fire department and lifesaving and first aid crew provides general liability and non-owned vehicle liability insurance protection.

Other Information

Independent Audit: State statutes require an annual audit by independent certified public accountants. This annual audit was performed by Robinson, Farmer, Cox, Associates. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Federal Single Audit Act of 1984 and the Single Audit Amendments of 1996, and the related OMB Circular A-133. The auditors' report on the basic financial statements is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in the Single Audit Section.

Award: As previously indicated, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lexington for its comprehensive annual financial report for the fiscal years ended June 30, 1994 through June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report, whose contents conformed to program standards. This report satisfied both accounting principles generally accepted in the USA and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report on a timely basis could not be accomplished without the efficiency and dedication of the staffs of the Finance Department, Commissioner of Revenue, and the Office of the Treasurer. I would like to express our sincere appreciation to each employee of these departments. Appreciation is also in order for the firm of Robinson, Farmer, Cox, Associates. Last, I would like to thank the Mayor, members of the City Council, and the rest of City administration for their interest and support in planning and conducting the financial operations of the City in a responsive and progressive manner.

Respectfully submitted,



C. F. Higgins, Jr.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lexington
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

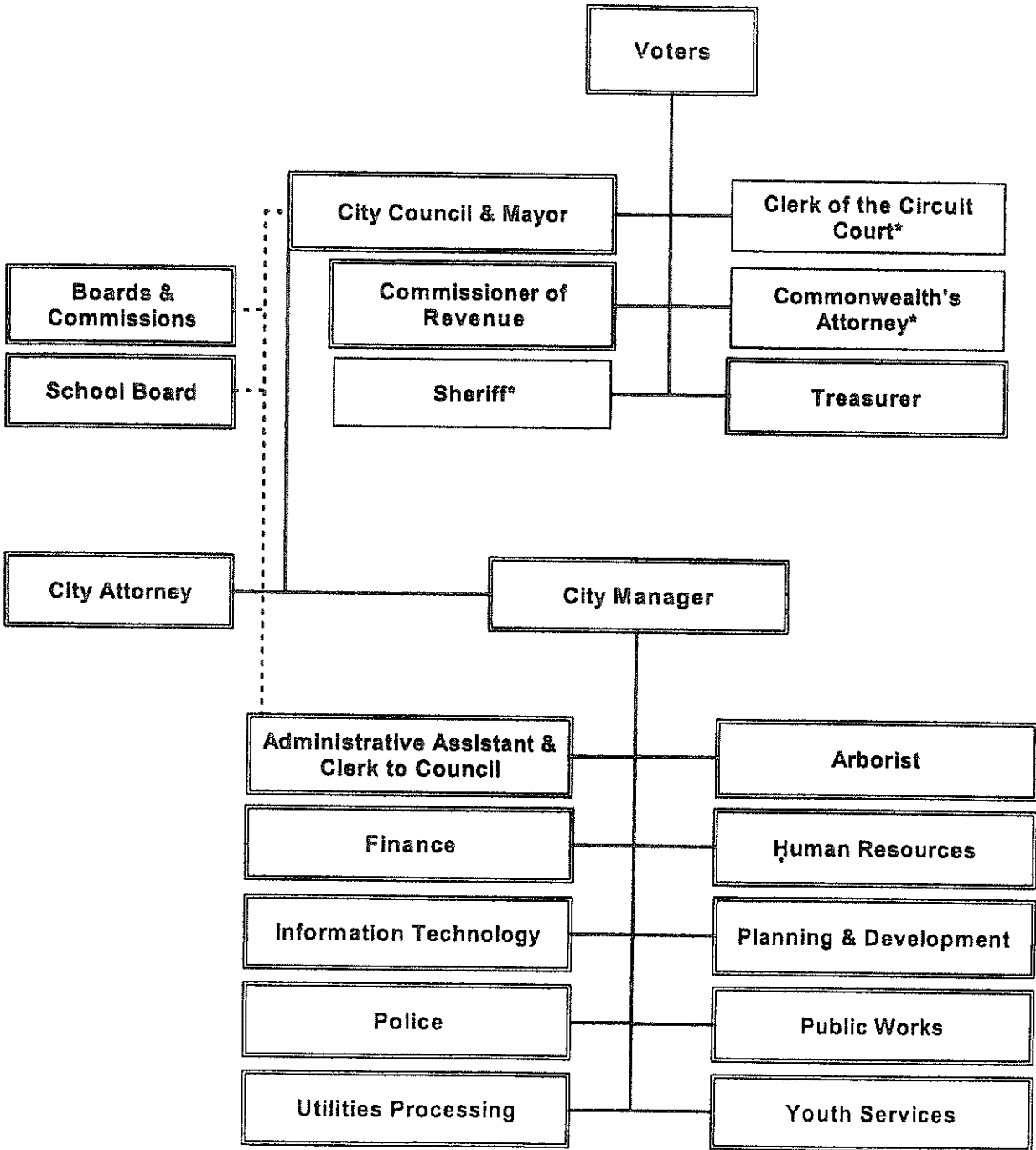
President

A handwritten signature in black ink that reads "Jeffrey R. Enow".

Executive Director

CITY OF LEXINGTON

Organizational Chart



*Shared with County
 Appointing authority only

CITY OF LEXINGTON, VIRGINIA

CITY COUNCIL

Bob Lera, Vice-Mayor R. David Cox Jim Gianniny	Mimi Elrod, Mayor	Marilyn Alexander Frank Friedman Jack Page
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CITY SCHOOL BOARD

Leslie Straughan, Vice Chair Michael Tschantz	Aaron Bruce, Chair	Dean Knick Leonard Stewart
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OTHER OFFICIALS

City Manager	T. Jon Ellestad
City Treasurer	Pat DeLaney
Commissioner of Revenue	Karen T. Roundy
Finance Director	C. F. Higgins, Jr.
City Attorney	Lawrence A. Mann
Chief of Police	Al Thomas
Director of Planning and Development.....	Bill Blatter
Director of Utilities Processing	Rick Allen
Director of Public Works.....	David A. Woody
Director of Fire and Rescue Services	Ty Dickerson
Superintendent of Schools	Daniel E. Lyons

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

THE HONORABLE MEMBERS OF CITY COUNCIL CITY OF LEXINGTON, VIRGINIA

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lexington, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2010 on our consideration of the City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the budgetary comparison information and the Schedules of Funding Progress as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the Management's Discussion and Analysis, the budgetary comparison information and the Schedules of Funding Progress, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Lexington, Virginia. The combining and individual statements and schedules, supporting schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Jaeger, Co. Association

Christiansburg, Virginia
November 5, 2010

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, 2010. 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 City of Lexington's governmental funds total revenues of \$13,239,435 are less than total expenditures of \$20,836,169 by \$7,596,734. The City purchased \$45,584 of equipment replacement items from fund balance designated for future equipment replacement needs. The City provided \$7,508,309 of bond proceeds to support the renovation of the City's middle school. The City sold 2,360 acres of land to the state Department of Forestry for \$1,980,820. This land will remain available for public usage as conservation land.
- The assets of the City of Lexington exceeded its liabilities at the close of the most recent fiscal year by \$21,424,598 (*net assets*). A total of \$10,810,971 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance undesignated for the general fund is \$7,879,711 or 38% of total general fund expenditures for \$20,531,661 in the year ended June 30, 2010.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lexington's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to 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 assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or declining.

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

will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements include not only the City of Lexington itself (known as the *primary government*), but also a legally separate school district, a regional tourism program, a central dispatch operation, and joint recreation activities. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

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

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

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

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

governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lexington adopts an annual appropriated budget for its general fund, special revenue 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets exceeded liabilities by \$21,424,598 at the close of the most recent fiscal year.

A portion of the City's net assets (50 percent) reflects its unrestricted net assets of \$10,810,971. 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, reflects \$9,299,478. 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 needed 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 assets increased \$3,896,206 for the fiscal year ending June 30, 2010. As previously mentioned, a good portion of this increase (\$1,980,820) is attributable to the City selling conservation land to the state Department of Forestry.

The City expanded its recycling efforts and reduced residential refuse collection frequency from twice per week to once per week residential refuse collection in January 2010 allowing an operational savings of more than \$52,000 for the fiscal year.

Also, a thirty (30) acre tract of land was sold for \$56,092. Last, a total of \$971,120 of bond proceeds issued for the newly renovated middle school construction project remains unexpended as of June 30, 2010.

**City of Lexington's Summary Statement of Net Assets
as of June 30, 2010 and 2009
(In Thousands)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current & other assets	\$ 12,980	\$ 11,672	\$ 1,340	\$ 1,132	\$ 14,319	\$ 12,804	\$ 2,313	\$ 1,292
Capital assets	<u>26,306</u>	<u>18,719</u>	<u>1,921</u>	<u>1,864</u>	<u>28,228</u>	<u>20,583</u>	<u>2,170</u>	<u>2,795</u>
Total assets	<u>\$ 39,286</u>	<u>\$ 30,391</u>	<u>\$ 3,261</u>	<u>\$ 2,996</u>	<u>\$ 42,547</u>	<u>\$ 33,387</u>	<u>\$ 4,483</u>	<u>\$ 4,087</u>
Long-term liabilities outstanding	\$ 19,177	\$ 12,876	\$ 63	\$ 59	\$ 19,240	\$ 12,935	\$ 148	\$ 119
Other liabilities	<u>1,440</u>	<u>2,479</u>	<u>442</u>	<u>445</u>	<u>1,882</u>	<u>2,924</u>	<u>1,318</u>	<u>639</u>
Total liabilities	<u>\$ 20,617</u>	<u>\$ 15,355</u>	<u>\$ 505</u>	<u>\$ 504</u>	<u>\$ 21,122</u>	<u>\$ 15,859</u>	<u>\$ 1,466</u>	<u>\$ 758</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 7,378	\$ 6,086	\$ 1,922	\$ 1,864	\$ 9,300	\$ 7,950	\$ 2,170	\$ 2,795
Restricted	1,314	1,268	—	—	1,314	1,268	—	—
Unrestricted	<u>9,977</u>	<u>7,682</u>	<u>834</u>	<u>628</u>	<u>10,811</u>	<u>8,310</u>	<u>847</u>	<u>534</u>
Total net assets	<u>\$ 18,669</u>	<u>\$ 15,036</u>	<u>\$ 2,756</u>	<u>\$ 2,492</u>	<u>\$ 21,425</u>	<u>\$ 17,528</u>	<u>\$ 3,017</u>	<u>\$ 3,329</u>

An additional portion of the City's primary government net assets (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the primary government's *unrestricted net assets* (\$10,810,971) 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 assets, both for the government as a whole, as well as for its separate governmental and business like activities.

Governmental activities. Governmental activities for the City's primary government represent 87% of the City's net assets. 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 Assets
as of June 30, 2010 and 2009
(In Thousands)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:								
Program Revenues:								
Chgs. for svcs.	\$ 1,114	\$ 1,051	\$ 4,733	\$ 4,615	\$ 5,847	\$ 5,666	\$ 233	\$ 221
Operating grants and contributions	1,327	1,188	—	—	1,327	1,188	3,493	3,373
Capital grants and contributions	119	61	40	—	159	61	—	107
General revenues:								
Property taxes	4,607	4,337	—	—	4,607	4,337	—	—
Other taxes	3,000	3,061	—	—	3,000	3,061	—	—
Grants and contributions not restricted to specific programs								
Other	603	573	—	—	603	573	—	—
	<u>4,374</u>	<u>2,603</u>	<u>—</u>	<u>—</u>	<u>4,374</u>	<u>2,603</u>	<u>1,878</u>	<u>2,557</u>
Total revenues	<u>\$ 15,144</u>	<u>\$ 12,874</u>	<u>\$ 4,773</u>	<u>\$ 4,615</u>	<u>\$ 19,917</u>	<u>\$ 17,489</u>	<u>\$ 5,604</u>	<u>\$ 6,258</u>
Expenses:								
General Gov't.	\$ 1,292	\$ 1,252	\$ —	\$ —	\$ 1,292	\$ 1,252	\$ —	\$ —
Judicial Admin.	258	2,813	—	—	258	2,813	—	—
Public Safety	2,586	2,684	—	—	2,586	2,684	—	—
Public Works	2,971	3,063	—	—	2,971	3,063	—	—
Health & Welfare	652	565	—	—	652	565	—	—
Education	1,874	2,553	—	—	1,874	2,553	5,916	5,981
Parks, Rec. & Cultural	600	871	—	—	600	871	—	—

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Expenses: (Continued)								
Community Development	716	706	—	—	716	706	—	—
Nondepartmental	—	10	—	—	—	10	—	—
Interest on Debt	562	584	—	—	562	584	—	—
Water & Sewer Utility	<u>—</u>	<u>—</u>	<u>4,510</u>	<u>4,496</u>	<u>4,510</u>	<u>4,496</u>	<u>—</u>	<u>—</u>
Total Expenses	<u>\$ 11,511</u>	<u>\$ 15,101</u>	<u>\$ 4,510</u>	<u>\$ 4,496</u>	<u>\$16,021</u>	<u>\$ 19,597</u>	<u>\$ 5,916</u>	<u>\$ 5,981</u>
Changes in net assets	3,633	-2,227	263	119	3,896	-2,108	-312	277
Net assets beginning of year	<u>15,037</u>	<u>17,264</u>	<u>2,492</u>	<u>2,373</u>	<u>17,529</u>	<u>19,637</u>	<u>3,329</u>	<u>3,052</u>
Net assets end of year	<u>\$ 18,670</u>	<u>\$ 15,037</u>	<u>\$ 2,755</u>	<u>\$ 2,492</u>	<u>\$21,425</u>	<u>\$ 17,529</u>	<u>\$ 3,017</u>	<u>\$ 3,329</u>

Governmental Revenues:

- Property tax collections are up 3% or \$117,049. City Council raised the tax rate of \$0.635/\$100 of assessed value to \$0.65/\$100 of assessed value to support the FY 10 budgetary needs. A four-year reassessment is scheduled to be completed in FY 10 to be effective in FY 11.
- The City increased the personal property tax rate from \$3.95/\$100 of assessed value to \$4.25/\$100 of assessed value. The personal property tax rate increase allowed the City to offset the loss of revenue from the elimination of the motor vehicle license tax on January 1, 2010.
- Other local taxes are down \$61,103 or 2% for the current fiscal year ending June 30, 2010. The local sales and use taxes are down \$18,425 or 2%. The business license tax collections are down \$18,395 or 11%. Also, the motor vehicle license tax is significantly down \$34,871 or 56% due to the elimination of this tax on January 1, 2010. The City overall local taxes did well considering the deep recession that negatively impacted the state, national, and international economy.
- The meals tax decreased \$13,089 or 2%. The bank stock tax increased \$68,065 or 153% as the result of a new local bank located within the City.
- Most local revenue trends indicate the City experienced moderate decline in the local economy for a second consecutive year.
- The market interest earnings rate of return for investments remained drastically low attributing to a decrease of \$87,815 or 75% from use of money and property.
- Permits and license's revenue increased \$21,480 or 30% mostly due to the City increasing various fees for planning and zoning services.
- To help offset shrinking revenues, the City increased dog license fees, youth service fees, as well as some public works service fees for snow removal and brush collection services.

- The City's major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
General property taxes	\$ 4,448,766	34%
Other local taxes	2,999,761	23%
Charges for services	918,288	7%
Miscellaneous	2,249,347	17%
Recovered costs	178,940	1%
Intergovernmental	2,049,554	15%

Governmental Expenses:

- Increases in operational expenses closely paralleled inflation and growth in the demand for basic services. The governmental expenses totaled \$20,836,169 for the fiscal year ending June 30, 2010. The governmental expenses include \$45,584 in equipment replacement expenses from the designated equipment replacement fund balance.
- General government administration expenses increased \$29,273 or 2%. All of this increase is attributable to the contract cost for the City's four year reassessment of real estate properties.
- The primary government's education expenses increased \$7,315,022 or 286% from \$2,553,320 in FY 09 to \$9,868,342 in FY 10. Excluding the \$7,508,310 of bond proceeds for a middle school and \$244,328 provided for the early retirement of the 2001 general obligation bonds, the education expenditures actually decreased by \$437,616 or 17%. The City and the local schools did not give any pay raises in FY 10 to alleviate decreasing local and state revenue trends. Also, due to historically low market interest rates for investments, the City retired the remainder of the 2001 general obligation bonds to generate a savings in interest costs on long term debt.
- Public safety expenses are down \$103,644 or 4% from \$2,688,801 in FY 09 to \$2,585,157 in FY 10. The City purchased two police vehicles for \$45,584. The fire department and first aid operating expenses included for the first time additional costs to provide a new full-time director of fire and rescue services.
- Public works expenses are down \$349,245 or 12% from \$3,001,609 in FY 09 to \$2,652,364 in FY 10. This decrease is mostly attributable to less capital project costs of \$242,722 in support of streets, sidewalks, and other infrastructure projects due to the City's increased support of parks and recreation capital costs in FY 10. Also, the City generated a savings of about \$52,000 in the change of staffing to support the solid waste refuse and recycling collection services beginning in January of 2010. This expense reduction will be increased in FY 11 as the City plans to reduce staffing upon a future retirement of a public works employee.
- Parks, recreation, and cultural expenses are down \$492,986 or 37% from \$1,344,237 in FY 09 to \$851,251 in FY 10. All of this decrease is due to the land acquisition of 172 acres purchased for \$694,564 in FY 09. In FY 10, the City purchased three (3) acres of land next to the Brewbaker Field Athletic Complex for \$125,000. The City completed the construction of a new restroom at the Brewbaker Recreation Field Complex for an additional \$21,002. Also, the City added to Jordan's Point Park new restroom facilities for \$61,500 and a new entranceway with a paved parking lot for \$36,118 at the historic Miller House location.

Business-type activities. Business-type activities contribute to the City of Lexington's net assets by \$2,755,349 accounting for 13% of the total primary government net assets. The City increased water and sewer rates by 20% to support cash flow needs for both operating and capital expenses of the water and sewer enterprise fund. Total revenues of \$4,732,758 exceeded total expenses of \$4,509,470 by \$223,288 or 5% resulting in an increase in net assets.

Other significant items to note include:

- Three sewer slipline projects cost the City \$134,861 extending the life of these sewer lines by twenty years. The City received a \$39,765 federal grant to support one of these projects.
- A new utility billing software package for a total cost of \$73,763.

Financial Analysis of the City's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,401,475, an increase of \$2,065,351 in comparison with the prior year. A total of \$619,532 is reserved for the City's future General Fund equipment replacement purchases. The City reserved fire department funds totaling \$49,129 and first aid funds totaling \$309,286 to be used exclusively for the specific needs of the fire department or first aid subject to City Council's appropriation. A total of \$178,576 is reserved for the carryover of capital projects not completed as of June 30, 2010. A total of \$9,087,326 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for cemetery maintenance or other miscellaneous ongoing projects not completed as of June 30, 2010.

The general fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,902,100, an increase of \$2,059,529 in comparison with the prior year. As previously noted, most of this increase is attributable to the City's sale of land to the state Department of Forestry. As a measure of the adequacy of this fund balance, it may be useful to compare unreserved fund balance to total fund expenditures and other uses of financing sources. Unreserved fund balance represents 43% or more than five months worth of total general fund expenditures and other uses of financing sources.

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

At the end of the current fiscal year, unreserved fund balance of the capital projects fund was \$185,226, a decrease of \$39,650. The City expenses for capital projects are minimal for the past year to allow affordability to deal with the City's decreasing revenue trends. Also, the City is committed to school capital improvement project costs for a new middle school renovation project that will be completed in FY 11 to support the 2010-2011 school year.

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 assets of the utility fund (water and sewer services) at the end of the year amounted to \$834,107, an increase of \$206,699 or 33% in comparison with the prior year. Other factors concerning the finances of the proprietary fund have already been addressed in the discussion of the City's business-type activities.

Governmental Fund Budgetary Highlights

Differences between the original budget of \$13,454,144 and the final amended budget of \$22,545,665 reflects an increase in appropriation for \$9,091,521. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 09 to FY 10 \$577,799 for ongoing projects or activities that could not be completed by June 30, 2009. Most of the carryover was for capital projects related to parks and recreation improvements.
- Under public safety the City received \$25,072 of federal funds from the Department of Homeland Security to purchase twenty-three (23) new portable radios. The First Aid Department appropriated \$25,000 of reserve funds to purchase five notebook computers for emergency response vehicles.
- The public works division of expenses carried over \$52,499 of state street maintenance funds for operating maintenance needs in FY 10.
- Under leisure services the City appropriated \$15,270 for surveying services related to the sale of conservation land to the state Department of Forestry (DOF). The City appropriated \$125,000 of funds received from the sale of land to the state DOF to purchase three acres of land adjacent to the Brewbaker Field Athletic Recreation Complex. Also, the City appropriated \$5,000 to support the relocation expense of the local YMCA and \$5,000 to help purchase a new scoreboard for the City's little league baseball program.
- The planning and development department carried over \$20,000 to support a parking study and \$20,000 for a South Main Street corridor improvement study. Also, \$31,366 was carried over to complete the renovation of two houses under the City housing program. The tree board received \$28,950 for three small federal DOF grants to support horticultural needs of the City.
- Under nondepartmental, the City appropriated \$244,328 for the school fund early retirement of the 2001 general obligation bond issue. Also, the City transferred to the school fund \$7,508,310 of bond proceeds received from the 2009 bond issuance, plus \$4,414 of bond account interest earnings to support the middle school construction project.

Capital Asset and Debt Administration

Capital assets. Governmental fund capital asset additions for \$701,713 included two equipment replacement items for \$45,584. Also, the City purchased three acres of land for \$125,000 that will be used for recreational purposes. A historic property referred to as the Miller House and Jordan's Point Park received improvements for prior construction in progress costs totaling \$224,801. Other improvements in FY 10 include \$61,500 for new restroom facilities, \$36,119 for an entranceway and parking lot to serve the Miller House and construction in progress costs for the Miller House totaling \$124,906 as of June 30, 2010. The City completed a second restroom facility for \$55,803 at another public park. This restroom reported \$34,801 as construction in progress last fiscal year and added \$21,002 more costs in early FY 10 to complete the project.

For business activities, the City completed three separate sewer slip line projects for a total cost of \$134,860 and completed the installation of a new water and sewer billing system for an additional cost of \$17,000 in FY 10 for a total asset cost of \$73,763. Last fiscal year, the City reported the billing system software as construction in progress for \$56,763.

The Lexington school system made significant progress towards the completion of a renovated and expanded middle school adding \$7,531,398 of construction in progress costs for a total cost of \$7,994,734 as of June 30, 2010.

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

	<u>Primary Government</u>				<u>Component Units</u>			
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,693	\$ 2,692	\$ —	\$ —	\$ 2,693	\$ 2,692	\$ 5	\$ 5
Buildings	9,367	9,480	—	—	9,367	9,480	2,076	2,216
Improvements other than buildings	989	791	136	144	1,126	935	—	—
Infrastructure	3,038	3,103	1,501	1,425	4,539	4,528	—	—
Machinery & Equip.	2,032	2,327	284	238	2,316	2,565	89	111
Construction in Progress	<u>8,187</u>	<u>326</u>	<u>—</u>	<u>57</u>	<u>8,187</u>	<u>383</u>	<u>—</u>	<u>463</u>
Totals	<u>\$ 26,306</u>	<u>\$18,719</u>	<u>\$1,921</u>	<u>\$1,864</u>	<u>\$28,228</u>	<u>\$20,583</u>	<u>\$2,170</u>	<u>\$2,795</u>

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

Long-term debt. The City issued \$8,410,000 in general obligation bonds on November 13, 2009 to fund the construction of a renovated and expanded middle school. The bonds were issued by the Virginia Public School Authority as qualified school construction bonds with an original issue discount of \$786,924. Subtracting the issuance costs of \$114,766 from the discounted bond proceeds of \$7,623,076, the City netted only \$7,508,310 in bond proceeds to support school construction costs. As of June 30, 2010, the City reports a total of \$971,120 remaining in unexpended bond proceeds inclusive of interest earnings. At the end of the current fiscal year, the City of Lexington had total bonded debt outstanding of \$19,715,000. All of the City's debt is backed by the full faith and credit of the government.

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

	<u>2010</u>	<u>2009</u>
Governmental activities	\$19,715,000	\$ 12,632,932
Business-type activities	0	0
TOTAL	<u>\$19,715,000</u>	<u>\$ 12,632,932</u>

The City's total general obligation debt increased by \$7,082,068 or 56% during the current fiscal year. The City maintains an "A1" rating from Moody's for general obligation debt. 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 \$60,293,660 which is significantly in excess of the City's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

As of June 2010, the unemployment rate for the City of Lexington is 14.5%. This exceeds the United States average unemployment rate of 9.6%, and the state's average rate of 7.1%.

During the current fiscal year, unreserved fund balance in the general fund increased to \$7,879,711. The City of Lexington has appropriated \$161,069 of this amount for spending in the 2011 fiscal year budget. It is intended that this use of available fund balance will minimize the need to raise taxes or charges for services during the 2011 fiscal year.

The water and sewer utility fund rates were not increased for the 2011 budget year. The City issued a second ten percent (10%) increase in late FY 10 to offset decreasing consumption by the City's large consumers that continue to conserve on consumption.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City of Lexington's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Office of the Finance Director, P. O. Box 922, City of Lexington, Virginia 24450.

BASIC FINANCIAL STATEMENTS

City of Lexington, Virginia
Statement of Net Assets
June 30, 2010

	Primary Government				Component Units			
	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Area Recreation Organization	Rockbridge	Regional Tourism
ASSETS								
Cash and cash equivalents	\$ -	\$ 206,744	\$ 206,744	\$ 1,985,819	\$ -	\$ -	\$ 9,174	\$ 343,134
Cash in custody of others	121,723	-	121,723	-	-	-	-	-
Investments	7,835,705	-	7,835,705	45,977	-	-	-	-
Receivables (net of allowance for uncollectibles):								
Taxes receivable	932,494	-	932,494	-	-	-	-	-
Accounts receivable	1,258,531	1,132,767	2,391,298	-	241,114	34,097	-	18
Due from component unit	154,833	-	154,833	-	-	-	-	-
Due from other governmental units	847,386	-	847,386	281,067	418,599	-	-	-
Prepaid expenses	182,654	-	182,654	-	-	-	-	-
Deferred charges	332,254	-	332,254	-	-	-	-	-
Restricted assets:								
Temporarily restricted:								
Cash and cash equivalents	-	-	-	-	-	-	13,218	-
Permanently restricted:								
Cash and cash equivalents	295,297	-	295,297	-	-	-	-	-
Investments	1,018,852	-	1,018,852	-	-	-	-	-
Capital assets (net of accumulated depreciation):								
Land	2,693,435	-	2,693,435	4,550	-	-	-	-
Buildings	9,367,048	-	9,367,048	2,076,368	-	-	-	-
Improvements other than buildings	989,542	136,335	1,125,877	-	-	-	-	-
Machinery and equipment	3,037,514	283,681	3,321,195	89,038	606,855	27,608	-	866
Infrastructure	2,031,998	1,501,226	3,533,224	-	-	-	-	-
Construction in progress	8,186,775	-	8,186,775	-	-	-	-	-
Total assets	\$ 39,286,041	\$ 3,260,753	\$ 42,546,794	\$ 4,482,819	\$ 1,266,568	\$ 84,097	\$ -	\$ 344,018
LIABILITIES								
Accounts payable	\$ 270,947	\$ 409,117	\$ 680,064	\$ 867,566	\$ 267,682	\$ 6,766	\$ -	\$ 13,106
Payroll liabilities	360,609	-	360,609	37,944	-	-	-	-
Cash overdraft	688,943	-	688,943	-	-	-	-	-
Contracts payable	-	-	-	369,719	-	-	-	-
Accrued interest payable	39,962	-	39,962	-	-	-	-	-
Due to primary government	-	-	-	-	-	154,833	-	-
Due to other governmental units	-	-	-	-	-	166,090	-	-
Unearned revenue	53,840	-	53,840	42,075	-	-	-	-
Deposits held in escrow	-	33,018	33,018	-	-	-	-	-
Deferred grant revenue	25,427	-	25,427	-	-	-	-	-
Long-term liabilities:								
Due within one year	767,574	6,327	773,901	10,240	2,082	2,466	-	1,667
Due in more than one year	18,409,490	56,942	18,466,432	138,136	18,739	22,190	-	15,005
Total liabilities	\$ 20,616,792	\$ 505,404	\$ 21,122,196	\$ 1,465,680	\$ 609,426	\$ 59,782	\$ -	\$ 29,778
NET ASSETS								
Invested in capital assets, net of related debt	\$ 7,378,236	\$ 1,921,242	\$ 9,299,478	\$ 2,169,956	\$ 606,855	\$ 27,608	\$ -	\$ 866
Restricted for:								
Pickrel Memorial - temporarily restricted	-	-	-	-	-	-	13,218	-
Perpetual care - permanently restricted	1,314,149	-	1,314,149	-	-	-	-	-
Unrestricted (deficit)	9,976,864	834,107	10,810,971	847,183	50,287	(16,511)	-	313,374
Total net assets	\$ 18,669,249	\$ 2,755,349	\$ 21,424,598	\$ 3,017,139	\$ 657,142	\$ 24,315	\$ -	\$ 314,240

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, 2010

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets											
	Program Revenues			Primary Government			Component Units					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Area Recreation Organization	Rockbridge Area Recreation Organization	Regional Tourism
PRIMARY GOVERNMENT:												
Governmental activities:												
General government administration	\$ 1,292,200	\$ 68,261	\$ 176,969	-	\$ (1,046,970)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial administration	258,442	95,052	41,172	-	(122,218)	-	-	-	-	-	-	-
Public safety	2,586,185	465,060	242,470	-	(1,878,655)	-	-	-	-	-	-	-
Public works	2,971,061	383,895	602,826	-	(1,984,340)	-	-	-	-	-	-	-
Health and welfare	652,495	4,175	229,474	-	(418,846)	-	-	-	-	-	-	-
Education	1,873,608	-	-	-	(1,873,608)	-	-	-	-	-	-	-
Parks, recreation, and cultural	599,611	97,070	5,000	-	(497,541)	-	-	-	-	-	-	-
Community development	715,796	-	29,033	119,538	(567,225)	-	-	-	-	-	-	-
Interest on long-term debt	561,944	-	-	-	(561,944)	-	-	-	-	-	-	-
Total governmental activities	\$ 11,511,342	\$ 1,113,513	\$ 1,326,944	\$ 119,538	\$ (8,951,347)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:												
Utility Fund	\$ 4,509,471	\$ 4,732,758	\$ -	\$ 39,765	\$ -	\$ 263,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 16,020,813	\$ 5,846,271	\$ 1,326,944	\$ 159,303	\$ (8,951,347)	\$ 263,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
COMPONENT UNITS:												
School Board	\$ 5,915,713	\$ 232,617	\$ 3,492,516	\$ -	\$ -	\$ -	\$ (2,190,580)	\$ -	\$ -	\$ -	\$ -	\$ -
Central Dispatch	321,434	-	531,110	-	-	-	209,676	-	-	-	-	-
Rockbridge Area Recreation Organization	226,447	108,275	-	-	-	-	-	-	-	(118,172)	-	-
Regional Tourism	132,859	9,995	-	-	-	-	-	-	-	-	-	(122,864)
Total component units	\$ 6,596,453	\$ 350,887	\$ 4,023,626	\$ -	\$ -	\$ -	\$ (2,190,580)	\$ 209,676	\$ -	\$ (118,172)	\$ -	\$ (122,864)
General revenues:												
General property taxes					\$ 4,606,573	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes:												
Local sales and use taxes					772,970	-	-	-	-	-	-	-
Consumers' utility taxes					312,122	-	-	-	-	-	-	-
Business license taxes					534,270	-	-	-	-	-	-	-
Restaurant food taxes					620,422	-	-	-	-	-	-	-
Hotel and motel room taxes					205,527	-	-	-	-	-	-	-
Communications taxes					336,598	-	-	-	-	-	-	-
Other local taxes					217,852	-	-	-	-	-	-	-
Unrestricted revenues from use of money and property					169,554	671	1,381	1,100	-	67	-	1,404
Miscellaneous					552,347	-	3,357	-	-	25,473	-	-
Revenue sharing payments					1,727,000	-	-	-	-	-	-	-
Payments from the City of Lexington					603,072	-	-	-	-	-	-	-
Grants and contributions not restricted to specific programs					1,925,523	-	-	-	-	-	-	-
Gain on sale of assets					12,583,830	671	1,878,346	172,503	-	115,964	-	176,563
Total general revenues	\$ 3,632,483	\$ 263,723	\$ 3,896,206	\$ -	\$ (2,208)	\$ 382,179	\$ (2,208)	\$ -	\$ -	\$ 53,699	\$ -	\$ -
Change in net assets	\$ 15,036,766	\$ 2,491,626	\$ 17,528,392	\$ -	\$ 2,491,626	\$ 274,963	\$ 3,329,373	\$ 274,963	\$ -	\$ 26,523	\$ -	\$ 260,541
Net assets - beginning	\$ 18,669,249	\$ 2,755,349	\$ 21,424,598	\$ -	\$ 3,017,139	\$ 657,142	\$ 3,017,139	\$ 657,142	\$ -	\$ 24,315	\$ -	\$ 314,240
Net assets - ending	\$ 33,706,015	\$ 5,250,975	\$ 38,952,990	\$ -	\$ 6,034,765	\$ 924,105	\$ 6,034,765	\$ 924,105	\$ -	\$ 50,830	\$ -	\$ 574,781

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

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
ASSETS				
Cash in custody of others	\$ -	\$ 121,723	\$ -	\$ 121,723
Investments	7,815,392	-	-	7,815,392
Receivables (net of allowance for uncollectibles):				
Taxes receivable	932,494	-	-	932,494
Accounts receivable	1,258,531	-	-	1,258,531
Due from component unit	154,833	-	-	154,833
Due from other governmental units	736,813	110,573	-	847,386
Prepaid items	182,654	-	-	182,654
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	295,297	295,297
Investments	-	-	1,018,852	1,018,852
Total assets	<u>\$ 11,080,717</u>	<u>\$ 232,296</u>	<u>\$ 1,314,149</u>	<u>\$ 12,627,162</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 223,877	\$ 47,070	\$ -	\$ 270,947
Payroll liabilities	360,609	-	-	360,609
Cash overdraft	688,943	-	-	688,943
Unearned revenue	879,761	-	-	879,761
Deferred grant revenue	25,427	-	-	25,427
Total liabilities	<u>\$ 2,178,617</u>	<u>\$ 47,070</u>	<u>\$ -</u>	<u>\$ 2,225,687</u>
Fund balances:				
Reserved for:				
Perpetual care	\$ -	\$ -	\$ 1,314,149	\$ 1,314,149
Unreserved:				
Designated for equipment replacement	619,532	-	-	619,532
Designated for first aid and fire dept.	358,415	-	-	358,415
Designated for carryovers	44,442	178,576	-	223,018
Undesignated, reported in:				
General fund	7,879,711	-	-	7,879,711
Capital projects funds	-	6,650	-	6,650
Total fund balances	<u>\$ 8,902,100</u>	<u>\$ 185,226</u>	<u>\$ 1,314,149</u>	<u>\$ 10,401,475</u>
Total liabilities and fund balances	<u>\$ 11,080,717</u>	<u>\$ 232,296</u>	<u>\$ 1,314,149</u>	<u>\$ 12,627,162</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 Assets
 June 30, 2010

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 10,401,475
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,306,312
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	825,921
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	20,313
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(18,884,772)
Net assets of governmental activities	<u>\$ 18,669,249</u>

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, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 4,448,766	\$ -	\$ -	\$ 4,448,766
Other local taxes	2,999,761	-	-	2,999,761
Permits, privilege fees, and regulatory license:	100,173	-	-	100,173
Fines and forfeitures	95,052	-	-	95,052
Revenue from the use of money and property	94,062	-	75,492	169,554
Charges for services	918,288	-	-	918,288
Miscellaneous	2,249,347	30,000	-	2,279,347
Recovered costs	178,940	-	-	178,940
Intergovernmental revenues:				
Commonwealth	1,859,649	-	-	1,859,649
Federal	70,367	119,538	-	189,905
Total revenues	<u>\$ 13,014,405</u>	<u>\$ 149,538</u>	<u>\$ 75,492</u>	<u>\$ 13,239,435</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,204,011	\$ -	\$ -	\$ 1,204,011
Judicial administration	258,442	-	-	258,442
Public safety	2,585,157	-	-	2,585,157
Public works	2,648,552	3,812	-	2,652,364
Health and welfare	652,146	-	-	652,146
Education	9,868,342	-	-	9,868,342
Parks, recreation, and cultural	600,875	250,376	50,320	901,571
Community development	711,431	-	-	711,431
Debt service:				
Principal retirement	1,327,934	-	-	1,327,934
Interest and other fiscal charges	560,005	-	-	560,005
Bond Issuance Costs	114,766	-	-	114,766
Total expenditures	<u>\$ 20,531,661</u>	<u>\$ 254,188</u>	<u>\$ 50,320</u>	<u>\$ 20,836,169</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (7,517,256)</u>	<u>\$ (104,650)</u>	<u>\$ 25,172</u>	<u>\$ (7,596,734)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 65,000	\$ 20,300	\$ 85,300
Transfers out	(95,476)	-	-	(95,476)
Issuance of general obligation bonds	8,410,000	-	-	8,410,000
Discount on issuance	(786,924)	-	-	(786,924)
Sale of capital assets	2,049,185	-	-	2,049,185
Total other financing sources (uses)	<u>\$ 9,576,785</u>	<u>\$ 65,000</u>	<u>\$ 20,300</u>	<u>\$ 9,662,085</u>
Net change in fund balances	\$ 2,059,529	\$ (39,650)	\$ 45,472	\$ 2,065,351
Fund balances - beginning	6,842,571	224,876	1,268,677	8,336,124
Fund balances - ending	<u>\$ 8,902,100</u>	<u>\$ 185,226</u>	<u>\$ 1,314,149</u>	<u>\$ 10,401,475</u>

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

City of Lexington, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds	\$ 2,065,351
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	7,587,615
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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.	157,807
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 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.	(6,180,376)
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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.	2,086
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Change in net assets of governmental activities	\$ 3,632,483
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The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Net Assets
Proprietary Fund
June 30, 2010

	Enterprise Fund Utility Fund	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 206,744	\$ -
Investments	-	66,290
Accounts receivable, net of allowance for uncollectibles	1,132,767	-
Total current assets	<u>\$ 1,339,511</u>	<u>\$ 66,290</u>
Noncurrent assets:		
Capital assets:		
Buildings	\$ 113,405	\$ -
Less accumulated depreciation	(113,405)	-
Improvements other than buildings	442,708	-
Less accumulated depreciation	(306,373)	-
Machinery and equipment	440,777	-
Less accumulated depreciation	(157,096)	-
Infrastructure	3,348,266	-
Less accumulated depreciation	(1,847,040)	-
Total capital assets	<u>\$ 1,921,242</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 1,921,242</u>	<u>\$ -</u>
Total assets	<u>\$ 3,260,753</u>	<u>\$ 66,290</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 409,117	\$ -
Compensated absences-current portion	6,327	-
Deposits held in escrow	33,018	-
Total current liabilities	<u>\$ 448,462</u>	<u>\$ -</u>
Noncurrent liabilities:		
OPEB Liability	\$ -	\$ 66,290
Compensated absences - net of current portion	56,942	-
Total noncurrent liabilities	<u>\$ 56,942</u>	<u>\$ 66,290</u>
Total liabilities	<u>\$ 505,404</u>	<u>\$ 66,290</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 1,921,242	\$ -
Unrestricted	834,107	-
Total net assets	<u>\$ 2,755,349</u>	<u>\$ -</u>

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

City of Lexington, Virginia
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2010

	Enterprise Fund	Internal Service Funds
	Utility Fund	
OPERATING REVENUES		
Charges for services:		
Water and sewer revenues	\$ 4,732,758	\$ -
Total operating revenues	<u>\$ 4,732,758</u>	<u>\$ -</u>
OPERATING EXPENSES		
Administration	\$ 142,021	\$ -
Water treatment plant	571,651	-
Water treatment	4,966	-
Water distribution	897,807	-
Wastewater collection	1,683,794	-
MSA - Wastewater plant	895,279	-
Inflow and infiltration	45,845	-
Public Works Personnel	64,527	-
Internal services	108,744	-
Other post employment benefits	-	33,209
Depreciation	94,837	-
Total operating expenses	<u>\$ 4,509,471</u>	<u>\$ 33,209</u>
Operating income (loss)	<u>\$ 223,287</u>	<u>\$ (33,209)</u>
NONOPERATING REVENUES (EXPENSES)		
Use of property	\$ 671	-
Income before contributions and transfers	<u>\$ 223,958</u>	<u>\$ (33,209)</u>
Capital contributions and construction grants	\$ 39,765	\$ -
Transfers in	-	33,209
Change in net assets	<u>\$ 263,723</u>	<u>\$ -</u>
Total net assets - beginning	2,491,626	-
Total net assets - ending	<u><u>\$ 2,755,349</u></u>	<u><u>\$ -</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, 2010

	Enterprise Fund Utility Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 4,575,976	\$ -
Payments to suppliers	(2,955,843)	-
Payments to and for employees	(1,459,256)	-
Net cash provided (used) by operating activities	<u>\$ 160,877</u>	<u>\$ -</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	\$ -	\$ 33,209
Capital contribution	39,765	-
Net cash provided (used) by noncapital financing activities	<u>\$ 39,765</u>	<u>\$ 33,209</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to capital assets	\$ (151,861)	\$ -
Net cash provided (used) by capital and related financing activities	<u>\$ (151,861)</u>	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	\$ 671	-
Net cash provided (used) by investing activities	<u>\$ 671</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ 49,452	\$ 33,209
Cash and cash equivalents - beginning	157,292	33,081
Cash and cash equivalents - ending	<u>\$ 206,744</u>	<u>\$ 66,290</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 223,287	\$ (33,209)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	\$ 94,837	\$ -
(Increase) decrease in accounts receivable	(159,832)	-
(Increase) decrease in prepaid expenses	1,073	-
Increase (decrease) in compensated absences	4,373	-
Increase (decrease) in accounts payable	(5,911)	-
Increase (decrease) in OPEB liability	-	33,209
Increase (decrease) customer deposits	3,050	-
Total adjustments	<u>\$ (62,410)</u>	<u>\$ 33,209</u>
Net cash provided (used) by operating activities	<u>\$ 160,877</u>	<u>\$ -</u>

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

CITY OF LEXINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Reporting Entity

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

Blended component units - None

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

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

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

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

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

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

Regional Tourism - Regional Tourism serves to promote tourism in the Cities of Lexington and Buena Vista and the County of Rockbridge. The City of Lexington appoints two of the seven members to the governing board of Regional Tourism. The City does not exercise direct control over the Regional Tourism's board or its annual budget, but does serve as fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. Regional Tourism is presented as a governmental fund type consisting of one special revenue fund which accounts for the general promotion of tourism. Financing is provided by specific allocations from the state government, as well as appropriations from the Cities of Lexington and Buena Vista and the County of Rockbridge. Regional Tourism has been presented as a nonmajor component unit within this financial report. Regional Tourism does not issue separate financial statements. All of Regional Tourism's financial information is presented within this Comprehensive Annual Financial Report.

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

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

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

A. Reporting Entity (Continued)

Jointly Governed Organizations -

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

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

B. Government-wide and fund financial statements

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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 deferred 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.

The government reports the following major governmental funds:

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

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: (Continued)

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *Cemetery Trust Fund* (Permanent Fund) accounts for investments and related earnings which are used to offset the cost of City cemeteries.

The government reports the following major proprietary funds:

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

The *Internal Service Fund* accounts for the financing of goods and services provided by one department or agency to other departments or agencies of the City government. The contributions for other postemployment benefits are accounted for in this fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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.

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

2. Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account 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.

4. Inventory

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

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

D. Assets, liabilities, and net assets or equity (Continued)

5. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$54,093 at June 30, 2010 and is comprised solely of property taxes.

6. Use of Estimates

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

7. Capital assets

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

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

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

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

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

D. Assets, liabilities, and net assets or equity (Continued)

8. Compensated Absences

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

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

D. Assets, liabilities, and net assets or equity (Continued)

11. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

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

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

In the Statement of Net Assets, 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 assets of the primary government. The corresponding capital assets are reported as assets of the Component Unit - School Board (title holder), thereby increasing its net assets.

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

The City concluded that, while joint tenancy would resolve a deficit in the primary government's net assets, 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.

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Note 2-Reconciliation of Government-Wide and Fund Financial Statements:

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of these (\$18,884,772), (\$148,376), and (\$62,149) differences for the primary government, discretely presented component unit - school board, and nonmajor component units, respectively, are as follows:

	<u>Primary Government</u>	<u>Component Unit School Board</u>	<u>Nonmajor Component Units</u>
Bonds payable	\$ (19,715,000)	\$ -	\$ -
Less: Discount on bond issuance	786,924	-	-
Less: Bond issuance costs	332,254	-	-
Accrued interest payable	(39,962)	-	-
Compensated absences	(228,675)	(102,399)	(62,149)
OPEB obligation	<u>(20,313)</u>	<u>(45,977)</u>	<u>-</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (18,884,772)</u>	<u>\$ (148,376)</u>	<u>\$ (62,149)</u>

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Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "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." The details of these \$7,587,615, (\$625,445), and \$490,127 differences for the primary government, discretely presented component unit - school board, and discretely presented nonmajor component units, respectively, are as follows:

	Primary Government	Component Unit School Board	Nonmajor Component Units
Capital outlays	\$ 8,437,138	\$ -	\$ 541,952
Disposal of capital assets	(123,662)	(463,336)	-
Depreciation expenses	(725,861)	(162,109)	(51,825)
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 7,587,615</u>	<u>\$ (625,445)</u>	<u>\$ 490,127</u>

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Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states “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 assets. 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.” The details of this (\$6,180,376) difference in the primary government are as follows:

Debt Issued or incurred:	
General obligation debt	\$ (8,410,000)
Less: Bond issuance costs	114,766
Discount on issuance	786,924
Principal repayments:	
General obligation debt	<u>\$ 1,327,934</u>
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	
	<u>\$ (6,180,376)</u>

Another element of that reconciliation states, “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.” The details of these \$2,086, (\$6,799), and \$6,051 differences for the primary government, discretely presented component unit - school board, and discretely presented nonmajor component units, respectively, are as follows:

	<u>Primary Government</u>	<u>Component Unit School Board</u>	<u>Nonmajor Component Units</u>
(Increase) decrease in compensated absences	\$ 4,025	\$ (6,799)	\$ 6,051
(Increase) decrease in accrued interest	6,426	-	-
Amortization of issuance costs	<u>(8,365)</u>	<u>-</u>	<u>-</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 2,086</u>	<u>\$ (6,799)</u>	<u>\$ 6,051</u>

Note 3-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2010, the City did not have any expenditures in excess of appropriations.

B. Deficit fund equity

At June 30, 2010, there were no funds with deficit fund equity.

Note 4-Deposits and Investments:

Deposits:

All cash of the City of Lexington, Virginia and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury.

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 2010 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, 2010 were held in the City's name by the City's custodial bank; except \$39,422 of U.S. Treasuries, \$50,358 of Corporate Bonds, \$448,376 of Mutual Fund Bonds, and \$510,665 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010Note 4-Deposits and Investments: (Continued)Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2010 were rated by Moody's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values			
Rated Debt Investments	Fair Quality Ratings		
	Aaa	A2	Unrated
LGIP	\$ 7,835,705	\$ -	\$ -
Bond Mutual Fund	-	-	448,376
Corporate Bonds:			
Emerson Electric Co.	-	50,358	-

Concentration of Credit Risk

At June 30, 2010, 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
Corporate Bonds:			
Emerson Electric Co.	50,358	8/15/2010	None
Mutual Fund Bonds:			
Ridgeworth Fd-Short Term BD	76,079	Upon demand	None
Ridgeworth Fd-Seix Fltg Rt High Inc	47,145	Upon demand	None
Ridgeworth Fd-Intermediate BD	210,149	Upon demand	None
Templeton Income TR Global BD FD	67,074	Upon demand	None
PIMCO Fds Invt Grade Corp Bd Fd	47,929	Upon demand	None
LGIP	7,835,705	Upon demand	None

The fair value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Note 5-Due from Other Governmental Units:

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

	<u>Primary Government</u>	<u>Component Unit- School Board</u>	<u>Nonmajor Component Units</u>
<u>VMI:</u>			
Capital Projects Fund	\$ 30,000	\$ -	\$ -
<u>Rockbridge County:</u>			
General Fund	177,593	-	-
<u>Commonwealth of Virginia:</u>			
Local sales tax	138,656	-	-
Communications sales and use tax	56,815	-	-
State sales tax	-	72,545	-
Categorical aid-shared expenses	12,969	-	-
Other categorical aid	9,421	-	418,599
Non-categorical aid	226,173	-	-
Virginia public assistance funds	76,051	-	-
Other school funds	-	102,000	-
<u>Federal Government:</u>			
Categorical aid	119,708	-	-
School grants	-	106,522	-
	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 847,386</u>	<u>\$ 281,067</u>	<u>\$ 418,599</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Note 6-Interfund/Component Unit Obligations and Transfers:

Interfund/Component Unit Obligations for the fiscal year ended June 30, 2010 consisted of the following:

<u>Fund</u>	<u>Due to Primary Government/ Component Unit</u>	<u>Due from Primary Government/ Component Unit</u>
Primary Government:		
General Fund	\$ -	\$ 154,833
Nonmajor Component Unit:		
Central Dispatch	\$ 154,833	\$ -

Interfund transfers for the fiscal year ended June 30, 2010 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ -	\$ 95,476
Capital Projects Fund	65,000	-
Cemetery Fund	20,300	-
Internal Service Fund	33,209	-
Component Unit:		
School Board	-	23,033
Total	<u>\$ 118,509</u>	<u>\$ 118,509</u>

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010Note 7-Long-Term Debt:Primary Government - Governmental Activity Indebtedness:

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2011	\$ 744,704	\$ 504,345
2012	749,706	495,033
2013	759,706	484,951
2014	769,706	474,151
2015	784,706	462,851
2016-2020	4,103,530	2,124,512
2021-2025	4,478,530	1,736,639
2026-2030	3,479,412	1,237,375
2031-2035	3,125,000	584,213
2036	720,000	18,000
Totals	<u>\$ 19,715,000</u>	<u>\$ 8,122,070</u>

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2010.

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
General Obligation				
Bonds	\$ 12,632,934	\$ 8,410,000	\$ (1,327,934)	\$ 19,715,000
Less: Discount on Issuance	-	-	(786,924)	(786,924)
OPEB Obligation	10,136	10,177	-	20,313
Compensated Absences	232,700	208,317	(212,342)	228,675
Total	<u>\$ 12,875,770</u>	<u>\$ 8,628,494</u>	<u>\$ (2,327,200)</u>	<u>\$ 19,177,064</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Note 7-Long-Term Debt: (Continued)

Primary Government - Governmental Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Bond	3.5%-5%	1/5/2006	2035	\$ 12,000,000	\$ 11,305,000	\$ 250,000
GO Bond	0.00%	11/13/2009	2026	8,410,000	8,410,000	494,706
Subtotal GO Bonds					<u>19,715,000</u>	<u>744,706</u>
Less: Discount on Issuance					<u>(786,924)</u>	<u>-</u>
Total GO Bonds					<u>\$ 18,928,076</u>	<u>\$ 744,706</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 228,675	\$ 22,868
OPEB Obligation	n/a	n/a	n/a	n/a	<u>20,313</u>	<u>-</u>
Total Other Obligations					<u>\$ 248,988</u>	<u>\$ 22,868</u>
Total Long-term debt					<u>\$ 19,177,064</u>	<u>\$ 767,574</u>

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

Primary Government-Enterprise Activity Indebtedness:

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2010.

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Compensated Absences	<u>\$ 58,896</u>	<u>\$ 44,192</u>	<u>\$ (39,819)</u>	<u>\$ 63,269</u>
Total	<u>\$ 58,896</u>	<u>\$ 44,192</u>	<u>\$ (39,819)</u>	<u>\$ 63,269</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Note 7-Long-Term Debt: (Continued)

Primary Government-Enterprise Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 63,269	\$ 6,327

Compensated absences are liquidated by the Utilities Fund.

Note 8-Long-Term Debt-Component Units:

Discretely Presented Component Unit-School Board-Indebtedness:

The following is a summary of long-term debt transactions of the Component-Unit School Board for the year ended June 30, 2010.

	<u>Balance July 1, 2009</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Compensated Absences	\$ 95,600	\$ 6,799	\$ -	\$ 102,399
OPEB Obligation	22,945	23,032	-	45,977
Total	\$ 118,545	\$ 29,831	\$ -	\$ 148,376

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Governmental Activities</u>	<u>Amount Due Within One Year</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 102,399	\$ 10,240
OPEB Obligation	n/a	n/a	n/a	n/a	45,977	-
Total Other Obligations					\$ 148,376	\$ 10,240

Compensated absences are liquidated by the School Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Note 8-Long-Term Debt-Component Units: (Continued)

Discretely Presented Nonmajor Component Units:

The following is a summary of long-term debt transactions of the Nonmajor Component Units for the year ended June 30, 2010.

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Compensated Absences	\$ 68,200	\$ 47,790	\$ (53,841)	\$ 62,149

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 62,149	\$ 6,215

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

Note 9-Employee Retirement System and Pension Plans:

A. Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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

A. Plan Description (Continued)

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded at <http://www.varetire.org/Pdf/Publications/2009Annual-Report.pdf> or obtained by writing to the System at Chief Financial Officer, P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer assumes this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2010 was 9.15% (not including the 5% member contribution) of annual covered payroll.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer assumes this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2010 was 0.0% (not including the 5% member contribution) of the annual covered payroll.

C. Annual Pension Cost

For fiscal year 2010, the City of Lexington, Virginia's annual pension cost of \$397,229 and \$0 was equal to the City of Lexington, Virginia's required and actual contributions for the City and the School Board Non-Professionals, respectively.

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

C. Annual Pension Cost (Continued)

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2010	\$ 397,229	100.00%	\$ -
	6/30/2009	363,213	100.00%	-
	6/30/2008	416,046	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2010	\$ -	100.00%	\$ -
	6/30/2009	175	100.00%	-
	6/30/2008	171	100.00%	-

¹ Employer portion only

The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.5 % to 4.75% for LEOS employees, and (c) 2.50% per year cost-of-living adjustments. Both the investment rate of return and the projected salary increase include an inflation component of 2.50%. The actuarial value of the City of Lexington, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Lexington, Virginia's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 was 20 years.

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2009, the most recent actuarial valuation date, the plan was 82.61% funded. The actuarial accrued liability for benefits was \$18,804,586, and the actuarial value of assets was \$15,535,346, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,269,240. The covered payroll (annual payroll of active employees covered by the plan) was \$4,330,712, and ratio of the UAAL to the covered payroll was 75.49%.

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

D. Funded Status and Funding Progress (Continued)

Discretely Presented Component Unit - School Board (Non-Professional Employees):

As of June 30, 2009, the most recent actuarial valuation date, the plan was 128.95% funded. The actuarial accrued liability for benefits was \$390,294, and the actuarial value of assets was \$503,301, resulting in a negative unfunded actuarial accrued liability (UAAL) of (\$113,007). The covered payroll (annual payroll of active employees covered by the plan) was \$80,172, and ratio of the UAAL to the covered payroll was (140.96%).

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Plan Description

The Lexington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2009Annual-Report.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees was \$152,470, \$216,971, and \$233,205, for the fiscal years ended 2010, 2009, and 2008, respectively. Employer contributions represented 6.25%, 8.81%, and 10.30%, of covered payroll for the fiscal years ended 2010, 2009, and 2008, respectively.

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Note 10-Unearned Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$905,188 is comprised of the following:

Property Taxes - Property taxes totaling \$53,840 not due until December 5, 2010, but paid prior to June 30, 2010.

Property Taxes Receivable - Taxes billed and not due until after June 30, 2010, less amounts received 60 days after the period end totaled \$825,921.

Grants - Grant revenue collected by the City for various purposes that hasn't met the revenue criteria totaled \$25,427.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Note 11-Capital Assets:

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,692,097	\$ 125,000	\$ (123,662)	\$ 2,693,435
Construction in progress	326,444	8,119,640	(259,309)	8,186,775
Total capital assets not being depreciated	<u>\$ 3,018,541</u>	<u>\$ 8,244,640</u>	<u>\$ (382,971)</u>	<u>\$ 10,880,210</u>
Capital assets, being depreciated:				
Buildings	\$ 10,903,306	\$ 117,303	\$ -	\$ 11,020,609
Improvements other than buildings	1,130,534	252,801	-	1,383,335
Infrastructure	5,053,433	36,119	-	5,089,552
Machinery and equipment	5,683,146	45,584	(122,518)	5,606,212
Total capital assets being depreciated	<u>\$ 22,770,419</u>	<u>\$ 451,807</u>	<u>\$ (122,518)</u>	<u>\$ 23,099,708</u>
Less: accumulated depreciation for:				
Buildings	\$ (1,423,867)	\$ (229,694)	\$ -	\$ (1,653,561)
Improvements other than buildings	(339,967)	(53,826)	-	(393,793)
Infrastructure	(1,950,368)	(101,670)	-	(2,052,038)
Machinery and equipment	(3,356,061)	(340,671)	122,518	(3,574,214)
Total accumulated depreciation	<u>\$ (7,070,263)</u>	<u>\$ (725,861)</u>	<u>\$ 122,518</u>	<u>\$ (7,673,606)</u>
Total capital assets being depreciated, net	<u>\$ 15,700,156</u>	<u>\$ (274,054)</u>	<u>\$ -</u>	<u>\$ 15,426,102</u>
Governmental activities capital assets, net	<u>\$ 18,718,697</u>	<u>\$ 7,970,586</u>	<u>\$ (382,971)</u>	<u>\$ 26,306,312</u>

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Note 11-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	\$ 56,763	\$ -	\$ (56,763)	\$ -
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	442,708	-	-	442,708
Infrastructure	3,299,903	134,861	(86,498)	3,348,266
Machinery and equipment	367,014	73,763	-	440,777
Total capital assets being depreciated	<u>\$ 4,223,030</u>	<u>\$ 208,624</u>	<u>\$ (86,498)</u>	<u>\$ 4,345,156</u>
Less: accumulated depreciation for:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(298,813)	(7,560)	-	(306,373)
Infrastructure	(1,874,238)	(59,300)	86,498	(1,847,040)
Machinery and equipment	(129,119)	(27,977)	-	(157,096)
Total accumulated depreciation	<u>\$ (2,415,575)</u>	<u>\$ (94,837)</u>	<u>\$ 86,498</u>	<u>\$ (2,423,914)</u>
Total capital assets being depreciated, net	<u>\$ 1,807,455</u>	<u>\$ 113,787</u>	<u>\$ -</u>	<u>\$ 1,921,242</u>
Business-type activities capital assets, net	<u>\$ 1,864,218</u>	<u>\$ 113,787</u>	<u>\$ (56,763)</u>	<u>\$ 1,921,242</u>

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Note 11-Capital Assets: (Continued)**Primary Government: (Continued)**

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

Governmental activities:	
General government administration	\$ 74,171
Public safety	228,623
Public works	352,918
Parks, recreation, and culture	65,269
Community development	4,880
	<hr/>
Total depreciation expense-governmental activities	\$ 725,861
Business-type activities:	
Water and Sewer Fund	\$ 94,837
	<hr/>

Capital asset activity for the School Board for the year ended June 30, 2010 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, not being depreciated:				
Land	\$ 4,550	\$ -	\$ -	\$ 4,550
Construction in progress	463,336	-	(463,336)	-
Total capital assets not being depreciated	<hr/> \$ 467,886	<hr/> \$ -	<hr/> \$ (463,336)	<hr/> \$ 4,550
Capital assets, being depreciated:				
Buildings	\$ 4,776,367	\$ -	\$ (6,282)	\$ 4,770,085
Machinery and equipment	483,440	-	(175,182)	308,258
Total capital assets being depreciated	<hr/> \$ 5,259,807	<hr/> \$ -	<hr/> \$ (181,464)	<hr/> \$ 5,078,343
Less: accumulated depreciation for:				
Buildings	\$ (2,559,783)	\$ (140,216)	\$ 6,282	\$ (2,693,717)
Machinery and equipment	(372,509)	(21,893)	175,182	(219,220)
Total accumulated depreciation	<hr/> \$ (2,932,292)	<hr/> \$ (162,109)	<hr/> \$ 181,464	<hr/> \$ (2,912,937)
Total capital assets being depreciated, net	<hr/> \$ 2,327,515	<hr/> \$ (162,109)	<hr/> \$ -	<hr/> \$ 2,165,406
School board capital assets, net	<hr/> \$ 2,795,401	<hr/> \$ (162,109)	<hr/> \$ (463,336)	<hr/> \$ 2,169,956

Note 11-Capital Assets: (Continued)

Primary Government: (Continued)

Discretely Presented Component Unit - School Board: (Continued)

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

Education \$162,109

Discretely Presented Component Units - Nonmajor:

Capital asset activity for the Nonmajor Component Units for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment - Central Dispatch	\$ 354,213	\$ 520,549	\$ (67,468)	\$ 807,294
Machinery and equipment - RARO	9,130	21,403	-	30,533
Machinery and equipment - Regional Tourism	11,664	-	-	11,664
Total capital assets being depreciated	\$ 375,007	\$ 541,952	\$ (67,468)	\$ 849,491
Less: accumulated depreciation for:				
Machinery and equipment - Central Dispatch	\$ (219,644)	\$ (48,263)	\$ 67,468	\$ (200,439)
Machinery and equipment - RARO	(228)	(2,697)	-	(2,925)
Machinery and equipment - Regional Tourism	(9,933)	(865)	-	(10,798)
Total accumulated depreciation	\$ (229,805)	\$ (51,825)	\$ 67,468	\$ (214,162)
Total capital assets being depreciated, net	\$ 145,202	\$ 490,127	\$ -	\$ 635,329
Nonmajor component unit capital assets, net	\$ 145,202	\$ 490,127	\$ -	\$ 635,329

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

Public safety	\$ 48,263
Parks, recreation, and cultural	2,697
Community development	865
Total depreciation expense-nonmajor component units	\$ 51,825

Note 12-Risk Management:

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

Note 13-Contingent Liabilities:

The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction of its current water treatment plant. The MSA's debt totaled \$7,992,908 as of June 30, 2010, and is scheduled to be completely retired by June of 2018. The City annually is assessed \$565,619 per year by the MSA for half of the debt service; the County of Rockbridge pays an equal assessment.

Note 14-Surety Bonds:

Primary Government:

Fidelity & Deposit Company of Maryland-Surety:

Alfred Thomas, Chief of Police	\$ 30,000
Pat DeLaney, Treasurer	500,000
Karen T. Roundy, Commissioner of Revenue	3,000

Virginia Municipal Liability Pool - Surety:

Pat DeLaney, Treasurer	\$ 100,000
Wanda Floyd, Deputy Treasurer	3,000

Note 15-Service Contracts:

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

In fiscal year 2010, the City paid the MSA \$1,579,004 for bulk purchases of water and sewer services, as well as a \$565,619 assessment for debt service. The City also received \$1,540,277 from the MSA under the operating agreements described above.

Note 15-Service Contracts: (Continued)

Solid Waste Authority of Rockbridge County: The City of Lexington, along with other localities, participates in the Solid Waste Authority of Rockbridge County, which operates a regional landfill. Each participating jurisdiction is responsible through tipping fees for its proportionate share of operating costs. Each jurisdiction, after consultation with the committee, will determine tipping fees to be charged to waste generators within their jurisdiction. The tipping fee charged in 2010 was \$29/ton for refuse disposal at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual per student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,085,000 for high school student tuition in 2010.

Note 16-Annexation/Revenue Sharing:

In 1983, the City filed a petition with the Virginia Commission on Local Government to annex 6.8 square miles of land in the County of Rockbridge adjoining the City. The proposed annexation would have increased the City's size by approximately 842 residents and would have increased its tax base. Negotiations between the City and the County, in an effort to resolve the annexation issues, resulted in a revenue sharing agreement between the two jurisdictions. The voters of the County of Rockbridge in a special referendum approved the agreement on March 6, 1986, and both governing bodies have passed an ordinance adopting the agreement. During fiscal year 2010, the City received \$1,727,000 from the County representing the revenue sharing payment under this agreement.

Note 17-Litigation:

The City is party to several ongoing lawsuits. The most significant suit outstanding involves the claimant Charles Volpe which states a claim of \$9,000,000 with an additional demand of punitive damages for \$350,000. The jury trial held in July 2009 ended with a hung jury and the judge ruled in favor of the City. The case is being appealed by the claimant to be heard at the Federal court level. Another suit involves the claimant James Mayo which states a claim of \$250,000. It is not clear whether or not the claimants will be successful in their cases and no liability has been recorded in the financial statements.

Note 18-Other Postemployment Benefits:

A. Plan Description

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

Note 18-Other Postemployment Benefits: (Continued)**B. Funding Policy**

The Lexington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2010, the City contributed \$61,091 in total for current premiums and prefunding amounts.

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

C. Annual OPEB Cost and Net OPEB Obligation

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

	City	School Board	Total
Annual required contribution	\$ 28,900	\$ 65,400	\$ 94,300
Interest on net OPEB obligation	500	1,000	1,500
Adjustment to annual required contribution	(500)	(1,000)	(1,500)
Annual OPEB cost (expense)	28,900	65,400	94,300
Actual contributions	(18,723)	(42,368)	(61,091)
Increase in net OPEB obligation	10,177	23,032	33,209
Net OPEB obligation - beginning of year	10,136	22,945	33,081
Net OPEB obligation - end of year	\$ 20,313	\$ 45,977	\$ 66,290

Note 18-Other Postemployment Benefits: (Continued)

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

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 94,300	65%	\$ 66,290
6/30/2009	91,700	64%	33,081

D. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$1,009,500, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,226,708, and ratio of the UAAL to the covered payroll was 23.88%.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return per annum. An annual healthcare cost trend rate of 10 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage of projected payroll over the remaining amortization period, which at June 30, 2010, was 30 years. Amortizations are open ended in that they begin anew at each valuation date.

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, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
General property taxes	\$ 4,345,000	\$ 4,345,000	\$ 4,448,766	\$ 103,766
Other local taxes	2,929,800	2,929,800	2,999,761	69,961
Permits, privilege fees, and regulatory licenses	31,300	31,300	100,173	68,873
Fines and forfeitures	106,900	106,900	95,052	(11,848)
Revenue from the use of money and property	125,500	129,914	94,062	(35,852)
Charges for services	842,100	842,100	918,288	76,188
Miscellaneous	2,028,800	2,028,800	2,249,347	220,547
Recovered costs	219,709	219,709	178,940	(40,769)
Intergovernmental revenues:				
Commonwealth	1,879,196	1,942,157	1,859,649	(82,508)
Federal	48,500	108,125	70,367	(37,758)
Total revenues	<u>\$ 12,556,805</u>	<u>\$ 12,683,805</u>	<u>\$ 13,014,405</u>	<u>\$ 330,600</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,222,785	\$ 1,222,785	\$ 1,204,011	\$ 18,774
Judicial administration	288,492	288,492	258,442	30,050
Public safety	2,784,599	2,864,158	2,585,157	279,001
Public works	2,978,888	3,034,442	2,648,552	385,890
Health and welfare	703,368	704,265	652,146	52,119
Education	2,523,320	10,009,881	9,868,342	141,539
Parks, recreation, and cultural	450,100	602,922	600,875	2,047
Community development	628,444	758,352	711,431	46,921
Nondepartmental	53,800	4,156	-	4,156
Debt service:				
Principal retirement	1,242,267	1,327,934	1,327,934	-
Interest and other fiscal charges	-	560,006	674,771	(114,765)
Total expenditures	<u>\$ 12,876,063</u>	<u>\$ 21,377,393</u>	<u>\$ 20,531,661</u>	<u>\$ 845,732</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (319,258)</u>	<u>\$ (8,693,588)</u>	<u>\$ (7,517,256)</u>	<u>\$ 1,176,332</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (97,081)	\$ (97,081)	\$ (95,476)	\$ 1,605
Proceeds of general obligation bonds	-	7,508,310	8,410,000	901,690
Discount on general obligation bonds	-	-	(786,924)	(786,924)
Proceeds from sale of capital assets	-	-	2,049,185	2,049,185
Total other financing sources and uses	<u>\$ (97,081)</u>	<u>\$ 7,411,229</u>	<u>\$ 9,576,785</u>	<u>\$ 2,165,556</u>
Net change in fund balances	\$ (416,339)	\$ (1,282,359)	\$ 2,059,529	\$ 3,341,888
Fund balances - beginning	-	-	6,842,571	6,842,571
Fund balances - ending	<u>\$ (416,339)</u>	<u>\$ (1,282,359)</u>	<u>\$ 8,902,100</u>	<u>\$ 10,184,459</u>

**REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2010**

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 reserves 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 reservation. 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 reserve that portion of the applicable appropriations, is not part of the City's accounting system.

City of Lexington, Virginia
 Schedule of Pension and OPEB Funding Progress
 June 30, 2010

Primary Government:

City Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2009	\$ 15,535,346	\$ 18,804,586	\$ 3,269,240	82.61%	\$ 4,330,712	75.49%
6/30/2008	15,194,816	17,313,196	2,118,380	87.76%	4,049,209	52.32%
6/30/2007	13,707,726	15,875,018	2,167,292	86.35%	3,833,544	56.53%

Discretely Presented Component Unit - School Board:

Non-professional Employees Retirement Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2009	\$ 503,301	\$ 390,294	\$ (113,007)	128.95%	\$ 80,172	-140.96%
6/30/2008	519,738	371,936	(147,802)	139.74%	74,409	-198.63%
6/30/2007	487,406	342,562	(144,844)	142.28%	69,867	-207.31%

Primary Government and Discretely Presented Component Unit - School Board:

Post-Retirement Medical Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
7/1/2008	\$ -	\$ 1,009,500	\$ 1,009,500	0.00%	\$ 4,226,708	23.88%
7/1/2008	-	976,200	976,200	0.00%	4,123,618	23.67%

*Only 2 years are available, as multi-year trend information is referenced in Note 18

SUPPLEMENTARY FINANCIAL STATEMENTS

CAPITAL PROJECTS FUND

MAJOR GOVERNMENTAL FUNDS

Capital Projects Fund - This fund is used to account for the acquisition, construction, and renovation of major capital facilities and other fixed 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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ -	\$ 30,000	\$ 30,000	\$ -
Intergovernmental revenues:				
Federal	416,000	757,367	119,538	(637,829)
Total revenues	<u>\$ 416,000</u>	<u>\$ 787,367</u>	<u>\$ 149,538</u>	<u>\$ (637,829)</u>
EXPENDITURES				
Current:				
Public works	\$ 481,000	\$ 579,056	\$ 3,812	\$ 575,244
Parks, recreation, and cultural	-	492,135	250,376	241,759
Total expenditures	<u>\$ 481,000</u>	<u>\$ 1,071,191</u>	<u>\$ 254,188</u>	<u>\$ 817,003</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (65,000)</u>	<u>\$ (283,824)</u>	<u>\$ (104,650)</u>	<u>\$ 179,174</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 65,000	\$ 65,000	\$ 65,000	\$ -
Total other financing sources and uses	<u>\$ 65,000</u>	<u>\$ 65,000</u>	<u>\$ 65,000</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ (218,824)	\$ (39,650)	\$ 179,174
Fund balances - beginning	-	-	224,876	224,876
Fund balances - ending	<u>\$ -</u>	<u>\$ (218,824)</u>	<u>\$ 185,226</u>	<u>\$ 404,050</u>

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

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

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2010

	<u>School Operating Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,985,819
Due from other governmental units	281,067
Total assets	<u>\$ 2,266,886</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 867,566
Payroll liabilities	37,944
Contracts payable	369,719
Deferred revenue	42,075
Total liabilities	<u>\$ 1,317,304</u>
Fund balances:	
Unreserved:	
Designated for carryovers	<u>\$ 949,582</u>
Total fund balances	<u>\$ 949,582</u>
Total liabilities and fund balances	<u>\$ 2,266,886</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Total fund balances per above	\$ 949,582
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,169,956
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	45,977
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(148,376)
Net assets of governmental activities	<u>\$ 3,017,139</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, 2010

	<u>School Operating Fund</u>
REVENUES	
Revenue from the use of money and property	\$ 1,381
Charges for services	232,617
Miscellaneous	3,357
Recovered costs	9,362
Intergovernmental revenues:	
Local government	9,868,342
Commonwealth	2,706,137
Federal	786,379
Total revenues	<u>\$ 13,607,575</u>
EXPENDITURES	
Current:	
Education	\$ 5,625,659
Capital projects	7,638,873
Total expenditures	<u>\$ 13,264,532</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 343,043</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	<u>\$ (23,033)</u>
Net change in fund balances	\$ 320,010
Fund balances - beginning	629,572
Fund balances - ending	<u>\$ 949,582</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	\$ 320,010
--------------------------------------------------------------------	------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	(625,445)
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

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.	(6,799)
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Change in net assets of governmental activities	<u>\$ (312,234)</u>
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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, 2010

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 600	\$ 600	\$ 1,381	\$ 781
Charges for services	227,400	227,400	232,617	5,217
Miscellaneous	600	600	3,357	2,757
Recovered costs	-	9,361	9,362	1
Intergovernmental revenues:				
Local government	2,523,320	10,009,881	9,868,342	(141,539)
Commonwealth	2,883,108	2,811,401	2,706,137	(105,264)
Federal	538,548	739,708	786,379	46,671
Total revenues	<u>\$ 6,173,576</u>	<u>\$ 13,798,951</u>	<u>\$ 13,607,575</u>	<u>\$ (191,376)</u>
EXPENDITURES				
Current:				
Education	\$ 5,886,003	\$ 6,247,234	\$ 5,625,659	\$ 621,575
Capital projects	264,754	7,993,132	7,638,873	354,259
Total expenditures	<u>\$ 6,150,757</u>	<u>\$ 14,240,366</u>	<u>\$ 13,264,532</u>	<u>\$ 975,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 22,819</u>	<u>\$ (441,415)</u>	<u>\$ 343,043</u>	<u>\$ 784,458</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>\$ (22,819)</u>	<u>\$ (22,819)</u>	<u>\$ (23,033)</u>	<u>\$ (214)</u>
Net change in fund balances	\$ -	\$ (464,234)	\$ 320,010	\$ 784,244
Fund balances - beginning	-	-	629,572	629,572
Fund balances - ending	<u>\$ -</u>	<u>\$ (464,234)</u>	<u>\$ 949,582</u>	<u>\$ 1,413,816</u>

DISCRETELY PRESENTED NONMAJOR COMPONENT UNITS

NON MAJOR GOVERNMENTAL FUNDS

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

Central Dispatch - This component unit consists of a single General Fund which accounts for the general operations of the Central Dispatch emergency response services. Financing is provided by specific allocations from the state as well as appropriations from the primary government, the City of Buena Vista, the County of Rockbridge, and Virginia Military Institute.

Rockbridge Area Recreation Organization (RARO) - This component unit consists of a single General Fund which accounts for recreational activities provided to area youth and adults. Financing is provided by appropriations from the primary government and the County of Rockbridge.

Regional Tourism - This component unit consists of a single General Fund which accounts for the promotion of tourism in the area. Financing is provided by specific allocations from the state as well as appropriations from the primary government, the City of Buena Vista, and the County of Rockbridge.

City of Lexington, Virginia
Combining Balance Sheet
Discretely Presented Nonmajor Component Units
June 30, 2010

	Central Dispatch Fund	Rockbridge Area Recreation Organization Fund	Regional Tourism Fund	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 9,174	\$ 343,134	\$ 352,308
Receivables (net of allowance for uncollectibles):				
Accounts receivable	241,114	34,097	18	275,229
Due from other governmental units	418,599	-	-	418,599
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	13,218	-	13,218
Total assets	<u>\$ 659,713</u>	<u>\$ 56,489</u>	<u>\$ 343,152</u>	<u>\$ 1,059,354</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 267,682	\$ 6,766	\$ 13,106	\$ 287,554
Due to primary government	154,833	-	-	154,833
Due to other governmental units	166,090	28,360	-	194,450
Total liabilities	<u>\$ 588,605</u>	<u>\$ 35,126</u>	<u>\$ 13,106</u>	<u>\$ 636,837</u>
Fund balances:				
Reserved for:				
Pickral memorial	\$ -	\$ 13,218	\$ -	\$ 13,218
Unreserved:				
Undesignated	-	436	330,046	330,482
Designated for carryovers	11,365	-	-	11,365
Designated for equipment replacement	59,743	7,709	-	67,452
Total fund balances	<u>\$ 71,108</u>	<u>\$ 21,363</u>	<u>\$ 330,046</u>	<u>\$ 422,517</u>
Total liabilities and fund balances	<u>\$ 659,713</u>	<u>\$ 56,489</u>	<u>\$ 343,152</u>	<u>\$ 1,059,354</u>

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

Total fund balances per above	\$ 422,517
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	635,329
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(62,149)
Net assets of governmental activities	<u>\$ 995,697</u>

City of Lexington, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Units
For the Year Ended June 30, 2010

	Rockbridge Area Recreation			Total
	Central Dispatch Fund	Organization Fund	Regional Tourism Fund	
REVENUES				
Revenue from the use of money and property	\$ 1,100	\$ 67	\$ -	\$ 1,167
Charges for services	-	108,275	9,995	118,270
Miscellaneous	-	25,473	1,404	26,877
Recovered costs	716,697	208,189	412,597	1,337,483
Intergovernmental revenues:				
Local government	171,403	90,424	175,159	436,986
Commonwealth	531,110	-	-	531,110
Total revenues	<u>\$ 1,420,310</u>	<u>\$ 432,428</u>	<u>\$ 599,155</u>	<u>\$ 2,451,893</u>
EXPENDITURES				
Current:				
Public safety	\$ 1,518,097	\$ -	\$ -	\$ 1,518,097
Parks, recreation, and cultural	-	452,794	-	452,794
Community development	-	-	543,510	543,510
Total expenditures	<u>\$ 1,518,097</u>	<u>\$ 452,794</u>	<u>\$ 543,510</u>	<u>\$ 2,514,401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (97,787)</u>	<u>\$ (20,366)</u>	<u>\$ 55,645</u>	<u>\$ (62,508)</u>
Net change in fund balances	\$ (97,787)	\$ (20,366)	\$ 55,645	\$ (62,508)
Fund balances - beginning	168,895	41,729	274,401	485,025
Fund balances - ending	<u>\$ 71,108</u>	<u>\$ 21,363</u>	<u>\$ 330,046</u>	<u>\$ 422,517</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 \$ (62,508)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period. 490,127

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. 6,051

Change in net assets of governmental activities \$ 433,670

City of Lexington, Virginia
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Discretely Presented Nonmajor Component Units
 For the Year Ended June 30, 2010

	Central Dispatch Fund			Rockbridge Area Recreation Organization (RARO)			Regional Tourism			Variance with Final Budget Positive (Negative)
	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Actual	
REVENUES										
Revenue from the use of money and property	\$ 2,000	\$ 2,000	\$ 1,100	\$ -	\$ -	\$ 67	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	152,389	152,389	108,275	(44,114)	9,000	9,000	9,995
Miscellaneous	-	-	-	15,000	15,000	25,473	10,473	2,600	2,600	1,404
Recovered costs	754,909	754,909	716,697	220,179	220,179	208,189	(11,990)	412,597	412,597	-
Intergovernmental revenues:										
Local government	180,542	180,542	171,403	88,893	88,893	90,424	1,531	175,159	175,159	-
Commonwealth	100,000	532,960	531,110	-	-	-	-	-	-	-
Total revenues	\$ 1,037,451	\$ 1,470,411	\$ 1,420,310	\$ 476,461	\$ 476,461	\$ 432,428	\$ (44,033)	\$ 599,356	\$ 599,356	\$ (201)
EXPENDITURES										
Current:										
Public safety	\$ 1,037,451	\$ 1,589,564	\$ 1,518,097	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, recreation, and cultural	-	-	-	473,314	494,717	452,794	41,923	-	-	-
Community development	-	-	-	-	-	-	-	599,356	613,856	70,346
Total expenditures	\$ 1,037,451	\$ 1,589,564	\$ 1,518,097	\$ 473,314	\$ 494,717	\$ 452,794	\$ 41,923	\$ 599,356	\$ 613,856	\$ 70,346
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (119,153)	\$ (97,787)	\$ 3,147	\$ (18,256)	\$ (20,366)	\$ (2,110)	\$ -	\$ (14,500)	\$ 55,645
Net change in fund balances	\$ -	\$ (119,153)	\$ (97,787)	\$ 3,147	\$ (18,256)	\$ (20,366)	\$ (2,110)	\$ -	\$ (14,500)	\$ 55,645
Fund balances - beginning	-	-	168,895	-	-	41,729	41,729	-	-	274,401
Fund balances - ending	\$ -	\$ (119,153)	\$ 71,108	\$ 3,147	\$ (18,256)	\$ 21,363	\$ 39,619	\$ -	\$ (14,500)	\$ 330,046

SUPPORTING SCHEDULES

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 3,731,500	\$ 3,731,500	\$ 3,782,733	\$ 51,233
Real and personal public service corporation taxes	82,800	82,800	90,118	7,318
Personal property taxes	500,000	500,000	523,419	23,419
Penalties	22,600	22,600	29,428	6,828
Interest	8,100	8,100	23,068	14,968
Total general property taxes	<u>\$ 4,345,000</u>	<u>\$ 4,345,000</u>	<u>\$ 4,448,766</u>	<u>\$ 103,766</u>
Other local taxes:				
Local sales and use taxes	\$ 768,400	\$ 768,400	\$ 772,970	\$ 4,570
Consumers' utility taxes	316,500	316,500	312,122	(4,378)
E-911 telephone taxes	-	-	452	452
Consumption taxes	27,800	27,800	27,574	(226)
Business license taxes	540,000	540,000	534,270	(5,730)
Franchise license tax	-	-	229	229
Communications tax	335,500	335,500	336,598	1,098
Motor vehicle licenses	26,500	26,500	27,786	1,286
Bank stock taxes	44,100	44,100	112,451	68,351
Taxes on recordation and wills	36,500	36,500	49,360	12,860
Hotel and motel room taxes	208,900	208,900	205,527	(3,373)
Restaurant food taxes	625,600	625,600	620,422	(5,178)
Total other local taxes	<u>\$ 2,929,800</u>	<u>\$ 2,929,800</u>	<u>\$ 2,999,761</u>	<u>\$ 69,961</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 4,600	\$ 4,600	\$ 4,152	\$ (448)
Building permits	25,000	25,000	94,651	69,651
Excavation permits	700	700	1,150	450
Hunting and fishing permits	1,000	1,000	220	(780)
Total permits, privilege fees, and regulatory licenses	<u>\$ 31,300</u>	<u>\$ 31,300</u>	<u>\$ 100,173</u>	<u>\$ 68,873</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 70,200	\$ 70,200	\$ 54,545	\$ (15,655)
Parking fines	31,100	31,100	37,440	6,340
Courthouse fees	5,600	5,600	3,067	(2,533)
Total fines and forfeitures	<u>\$ 106,900</u>	<u>\$ 106,900</u>	<u>\$ 95,052</u>	<u>\$ (11,848)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 102,500	\$ 106,914	\$ 76,040	\$ (30,874)
Revenue from use of property	23,000	23,000	18,022	(4,978)
Total revenue from use of money and property	<u>\$ 125,500</u>	<u>\$ 129,914</u>	<u>\$ 94,062</u>	<u>\$ (35,852)</u>
Charges for services:				
Charges for finance	\$ 56,100	\$ 56,100	\$ 67,158	\$ 11,058
Charges for public safety	4,600	4,600	17,780	13,180
Charges for youth services	5,300	5,300	4,175	(1,125)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for rescue services	\$ 303,000	\$ 303,000	\$ 347,107	\$ 44,107
Charges for public works	14,300	14,300	14,439	139
Charges for grave openings	22,700	22,700	21,100	(1,600)
Charges for burial spaces	29,700	29,700	25,300	(4,400)
Charges for recreation	92,000	92,000	88,911	(3,089)
Charges for sanitation and waste removal	136,800	136,800	140,690	3,890
Charges for landfill fees	171,100	171,100	182,366	11,266
Charges for community activity support	4,400	4,400	5,600	1,200
Charges for farmer's market	1,700	1,700	2,559	859
Charges for other services	400	400	1,103	703
Total charges for services	<u>\$ 842,100</u>	<u>\$ 842,100</u>	<u>\$ 918,288</u>	<u>\$ 76,188</u>
Miscellaneous revenue:				
Miscellaneous	\$ 330,500	\$ 330,500	\$ 522,347	\$ 191,847
County revenue sharing	1,698,300	1,698,300	1,727,000	28,700
Total miscellaneous revenue	<u>\$ 2,028,800</u>	<u>\$ 2,028,800</u>	<u>\$ 2,249,347</u>	<u>\$ 220,547</u>
Recovered costs:				
Joint services fire and rescue	\$ 219,709	\$ 219,709	\$ 176,013	\$ (43,696)
Parking Garage	-	-	2,927	2,927
Total recovered costs	<u>\$ 219,709</u>	<u>\$ 219,709</u>	<u>\$ 178,940</u>	<u>\$ (40,769)</u>
Total revenue from local sources	<u>\$ 10,629,109</u>	<u>\$ 10,633,523</u>	<u>\$ 11,084,389</u>	<u>\$ 450,866</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 300	\$ 300	\$ 383	\$ 83
Mobile home titling tax	500	500	60	(440)
Motor vehicle rental tax	700	700	1,873	1,173
State recordation tax	12,100	12,100	16,846	4,746
Personal property tax relief funds	581,200	581,200	581,200	-
Other noncategorical aid	1,000	1,000	2,710	1,710
Total noncategorical aid	<u>\$ 595,800</u>	<u>\$ 595,800</u>	<u>\$ 603,072</u>	<u>\$ 7,272</u>
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 218,870	\$ 218,870	\$ 191,232	\$ (27,638)
Commissioner of revenue	83,581	83,581	80,544	(3,037)
Treasurer	66,442	66,442	65,228	(1,214)
Registrar/electoral board	37,156	37,156	31,197	(5,959)
Total shared expenses	<u>\$ 406,049</u>	<u>\$ 406,049</u>	<u>\$ 368,201</u>	<u>\$ (37,848)</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid:				
Street maintenance	\$ 585,335	\$ 637,834	\$ 602,826	\$ (35,008)
Welfare payments	222,300	222,300	209,375	(12,925)
Comprehensive services	42,912	42,912	39,269	(3,643)
Fire program grant	19,300	19,300	18,945	(355)
Four for life	2,500	3,540	3,540	-
Arts grant	5,000	5,000	5,000	-
DOF grant	-	9,422	9,421	(1)
Total other categorical aid	<u>\$ 877,347</u>	<u>\$ 940,308</u>	<u>\$ 888,376</u>	<u>\$ (51,932)</u>
Total categorical aid	<u>\$ 1,283,396</u>	<u>\$ 1,346,357</u>	<u>\$ 1,256,577</u>	<u>\$ (89,780)</u>
Total revenue from the Commonwealth	<u>\$ 1,879,196</u>	<u>\$ 1,942,157</u>	<u>\$ 1,859,649</u>	<u>\$ (82,508)</u>
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ 40,000	\$ 40,000	\$ 20,099	\$ (19,901)
Department of motor vehicles grant	5,000	9,603	3,681	(5,922)
Department of homeland security grant	-	25,072	25,072	-
Criminal justice services grant	3,500	3,500	1,903	(1,597)
Department of forestry grant	-	29,950	19,612	(10,338)
Total categorical aid	<u>\$ 48,500</u>	<u>\$ 108,125</u>	<u>\$ 70,367</u>	<u>\$ (37,758)</u>
Total revenue from the federal government	<u>\$ 48,500</u>	<u>\$ 108,125</u>	<u>\$ 70,367</u>	<u>\$ (37,758)</u>
Total General Fund	<u>\$ 12,556,805</u>	<u>\$ 12,683,805</u>	<u>\$ 13,014,405</u>	<u>\$ 330,600</u>
Capital Projects Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ 30,000	\$ 30,000	\$ -
Revenue from the federal government:				
Categorical aid:				
TEA - 21 grant	\$ 416,000	\$ 757,367	\$ 119,538	\$ (637,829)
Total revenue from the federal government	<u>\$ 416,000</u>	<u>\$ 757,367</u>	<u>\$ 119,538</u>	<u>\$ (637,829)</u>
Total Capital Projects Fund	<u>\$ 416,000</u>	<u>\$ 787,367</u>	<u>\$ 149,538</u>	<u>\$ (637,829)</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Permanent Fund				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 75,492	\$ 75,492
Total Housing Opportunities Fund	\$ -	\$ -	\$ 75,492	\$ 75,492
Total Primary Government	\$ 12,972,805	\$ 13,471,172	\$ 13,239,435	\$ (231,737)
Discretely Presented Component Units:				
Major Fund:				
Special Revenue Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 300	\$ 300	\$ 1,381	\$ 1,081
Revenue from the use of property	300	300	-	(300)
Total revenue from use of money and property	\$ 600	\$ 600	\$ 1,381	\$ 781
Charges for services:				
Cafeteria sales	\$ 80,000	\$ 80,000	\$ 78,165	\$ (1,835)
Tuition and payments from other divisions	147,400	147,400	154,452	7,052
Total charges for services	\$ 227,400	\$ 227,400	\$ 232,617	\$ 5,217
Miscellaneous revenue:				
Other miscellaneous	\$ 600	\$ 600	\$ 3,357	\$ 2,757
Recovered costs:				
Other recovered costs	\$ -	\$ 9,361	\$ 9,362	\$ 1
Total revenue from local sources	\$ 228,600	\$ 237,961	\$ 246,717	\$ 8,756
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 2,523,320	\$ 10,009,881	\$ 9,868,342	\$ (141,539)
Total revenues from local governments	\$ 2,523,320	\$ 10,009,881	\$ 9,868,342	\$ (141,539)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 432,492	\$ 400,923	\$ 412,733	\$ 11,810
Basic school aid	1,734,379	1,758,580	1,635,432	(123,148)
Remedial summer education	20,275	14,720	14,720	-
Gifted and talented	16,128	16,428	16,428	-
Remedial education	23,092	23,522	23,522	-
Special education	133,421	135,907	135,908	1
Textbook payment	43,442	-	-	-

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Major Fund: (Continued)				
Special Revenue Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Social security fringe benefits	\$ 94,567	\$ 96,330	\$ 96,330	\$ -
Retirement fringe benefits	121,691	92,969	92,970	1
Group life insurance instructional	3,299	2,614	2,614	-
State lottery payments	-	40,275	43,106	2,831
Early reading intervention	7,314	10,972	10,972	-
Homebound education	-	121	121	-
School construction	33,307	-	-	-
At risk payments	11,759	11,780	11,780	-
Primary class size	50,634	51,366	51,366	-
School food	1,818	1,925	1,925	-
Technology	102,000	102,000	102,000	-
Vocational education	40,686	41,444	41,444	-
Mentor teacher program	-	-	741	741
English as a second language	9,068	5,789	5,789	-
Other state funds	3,736	3,736	6,236	2,500
Total categorical aid	<u>\$ 2,883,108</u>	<u>\$ 2,811,401</u>	<u>\$ 2,706,137</u>	<u>\$ (105,264)</u>
				(2,706,137)
Total revenue from the Commonwealth	<u>\$ 2,883,108</u>	<u>\$ 2,811,401</u>	<u>\$ 2,706,137</u>	<u>\$ (105,264)</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 47,260	\$ 90,948	\$ 40,511	\$ (50,437)
Title I ARRA	-	-	32,023	32,023
Title VI-B - Special education, grants to states	179,016	301,575	201,736	(99,839)
Title VI-B - Special education, grants to states ARRA	-	-	30,215	30,215
Title VI-B - Special education, pre-school grant	-	-	3,702	3,702
Title VI-B - Special education, pre-school grant ARRA	-	-	3,347	3,347
Drug free schools	-	-	1,368	1,368
Title II, part A	-	30,317	21,146	(9,171)
Literacy challenge grant	-	2,170	2,170	-
State Fiscal Stabilization Funds	264,772	267,198	389,000	121,802
Headstart	12,500	12,500	13,284	784
School lunch program	35,000	35,000	43,656	8,656
School breakfast program	-	-	4,221	4,221
Total categorical aid	<u>\$ 538,548</u>	<u>\$ 739,708</u>	<u>\$ 786,379</u>	<u>\$ 46,671</u>
Total revenue from the federal government	<u>\$ 538,548</u>	<u>\$ 739,708</u>	<u>\$ 786,379</u>	<u>\$ 46,671</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 6,173,576</u>	<u>\$ 13,798,951</u>	<u>\$ 13,607,575</u>	<u>\$ (191,376)</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Nonmajor Funds:				
Central Dispatch Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 2,000	\$ 2,000	\$ 1,100	\$ (900)
Recovered costs:				
City of Buena Vista	\$ 162,020	\$ 162,020	\$ 153,819	\$ (8,201)
County of Rockbridge	566,790	566,790	538,100	(28,690)
VMI	26,099	26,099	24,778	(1,321)
Total recovered costs	<u>\$ 754,909</u>	<u>\$ 754,909</u>	<u>\$ 716,697</u>	<u>\$ (38,212)</u>
Total revenue from local sources	<u>\$ 756,909</u>	<u>\$ 756,909</u>	<u>\$ 717,797</u>	<u>\$ (39,112)</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	<u>\$ 180,542</u>	<u>\$ 180,542</u>	<u>\$ 171,403</u>	<u>\$ (9,139)</u>
Revenue from the Commonwealth:				
Categorical aid:				
Virginia wireless	<u>\$ 100,000</u>	<u>\$ 532,960</u>	<u>\$ 531,110</u>	<u>\$ (1,850)</u>
Total Central Dispatch Fund	<u>\$ 1,037,451</u>	<u>\$ 1,470,411</u>	<u>\$ 1,420,310</u>	<u>\$ (50,101)</u>
Rockbridge Area Recreation Organization (RARO):				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 67</u>
Charges for services:				
Charges for programs	<u>\$ 152,389</u>	<u>\$ 152,389</u>	<u>\$ 108,275</u>	<u>\$ (44,114)</u>
Miscellaneous revenue:				
Other miscellaneous	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 25,473</u>	<u>\$ 10,473</u>
Recovered costs:				
County of Rockbridge	<u>\$ 220,179</u>	<u>\$ 220,179</u>	<u>\$ 208,189</u>	<u>\$ (11,990)</u>
Total revenue from local sources	<u>\$ 387,568</u>	<u>\$ 387,568</u>	<u>\$ 342,004</u>	<u>\$ (45,564)</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	<u>\$ 88,893</u>	<u>\$ 88,893</u>	<u>\$ 90,424</u>	<u>\$ 1,531</u>
Total Rockbridge Area Recreation Organization (RARO)	<u>\$ 476,461</u>	<u>\$ 476,461</u>	<u>\$ 432,428</u>	<u>\$ (44,033)</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds: (Continued)				
Regional Tourism:				
Revenue from local sources:				
Charges for services:				
Charges for tours	\$ 4,500	\$ 4,500	\$ 4,150	\$ (350)
Other charges for services	4,500	4,500	5,845	1,345
Total charges for services	<u>\$ 9,000</u>	<u>\$ 9,000</u>	<u>\$ 9,995</u>	<u>\$ 995</u>
Miscellaneous revenue:				
Other miscellaneous	\$ 2,600	\$ 2,600	\$ 1,404	\$ (1,196)
Recovered costs:				
City of Buena Vista	\$ 39,559	\$ 39,559	\$ 39,559	\$ -
County of Rockbridge	373,038	373,038	373,038	-
Total recovered costs	<u>\$ 412,597</u>	<u>\$ 412,597</u>	<u>\$ 412,597</u>	<u>\$ -</u>
Total revenue from local sources	<u>\$ 424,197</u>	<u>\$ 424,197</u>	<u>\$ 423,996</u>	<u>\$ (201)</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 175,159	\$ 175,159	\$ 175,159	\$ -
Total Regional Tourism	<u>\$ 599,356</u>	<u>\$ 599,356</u>	<u>\$ 599,155</u>	<u>\$ (201)</u>
Total Nonmajor Component Units	<u>\$ 2,113,268</u>	<u>\$ 2,546,228</u>	<u>\$ 2,451,893</u>	<u>\$ (94,335)</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
General government administration:				
Legislative:				
City council	\$ 48,502	\$ 48,502	\$ 50,087	\$ (1,585)
General and financial administration:				
City manager	\$ 176,274	\$ 176,274	\$ 174,615	\$ 1,659
Director of finance	283,195	283,195	269,949	13,246
City attorney	49,524	49,524	57,084	(7,560)
Commissioner of revenue	212,470	212,470	209,380	3,090
Assessment board	46,050	46,050	43,448	2,602
Treasurer	159,200	159,200	161,586	(2,386)
Human Resources	62,285	62,285	59,114	3,171
Information technology	130,180	130,180	130,564	(384)
Total general and financial administration	<u>\$ 1,119,178</u>	<u>\$ 1,119,178</u>	<u>\$ 1,105,740</u>	<u>\$ 13,438</u>
Board of elections:				
Electoral board and officials	\$ 55,105	\$ 55,105	\$ 48,184	\$ 6,921
Total general government administration	<u>\$ 1,222,785</u>	<u>\$ 1,222,785</u>	<u>\$ 1,204,011</u>	<u>\$ 18,774</u>
Judicial administration:				
Courts:				
Judicial services	\$ 245,580	\$ 245,580	\$ 217,745	\$ 27,835
VJCCA services	42,912	42,912	40,697	2,215
Total courts	<u>\$ 288,492</u>	<u>\$ 288,492</u>	<u>\$ 258,442</u>	<u>\$ 30,050</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,579,720	\$ 1,606,095	\$ 1,480,740	\$ 125,355
Contributions to Central dispatch - component unit	180,542	180,542	171,403	9,139
Total law enforcement and traffic control	<u>\$ 1,760,262</u>	<u>\$ 1,786,637</u>	<u>\$ 1,652,143</u>	<u>\$ 134,494</u>
Fire and rescue services:				
Fire department	\$ 300,499	\$ 303,799	\$ 246,513	\$ 57,286
Rescue services	539,408	541,792	509,852	31,940
Fire department - reserve activity	12,500	30,000	28,104	1,896
Rescue services - reserve activity	10,260	40,260	29,261	10,999
Total fire and rescue services	<u>\$ 862,667</u>	<u>\$ 915,851</u>	<u>\$ 813,730</u>	<u>\$ 102,121</u>
Correction and detention:				
Juvenile probation and detention	\$ 75,899	\$ 75,899	\$ 57,210	\$ 18,689
Special services	85,771	85,771	62,074	23,697
Total correction and detention	<u>\$ 161,670</u>	<u>\$ 161,670</u>	<u>\$ 119,284</u>	<u>\$ 42,386</u>
Total public safety	<u>\$ 2,784,599</u>	<u>\$ 2,864,158</u>	<u>\$ 2,585,157</u>	<u>\$ 279,001</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 354,324	\$ 354,324	\$ 304,016	\$ 50,308
Public works labor pool	231,410	231,410	102,081	129,329
Equipment operations	200,783	200,783	213,523	(12,740)
Pavement Maintenance	173,135	225,634	104,043	121,591
Drain Maintenance	35,484	35,484	61,731	(26,247)
Snow Removal	73,716	73,716	152,227	(78,511)
Traffic	222,293	222,293	244,047	(21,754)
Parking Garage	27,182	27,182	15,047	12,135
Emergency Need	2,564	2,564	-	2,564
Community activity support	46,283	49,338	43,066	6,272
Public works administration	154,763	154,763	135,835	18,928
Total maintenance of highways, streets, bridges & sidewalks	<u>\$ 1,521,937</u>	<u>\$ 1,577,491</u>	<u>\$ 1,375,616</u>	<u>\$ 201,875</u>
Sanitation and waste removal:				
Solid waste management	\$ 1,026,913	\$ 1,026,913	\$ 890,305	\$ 136,608
Maintenance of general buildings and grounds:				
General properties	\$ 101,765	\$ 101,765	\$ 70,383	\$ 31,382
Park maintenance	194,501	194,501	185,530	8,971
Cemeteries maintenance	133,772	133,772	126,718	7,054
Total maintenance of general buildings and grounds	<u>\$ 430,038</u>	<u>\$ 430,038</u>	<u>\$ 382,631</u>	<u>\$ 47,407</u>
Total public works	<u>\$ 2,978,888</u>	<u>\$ 3,034,442</u>	<u>\$ 2,648,552</u>	<u>\$ 385,890</u>
Health and welfare:				
Health:				
Health and welfare	\$ 636,442	\$ 637,339	\$ 587,202	\$ 50,137
Youth services administration	66,926	66,926	64,944	1,982
Total health	<u>\$ 703,368</u>	<u>\$ 704,265</u>	<u>\$ 652,146</u>	<u>\$ 52,119</u>
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	\$ 2,523,320	\$ 10,009,881	\$ 9,868,342	\$ 141,539
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 247,592	\$ 395,414	\$ 394,888	\$ 526
Municipal swimming pool	113,615	113,615	115,563	(1,948)
Contribution to RARO - component unit	88,893	93,893	90,424	3,469
Total parks and recreation	<u>\$ 450,100</u>	<u>\$ 602,922</u>	<u>\$ 600,875</u>	<u>\$ 2,047</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning and development	\$ 313,299	\$ 355,649	\$ 328,494	\$ 27,155
Housing program	6,500	37,866	36,546	1,320
Tree board	30,320	60,270	50,384	9,886
Community development contributions	100,666	102,575	101,672	903
Water quality management	2,500	26,833	19,176	7,657
Contribution to regional tourism - component unit	175,159	175,159	175,159	-
Total planning and community development	<u>\$ 628,444</u>	<u>\$ 758,352</u>	<u>\$ 711,431</u>	<u>\$ 46,921</u>
Nondepartmental:				
Nondepartmental	\$ 53,800	\$ 4,156	\$ -	\$ 4,156
Debt service:				
Principal retirement	\$ 1,242,267	\$ 1,327,934	\$ 1,327,934	\$ -
Interest and other fiscal charges	-	560,006	674,771	(114,765)
Total debt service	<u>\$ 1,242,267</u>	<u>\$ 1,887,940</u>	<u>\$ 2,002,705</u>	<u>\$ (114,765)</u>
Total General Fund	<u>\$ 12,876,063</u>	<u>\$ 21,377,393</u>	<u>\$ 20,531,661</u>	<u>\$ 845,732</u>
Capital Projects Fund:				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Corridor improvements	\$ -	\$ 2,000	\$ 2,000	\$ -
Randolph street utility line	466,000	514,163	-	514,163
Miscellaneous access improvements	5,000	5,000	-	5,000
Downtown improvements	-	13,298	-	13,298
Nelson Street Bridge	10,000	44,595	1,812	42,783
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 481,000</u>	<u>\$ 579,056</u>	<u>\$ 3,812</u>	<u>\$ 575,244</u>
Total public works	<u>\$ 481,000</u>	<u>\$ 579,056</u>	<u>\$ 3,812</u>	<u>\$ 575,244</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Brewbaker	\$ -	\$ 21,600	\$ 21,002	\$ 598
Jordan's point park	-	337,414	222,819	114,595
Maury river pedestrian bridge	-	128,121	6,555	121,566
BH Parking	-	5,000	-	5,000
Total parks and recreation	<u>\$ -</u>	<u>\$ 492,135</u>	<u>\$ 250,376</u>	<u>\$ 241,759</u>
Total Capital Projects Fund	<u>\$ 481,000</u>	<u>\$ 1,071,191</u>	<u>\$ 254,188</u>	<u>\$ 817,003</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Permanent Fund:				
Parks, recreation, and cultural:				
Parks and recreation:				
Cemetery	\$ -	\$ -	\$ 50,320	\$ (50,320)
Total Permanent Fund	\$ -	\$ -	\$ 50,320	\$ (50,320)
Total Primary Government	\$ 13,357,063	\$ 22,448,584	\$ 20,836,169	\$ 1,612,415
Discretely Presented Component Units:				
Special revenue funds:				
Major Fund:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration, attendance, & health	\$ 387,783	\$ 392,783	\$ 384,254	\$ 8,529
Instruction costs:				
Classroom instruction	\$ 4,860,254	\$ 5,239,485	\$ 4,632,130	\$ 607,355
School food services:				
Administration of school food program	\$ 168,347	\$ 168,347	\$ 168,202	\$ 145
Operating costs:				
Operation and maintenance of school plant	\$ 469,619	\$ 446,619	\$ 441,073	\$ 5,546
Total education	\$ 5,886,003	\$ 6,247,234	\$ 5,625,659	\$ 621,575
Capital projects:				
Middle school	\$ 264,754	\$ 7,993,132	\$ 7,638,873	\$ 354,259
Total Discretely Presented Component Unit - School Board	\$ 6,150,757	\$ 14,240,366	\$ 13,264,532	\$ 975,834
Nonmajor Funds:				
Central Dispatch Fund:				
Public safety:				
Law enforcement and traffic control:				
Central dispatch	\$ 1,037,451	\$ 1,589,564	\$ 1,518,097	\$ 71,467
Total Central Dispatch Fund	\$ 1,037,451	\$ 1,589,564	\$ 1,518,097	\$ 71,467

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds:				
Rockbridge Area Recreation Organization (RARO):				
Parks, recreation, and cultural:				
Parks and recreation:				
Administration	\$ 286,899	\$ 308,518	\$ 308,517	\$ 1
Programs	186,415	186,199	144,277	41,922
Total parks and recreation	<u>\$ 473,314</u>	<u>\$ 494,717</u>	<u>\$ 452,794</u>	<u>\$ 41,923</u>
Total Rockbridge Area Recreation Organization (RARO)	<u>\$ 473,314</u>	<u>\$ 494,717</u>	<u>\$ 452,794</u>	<u>\$ 41,923</u>
Regional Tourism:				
Community development:				
Planning and community development:				
Tourism	\$ 599,356	\$ 613,856	\$ 543,510	\$ 70,346
Total Regional Tourism	<u>\$ 599,356</u>	<u>\$ 613,856</u>	<u>\$ 543,510</u>	<u>\$ 70,346</u>
Total Nonmajor Component Units	<u>\$ 2,110,121</u>	<u>\$ 2,698,137</u>	<u>\$ 2,514,401</u>	<u>\$ 183,736</u>

STATISTICAL SECTION

STATISTICAL SECTION

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

Contents	Page
Financial Trends	86
<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	95
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	99
<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	103
<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	105
<i>These shedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB 34 in the fiscal year 2003; schedules presenting government-wide information include information beginning in that year.

Table 1

City of Lexington, Virginia
 Net Assets by Component
 Last Eight Fiscal Years (1)
 (accrual basis of accounting)
 (amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities								
Invested in capital assets, net of related debt	\$ 3,696	\$ 2,164	\$ 6,443	\$ (4,091)	\$ 9,404	\$ 11,611	\$ 6,086	\$ 7,378
Restricted	1,272	1,322	1,404	1,394	1,522	1,434	1,269	1,314
Unrestricted	7,629	6,930	7,101	18,925	7,113	4,219	7,682	9,977
Total governmental activities net assets	\$ 12,597	\$ 10,416	\$ 14,948	\$ 16,228	\$ 18,039	\$ 17,264	\$ 15,037	\$ 18,669
Business-type activities								
Invested in capital assets, net of related debt	\$ 694	\$ 963	\$ 1,247	\$ 1,332	\$ 1,635	\$ 1,812	\$ 1,864	\$ 1,921
Unrestricted	2,054	1,542	1,188	954	546	561	627	834
Total business-type activities	\$ 2,748	\$ 2,505	\$ 2,435	\$ 2,286	\$ 2,181	\$ 2,373	\$ 2,491	\$ 2,755
Primary Government								
Invested in capital assets, net of related debt	\$ 4,390	\$ 3,127	\$ 7,690	\$ (2,759)	\$ 11,039	\$ 13,423	\$ 7,950	\$ 9,299
Restricted for perpetual care	1,272	1,322	1,404	1,394	1,522	1,434	1,269	1,314
Unrestricted	9,683	8,472	8,289	19,879	7,659	4,780	8,309	10,811
Total primary government net assets	\$ 15,345	\$ 12,921	\$ 17,383	\$ 18,514	\$ 20,220	\$ 19,637	\$ 17,528	\$ 21,424

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

City of Lexington, Virginia
Changes in Net Assets
Last Eight Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental activities:								
General government administration	\$ 863	\$ 1,114	\$ 929	\$ 1,036	\$ 1,121	\$ 1,299	\$ 1,252	\$ 1,292
Judicial administration	105	433	474	551	1,281	3,252	2,813	258
Public Safety	1,677	1,863	2,082	2,151	2,178	2,425	2,684	2,586
Public Works	2,256	2,036	2,468	2,793	2,362	3,005	3,063	2,971
Health and welfare	495	749	746	654	569	628	565	652
Education	1,844	2,066	1,758	1,806	1,893	2,187	2,553	1,874
Parks, recreation and cultural	463	401	468	529	518	672	871	600
Community development	492	518	541	558	811	759	706	716
Non-departmental	218	188	156	38	-	-	10	-
Interest on long-term debt	5	6	3	383	725	615	584	562
Total governmental activities expenses	\$ 8,418	\$ 9,374	\$ 9,625	\$ 10,499	\$ 11,458	\$ 14,842	\$ 15,101	\$ 11,511
Business-type activities:								
Water & Sewer	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510
Total business-type activities	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510
Total primary government expenses	\$ 12,041	\$ 13,104	\$ 13,744	\$ 14,847	\$ 15,769	\$ 19,320	\$ 19,598	\$ 16,021

City of Lexington, Virginia
Changes in Net Assets
Last Eight Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Program Revenues								
Governmental activities:								
Charges for services:								
General government administration	\$ -	\$ 312	\$ 47	\$ 47	\$ 51	\$ 60	\$ 52	\$ 68
Judicial administration	46	-	61	-	60	-	106	95
Public Safety	182	164	388	318	274	386	410	465
Public Works	376	272	322	375	407	349	365	384
Health and welfare	2	2	2	2	2	3	5	4
Parks, recreation and cultural	219	123	67	73	84	93	88	97
Community development	-	3	-	-	-	1	2	-
Operating grants and contributions	1,020	1,264	1,327	1,269	1,332	1,327	1,188	1,327
Capital grants and contributions	177	-	15	44	136	100	61	120
Total governmental activities program revenues	\$ 2,022	\$ 2,140	\$ 2,229	\$ 2,192	\$ 2,297	\$ 2,418	\$ 2,300	\$ 2,560
Business-type activities:								
Charges for services:								
Water & Sewer	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,212	\$ 4,206	\$ 4,669	\$ 4,733
Capital grants and contributions	-	-	-	-	-	-	-	40
Total business-type activities program revenues	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,212	\$ 4,669	\$ 4,615	\$ 4,773
Total primary government program revenues	\$ 5,437	\$ 5,613	\$ 6,278	\$ 6,404	\$ 6,503	\$ 7,087	\$ 6,915	\$ 7,333
Net (expense)/revenue:								
Governmental activities	\$ (6,396)	\$ (7,234)	\$ (7,396)	\$ (8,307)	\$ (9,161)	\$ (12,424)	\$ (12,801)	\$ (8,951)
Business-type activities	(208)	(257)	(70)	(136)	(105)	191	118	263
Total primary government net expense	\$ (6,604)	\$ (7,491)	\$ (7,466)	\$ (8,443)	\$ (9,266)	\$ (12,233)	\$ (12,683)	\$ (8,688)
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes:								
Property taxes	\$ 3,079	\$ 3,048	\$ 3,085	\$ 3,922	\$ 3,990	\$ 4,141	\$ 4,337	\$ 4,607
Local sales and use taxes	641	661	646	710	749	795	791	773
Taxes on recordation and wills	39	46	67	70	75	61	47	49
Motor vehicle licenses taxes	65	65	65	65	64	65	63	28

City of Lexington, Virginia
Changes in Net Assets
Last Eight Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
General Revenues and Other Changes in Net Assets (Continued)								
Governmental activities: (Continued)								
Taxes: (Continued)								
Consumer utility taxes	\$ 508	\$ 515	\$ 520	\$ 504	\$ 399	\$ 310	\$ 312	\$ 312
Business licenses taxes	425	473	488	528	552	608	603	534
Restaurant food taxes	496	542	553	551	580	597	634	620
Hotel and motel room taxes	103	109	175	188	203	207	204	205
Communications taxes	-	-	-	-	158	369	335	337
Other local taxes	195	180	180	195	135	66	72	141
Unrestricted grants and contributions	579	604	554	590	613	638	573	603
Unrestricted revenues from use of money and property	290	130	416	684	1,204	797	222	169
Miscellaneous	1,362	1,683	1,451	1,568	1,999	2,995	2,382	2,279
Transfers	-	-	-	12	-	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	1,926
Total governmental activities	\$ 7,782	\$ 8,056	\$ 8,200	\$ 9,587	\$ 10,721	\$ 11,649	\$ 10,575	\$ 12,583
Business-type activities:								
Unrestricted revenues from use of money and property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1
Miscellaneous	15	13	-	-	-	-	-	-
Transfers	-	-	-	(12)	-	-	-	-
Total business-type activities	\$ 15	\$ 13	\$ -	\$ (12)	\$ -	\$ -	\$ -	\$ 1
Total primary government	\$ 7,797	\$ 8,069	\$ 8,200	\$ 9,575	\$ 10,721	\$ 11,649	\$ 10,575	\$ 12,584
Change in Net Assets								
Governmental activities	\$ 1,387	\$ 822	\$ 804	\$ 1,280	\$ 1,560	\$ (775)	\$ (2,226)	\$ 3,632
Business-type activities	(193)	(244)	(70)	(148)	(105)	191	118	264
Total primary government	\$ 1,194	\$ 578	\$ 734	\$ 1,132	\$ 1,455	\$ (584)	\$ (2,108)	\$ 3,896

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

City of Lexington, Virginia
 Governmental Activities Tax Revenues by Source
 Last Eight Fiscal Years (1)
 (modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax (2)	Business License Tax	Communications Sales and Use Tax (2)	Motor Vehicle License Tax	Bank Stock Tax	Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (2)	Total
2009-10	\$ 4,448,766	\$ 772,970	\$ 312,122	\$ 534,270	\$ 336,598	\$ 27,786	\$ 112,451	\$ 49,360	\$ 205,527	\$ 620,422	\$ 28,255	\$ 7,448,527
2008-09	4,438,289	791,395	312,078	602,665	335,199	62,657	44,386	46,559	204,461	633,501	27,963	7,499,153
2007-08	4,144,128	794,444	310,248	607,520	368,921	65,470	39,413	61,427	207,005	596,602	27,416	7,222,594
2006-07	3,914,166	749,153	398,743	552,145	158,198	63,592	50,363	74,877	202,549	580,080	84,681	6,828,547
2005-06	3,337,123	710,095	503,772	527,575	-	64,867	76,839	70,330	187,805	551,363	117,427	6,147,196
2004-05	3,125,624	646,198	519,509	488,447	-	65,320	55,932	67,102	174,923	552,946	123,657	5,819,658
2003-04	3,112,731	661,378	515,744	472,684	-	64,983	49,275	45,628	109,141	541,988	130,481	5,704,033
2002-03	2,907,527	641,128	508,035	424,693	-	64,687	56,395	39,058	103,186	496,443	138,315	5,379,467

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

(2) The state began a 5% communications sales and use tax on January 1, 2007. Telephone utility taxes, local E-911 taxes, and cable television system franchise fees are collected thru December 31, 2006 and will no longer be a local tax. The state collects the new local tax and redistributes .076958% of the total collections based on a pre-certified calculation of each jurisdictions allocation percentage as reported to the State Auditor of Public Accounts for revenue collections for the fiscal year ended June 30, 2006.

Table 4

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 28,739	\$ 38,104	\$ 30,339	\$ -	\$ 35,900	\$ 35,900	\$ -	\$ -	\$ -	\$ -
Unreserved	3,380,481	5,638,868	5,893,300	5,805,400	6,902,072	7,488,971	8,573,394	8,690,276	6,842,571	8,902,100
Total general fund	\$ 3,409,220	\$ 5,676,972	\$ 5,923,639	\$ 5,805,400	\$ 6,937,972	\$ 7,524,871	\$ 8,573,394	\$ 8,690,276	\$ 6,842,571	\$ 8,902,100
All other governmental funds										
Reserved, reported in:										
Permanent Fund	\$ 1,342,624	\$ 1,242,095	\$ 1,272,000	\$ 1,321,765	\$ 1,404,436	\$ 1,394,353	\$ 1,521,393	\$ 1,434,253	\$ 1,268,677	\$ 1,314,149
Capital Projects	359,000	511,000	-	-	-	-	-	-	-	-
Special revenues	1,602	3,434	342,932	183,400	-	-	-	-	-	-
Unreserved, reported in:										
Capital Projects	1,731,038	1,512,301	306,616	269,430	254,488	10,890,018	8,912,026	3,033,371	224,876	185,226
Special revenues	1,204	(628)	2,387	1,897	-	-	-	-	-	-
Total all other governmental funds	\$ 3,435,468	\$ 3,268,202	\$ 1,923,935	\$ 1,776,492	\$ 1,658,924	\$ 12,284,371	\$ 10,433,419	\$ 4,467,624	\$ 1,493,553	\$ 1,499,375

City of Lexington, Virginia
Changes in Fund Balances of Governmental Funds
Last Eight Fiscal Years (1)
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Revenues								
General property taxes	\$ 2,908	\$ 3,113	\$ 3,126	\$ 3,337	\$ 3,914	\$ 4,144	\$ 4,438	\$ 4,449
Other local taxes	2,472	2,591	2,694	2,810	2,914	3,078	3,061	3,000
Licenses and permits	30	50	145	56	180	108	79	100
Fines and forfeitures	97	82	105	94	104	106	124	95
Use of money & property	291	130	415	684	1,204	797	222	169
Charges for services	415	548	637	729	829	777	848	918
Miscellaneous	1,363	1,529	1,451	1,568	1,999	2,995	2,382	2,279
Recovered costs	281	121	158	207	208	255	180	179
Intergovernmental	1,776	1,867	1,896	1,903	2,082	2,065	1,821	2,050
Total revenues	\$ 9,633	\$ 10,031	\$ 10,627	\$ 11,388	\$ 13,434	\$ 14,325	\$ 13,155	\$ 13,239
Expenditures								
General government administration	\$ 857	\$ 865	\$ 901	\$ 1,000	\$ 1,025	\$ 1,141	\$ 1,175	\$ 1,204
Judicial administration	56	433	474	551	1,385	3,231	4,389	259
Public safety	1,662	1,905	2,100	3,049	2,340	2,377	2,689	2,585
Public works	2,132	2,271	2,583	2,738	2,140	2,604	3,002	2,652
Health and Welfare	497	749	745	653	569	628	565	652
Parks, recreation and cultural	420	372	474	516	487	1,484	2,553	9,868
Community development	491	515	537	575	768	1,357	1,539	902
Education	1,844	2,066	1,758	1,806	1,893	757	697	711
Nondepartmental	5	4	3	38	36	193	95	-
Capital outlay(2)	1,544	63	-	313	2,164	4,794	-	-
Debt service:								
Principal	669	716	668	697	748	1,000	689	1,328
Interest	218	195	167	390	681	608	574	560
Bond Issuance Costs	-	-	-	-	-	-	-	115
Total Expenditures	\$ 10,395	\$ 10,154	\$ 10,410	\$ 12,326	\$ 14,236	\$ 20,174	\$ 17,967	\$ 20,836
Excess of revenues over (under) expenditures	\$ (762)	\$ (123)	\$ 217	\$ (938)	\$ (802)	\$ (5,849)	\$ (4,812)	\$ (7,597)
Other financing sources (uses)								
Transfers in	\$ 397	\$ 742	\$ 758	\$ 11,457	\$ 399	\$ 970	\$ 1,640	\$ 85
Transfers out	(397)	(742)	(758)	(11,445)	(399)	(970)	(1,650)	(95)
Bonds issued	385	-	-	12,000	-	-	-	8,410
Discount on bonds issued	-	-	-	-	-	-	-	(787)
Payments to refunded bond escrow agent	(385)	-	-	-	-	-	-	-
Sale of capital assets	-	72	-	138	-	-	-	2,049
Total other financing sources (uses)	\$ -	\$ 72	\$ -	\$ 12,150	\$ -	\$ -	\$ (10)	\$ 9,662
Net change in fund balances	\$ (762)	\$ (51)	\$ 217	\$ 11,212	\$ (802)	\$ (5,849)	\$ (4,822)	\$ 2,065
Debt service as a percentage of noncapital expenditures	10.0%	9.0%	8.0%	9.0%	11.8%	10.5%	7.0%	9.1%

(1) Information available for eight years only.

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

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety (2)	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural (2)	Community Development (2)	Capital Outlay and Non-departmental	Debt Service	Total
2009-10	\$ 1,204,011	\$ 258,442	\$ 3,931,851	\$ 2,652,364	\$ 652,146	\$ 5,619,260	\$ 1,263,941	\$ 1,079,782	\$ 7,638,873	\$ 2,002,705	\$ 26,303,375
2008-09	1,174,738	4,388,867	3,528,376	3,001,609	565,015	5,686,236	1,907,914	1,047,911	359,516	1,263,770	22,923,952
2007-08	1,296,758	3,230,809	3,219,052	6,496,448	628,278	5,852,973	1,698,457	1,045,409	192,983	1,607,612	25,268,779
2006-07	1,040,800	1,384,967	3,691,711	3,713,453	569,253	5,403,947	913,248	1,069,282	35,975	1,429,796	19,252,432
2005-06	999,578	550,742	3,779,809	2,738,068	653,409	5,463,824	726,170	966,198	350,996	1,086,882	17,315,676
2004-05	900,640	474,092	2,782,569	2,583,410	745,121	5,334,003	677,883	914,091	38,249	833,905	15,283,963
2003-04	864,517	433,481	2,498,341	2,270,840	749,376	4,770,134	576,094	867,093	120,046	911,018	14,060,940
2002-03	856,719	55,920	2,304,799	2,131,821	496,689	4,500,186	686,484	971,405	1,677,516	887,544	14,569,083
2001-02	809,057	58,260	2,259,183	2,009,110	412,206	4,453,840	719,221	1,077,661	3,411,865	780,759	15,991,162
2000-01	783,726	70,140	2,162,307	1,951,446	442,933	4,399,047	646,922	1,269,571	605,542	535,707	12,867,341

(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.

Table 7

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2009-10	\$ 4,448,766	\$ 2,999,761	\$ 100,173	\$ 95,052	\$ 172,102	\$ 1,269,175	\$ 2,309,581	\$ 1,525,785	\$ 6,066,781	\$ 18,987,176
2008-09	4,438,289	3,060,864	79,233	124,101	225,741	1,210,743	2,402,114	1,573,645	5,400,599	18,515,329
2007-08	4,144,128	3,078,466	108,095	106,274	803,145	1,133,526	3,022,196	1,492,906	5,514,358	19,403,094
2006-07	3,914,166	2,914,381	180,066	103,998	1,210,016	1,105,553	2,026,288	1,667,106	5,528,163	18,649,737
2005-06	3,337,123	2,810,073	56,033	93,712	693,539	955,631	1,582,795	1,368,560	5,551,689	16,449,155
2004-05	3,125,624	2,694,034	144,572	105,092	418,290	853,983	1,458,544	1,301,229	5,378,683	15,480,051
2003-04	3,112,731	2,591,302	49,637	82,184	131,132	763,937	1,542,882	1,178,062	4,485,771	13,937,638
2002-03	2,907,527	2,471,940	30,455	96,673	297,584	1,277,160	1,465,768	904,179	4,391,787	13,843,073
2001-02	2,981,508	2,454,349	216,269	97,910	426,194	1,215,547	1,365,523	910,291	4,304,518	13,972,109
2000-01	2,589,111	2,356,821	107,839	109,986	607,596	1,203,141	1,254,661	911,183	4,376,761	13,517,099

(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 Five Fiscal Years (1)
(in thousands of dollars)

Fiscal Year Ended June 30,	Real Property		Personal Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a percentage of Actual Value
	Residential Property	Commercial Property	Motor Vehicles	Other					
2010	\$ 481,790	\$ 651,114	\$ 27,674	\$ 3,843	\$ 529,967	\$ 634,454	\$ 8.212	\$ 1,164,421	54.49%
2009	481,194	650,986	26,873	3,386	531,597	630,842	7.936	1,162,439	54.27%
2008	484,024	650,337	31,689	4,774	531,915	638,909	7.907	1,170,824	54.57%
2007	471,783	648,314	30,109	3,610	534,495	619,321	7.456	1,153,816	53.68%
2006	317,356	553,584	30,084	3,927	460,071	444,880	9.204	904,951	49.16%

(1) City began recording this information in 2006.

Source: Commissioner of Revenue

Table 9

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

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility		
					Real Estate	Real Estate	Personal Property
2009-10	\$ 0.65	\$ 4.25	\$ 0.65	\$ 4.25	\$ 0.64	\$ 0.64	3.95
2008-09	0.64	3.95	0.64	3.95	0.62	0.62	3.95
2007-08	0.60	3.95	0.60	3.95	0.58	0.58	3.95
2006-07	0.56	3.95	0.56	3.95	0.62	0.62	3.95
2005-06	0.67	3.95	0.67	3.95	0.66	0.66	3.95
2004-05	0.64	3.95	0.64	3.95	0.64	0.64	3.95
2003-04	0.64	3.95	0.64	3.95	0.69	0.69	3.95
2002-03	0.73	3.95	0.73	3.95	0.72	0.72	3.95
2001-02	0.70	3.95	0.70	3.95	0.69	0.69	3.95
2000-01	0.67	3.95	0.67	3.95	0.71	0.71	3.95

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

Table 10

City of Lexington, Virginia
Principal Taxpayers
June 30, 2010

Taxpayer Name	Fiscal year ended June 30, 2010			Fiscal year ended June 30, 2001		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
HI of Lexington, LLC	\$ 5,978,300	1	0.99%	\$ 3,251,000	3	0.99%
Central Telephone of Virginia	5,759,547	2	0.96%	6,931,441	1	2.10%
Washington and Lee University	5,422,100	3	0.90%	3,038,700	4	0.92%
Virginia Electric and Power Company	4,672,184	4	0.77%	4,135,245	2	1.25%
Lexington House Associates	4,158,200	5	0.69%	2,271,300	8	0.69%
Walker/Wood LC & Woods Family Trust	3,923,000	6	0.65%	2,081,700	10	0.63%
Rockbridge Square Associates	3,497,400	7	0.58%	2,942,400	5	0.89%
HCMF XXII LTD Partnership	3,428,200	8	0.57%	2,623,800	6	0.80%
Kroger Partnership	3,330,700	9	0.55%	-	-	-
Summit Square Partners	3,084,300	10	0.51%	-	-	-
Lexington Medical Buildings				2,306,200	7	0.70%
IRT Property Company				2,082,700	9	0.63%
	\$ 43,253,931		7.17%	\$ 31,664,486		9.61%

(1) Total assessed valuation of real estate was \$602,936,595 as of June 30, 2010.

(2) Total assessed valuation of real estate was \$329,621,917 as of June 30, 2001.

Source: Commissioner of Revenue and Finance Department

Table 11

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

Fiscal Year	Total Tax Levy (1, 2)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of		Percent of	
						Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,3)	Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes to Tax Levy
2009-10	\$ 5,089,509	\$ 4,891,228	96.10%	\$ 86,242	\$ 4,977,470	97.80%	\$ 711,451	13.98%	
2008-09	4,842,235	4,813,870	99.41%	42,712	4,856,582	100.30%	632,988	13.07%	
2007-08	4,822,549	4,669,876	96.83%	63,178	4,733,054	98.14%	734,963	15.24%	
2006-07	4,434,075	4,398,602	99.20%	72,851	4,471,453	100.84%	662,871	14.95%	
2005-06	3,936,642	3,780,352	96.03%	74,758	3,855,110	97.93%	568,484	14.44%	
2004-05	3,787,838	3,563,524	94.08%	66,926	3,630,450	95.84%	458,027	12.09%	
2003-04	3,661,319	3,557,033	97.15%	66,737	3,623,770	98.97%	543,329	14.84%	
2002-03	3,542,094	3,354,320	94.70%	50,628	3,404,948	96.13%	587,249	16.58%	
2001-02	3,386,498	3,318,634	98.00%	74,204	3,392,838	100.19%	590,489	17.44%	
2000-01	3,261,815	3,051,139	93.54%	61,026	3,112,165	95.41%	406,996	12.48%	

(1) Exclusive of penalties and interest.

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

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

Source: Commissioner of Revenue and Treasurer.

Table 12

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

Fiscal Year	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	State Literary Fund Loan	General Obligation Bonds			
2010	\$ 19,715,000	\$ -	\$ -	\$ 19,715,000	1.76%	\$ 2,707
2009	12,632,992	-	-	12,632,992	1.21%	1,752
2008	13,322,292	-	42,806	13,365,098	1.35%	1,841
2007	14,317,241	5,000	221,411	14,543,652	1.57%	2,158
2006	15,060,606	10,000	395,038	15,465,644	1.72%	2,282

(1) City began recording this information in 2006.

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Less:		Net Bonded Debt (4)(5)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Payable from Enterprise Fund				
2009-10	-	\$ 634,453	\$ 19,715,000	\$ -		\$ 19,715,000	3.110%	\$ 2,707
2008-09	7,282	630,842	12,632,992	-		12,632,992	2.000%	1,752
2007-08	7,211	638,909	13,365,098	42,806		13,322,292	2.090%	1,848
2006-07	7,261	619,321	14,543,660	221,411		14,322,249	2.310%	1,972
2005-06	7,206	444,880	15,465,644	395,038		15,070,606	3.390%	2,091
2004-05	7,097	445,471	4,326,780	559,080		3,767,700	0.850%	531
2003-04	6,900	437,827	5,152,857	717,546		4,435,311	1.010%	643
2002-03	6,800	369,743	5,919,583	870,515		5,049,068	1.370%	743
2001-02	7,000	365,181	6,617,313	982,102		5,635,211	1.540%	805
2000-01	7,000	360,793	3,180,002	1,118,904		2,061,098	0.570%	294

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

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

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

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

(5) FY 2009-10, City issued \$8,410,000 in general obligation debt to fund the city's renovation and addition to the middle school capital project.

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
2009-10	\$ 1,327,992	\$ 533,785	\$ 1,861,777	\$ 26,303,375	7.1%
2008-09	689,358	574,412	1,263,770	22,923,952	5.5%
2007-08	999,949	607,663	1,607,612	25,268,779	6.4%
2006-07	748,365	681,431	1,429,796	19,252,432	7.4%
2005-06	697,094	389,788	1,086,882	17,315,676	6.3%
2004-05	667,609	166,296	833,905	15,283,963	5.5%
2003-04	716,358	194,660	911,018	14,060,940	6.5%
2002-03	668,747	230,284	899,031	14,569,083	6.2%
2001-02	563,883	216,875	780,758	15,991,162	4.9%
2000-01	399,536	136,171	535,707	12,867,341	4.2%

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

(2) Information from Table 6.

City of Lexington, Virginia
 Computation of Legal Debt Margin
 June 30, 2010
 (amounts expressed in thousands)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 32,962	\$ 33,357	\$ 33,691	\$ 40,499	\$ 41,093	\$ 41,087	\$ 58,560	\$ 60,245	\$ 60,058	\$ 60,294
Total net debt applicable to limit	3,474	6,803	6,022	5,153	4,327	15,466	14,544	13,370	12,633	19,715
Legal debt margin	29,488	26,554	27,669	35,346	36,766	25,621	44,016	46,875	47,425	40,579
Total net debt applicable to the limit as a percentage of debt limit	10.5%	20.4%	17.9%	12.7%	10.5%	37.6%	24.8%	22.2%	21.0%	32.7%
Legal Debt Margin Calculated for Fiscal Year 2010										
	Assessed value									
	\$ 602,936									
	Debt limit (10% of assessed value)									
	\$ 60,294									
	Debt applicable to limit:									
	General Obligation Bonds									
	19,715									
	Less: amount set aside for repayment of general obligation debt									
	-									
	Total net applicable to limit									
	19,715									
	Legal debt margin									
	\$ 40,579									

**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)
2009-10	- (5)	\$ - (5)	\$ - (5)	619	14.5%
2008-09	7,282	-	-	613	12.2%
2007-08	7,211	1,118,605	32,348	615	8.3%
2006-07	7,261	1,041,089	29,712	646	5.4%
2005-06	7,206	988,969	28,442	626	5.0%
2004-05	7,097	927,803	26,936	626	5.0%
2003-04	6,900	891,371	26,165	626	2.4%
2002-03	6,800	839,032	23,612	647	2.6%
2001-02	7,000	800,258	23,383	631	2.2%
2000-01	7,000	773,603	22,547	628	2.1%

(1) Center for public service at the University of Virginia. www.coopercenter.org

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

(3) Lexington City Schools.

(4) Virginia Employment Commission.

(5) Information unavailable.

Table 17

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

Employer	Fiscal year ended June 30, 2010			Fiscal year ended June 30, 2001		
	Employment Range	Rank	% of Total City Employees (1)	Employment Range	Rank	% of Total City Employees
Washington & Lee University	1000-1499	1	23.7%	500-999	1	17.2%
Virginia Military Institute	500-999	2	13.3%	500-999	2	11.8%
Stonewall Jackson Hospital	250-499	3	5.5%	250-499	3	8.0%
Rockbridge County	100-249	4	3.6%	100-249	4	4.4%
City of Lexington	100-249	5	2.8%	100-249	5	3.3%
Rockbridge Area Community Services Board	100-249	6	2.1%	50-99	10	1.1%
Lexington City Schools	50-99	7	1.9%	50-99	6	2.0%
Kroger Company	50-99	8	1.8%	50-99	7	1.8%
Heritage Hall Health Care (HCMF)	50-99	9	1.3%	50-99	8	1.4%
The VMI Foundation	50-99	10	1.2%			
Rockbridge Farmers' Co-op				50-99	9	1.3%
Totals	<u>2,800</u>		<u>57.2%</u>	<u>2,466</u>		<u>52.3%</u>
Total City Employment	<u>4,899</u>			<u>4,721</u>		

Source: Virginia Employment Commission, Virginia Electronic Market Access (VELMA).

Table 18

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

Function	Full-time Equivalent Employees as of June 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	14	14	13	13	14	14	14	14	14	14
Public safety										
Police										
Officers	15	15	15	15	15	15	15	16	16	16
Civilians	2	2	2	2	2	2	2	2	2	3
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Public works										
Administration & maintenance	33	33	34	34	35	36	36	36	36	35
Solid waste management	11	11	11	11	11	11	11	11	11	12
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	4	5	5	5	5	5	5	5	5	5
Utilities processing										
Water treatment	6	6	6	6	7	7	7	7	7	7
Wastewater treatment	9	9	9	9	9	10	10	10	10	10
Total	97	98	98	98	101	103	103	104	104	105

Source: Government finance department

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

Function	Fiscal Year				
	2006	2007	2008	2009	2010
General administration					
Business licenses issued	653	669	662	617	616
Public safety					
Police					
Number of calls answered	5,568	6,163	4,580	5,446	3,815
Physical arrests	247	350	346	350	334
Parking violations	2,036	1,818	1,217	1,502	1,908
Traffice violations	953	1,191	923	1,145	800
Miles Patrolled	165,332	166,629	125,240	112,217	115,676
Fire					
Number of calls answered	524	629	732	704	649
Inspections	83	123	138	146	136
Public works					
Highways and streets					
Street resurfacing (miles)	2	1	2	2	1
Potholes repaired	300	310	300	300	300
Sanitation and waste removal					
Refuse collected (tons/day)	11	11	14	12	10
Recyclables collected (tons/day)	5	4	6	6	7
Leisure services					
Culture and recreation					
Athletic program Participants	1,356	1,618	1,536	1,498	1,499
Utilities processing					
Water					
New connections	8	12	8	9	4
Water main breaks	34	42	46	30	19
Average daily consumption (thousands of gallons)	898	889	921	903	875
Number of customers	2,716	2,698	2,702	2,743	2,762
Wastewater					
Average daily sewage treatment (thousands of gallons)	677	764	583	608	732
Community development					
Number of building permits	84	87	98	83	55
Building construction value (thousands)	4,032	30,914	18,520	12,858	14,703
Component unit - school board					
Education					
Students - elementary	287	313	310	308	318
Students - middle school	182	179	180	176	178
City students - joint high school	157	154	125	129	123
Teachers elementary & middle school	56	50	50	50	50
Expenditures per pupil	3,609	3,708	4,300	4,480	4,783

Source: Various city departments

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

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

Table 20

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

Function	Fiscal Year				
	2006	2007	2008	2009	2010
Public safety					
Police					
Stations	1	1	1	1	1
Patrol units	10	12	12	12	13
Fire					
Stations	1	1	1	1	1
First aid building	1	1	1	1	1
Public works					
Highways and streets					
Streets (miles)	60	60	60	60	60
Streetlights	516	527	527	529	530
Traffic signal intersections	12	12	12	12	12
Traffic signal lights	98	98	98	98	98
Parking garage	-	-	-	1	1
Cemeteries Maintenance					
Cemeteries	2	2	2	2	2
Sanitation and waste removal					
Collection trucks	5	5	5	5	5
Health, education and welfare					
Hospitals	1	1	1	1	1
Number of hospital beds	25	25	25	25	25
Leisure services					
Parks acreage	37	37	37	37	40
Parks	8	8	8	8	8
Swimming Pools	1	1	2	2	2
Community centers	1	1	1	1	-
Utilities processing					
Water					
Water mains (miles)	30	30	30	30	30
Fire hydrants	266	268	268	268	268
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000	4,000
Sewer					
Sanitary sewers (miles)	40	40	40	40	40
Storm sewers (miles)	5	5	5	5	5
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000	3,000
Component unit - school board					
Education					
Elementary schools	1	1	1	1	1
Middle schools	1	1	1	1	1
Jointly operated high school	1	1	1	1	1

Source: Various city departments

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

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

Table 21

City of Lexington, Virginia
 Schedule of Joint Services Contract Billing
 For the Year Ended June 30, 2010

	Parking Garage	Volunteer Fire	Life Saving and First Aid	RARO Administration	Youth Basketball	Little League Football	Recreation				RARO Total	Totals
							Baseball and Softball	Youth Soccer	Other	Total		
Salaries and fringe benefits	\$ 3,077	\$ -	\$ -	\$ 245,715	\$ 8,008	\$ 5,482	\$ 8,168	\$ 3,578	\$ 992	\$ 271,943	\$ 275,020	
Contractual services	871	48,102	362,668	6,986	-	410	-	-	-	7,396	419,037	
Other expenses	11,099	120,180	95,706	34,413	1,453	1,833	6,419	2,575	782	47,475	274,460	
Totals	\$ 15,047	\$ 168,282	\$ 458,374	\$ 287,114	\$ 9,461	\$ 7,315	\$ 14,997	\$ 6,153	\$ 1,774	\$ 326,814	\$ 968,517	
Less: Revenue for Operations	\$ -	\$ -	\$ (346,492)	\$ (5,843)	\$ (4,380)	\$ (4,378)	\$ (8,565)	\$ (6,630)	\$ (3,395)	\$ (33,191)	\$ (379,683)	
Net Expenses	\$ 15,047	\$ 168,282	\$ 111,882	\$ 281,271	\$ 5,081	\$ 2,937	\$ 6,432	\$ (477)	\$ (1,621)	\$ 293,623	\$ 588,834	
Rockbridge County participation	9.90%	64.62%	60.20%	70.68%	69.81%	81.58%	75.00%	63.73%	66.38%	70.90%	65.52%	
Rockbridge County share	\$ 1,490	\$ 108,750	\$ 67,353	\$ 198,802	\$ 3,547	\$ 2,396	\$ 4,824	\$ (304)	\$ (1,076)	\$ 208,189	\$ 385,782	

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 CITY COUNCIL CITY OF LEXINGTON, VIRGINIA

We have audited 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, 2010, which collectively comprise the City of Lexington, Virginia's basic financial statements and have issued our report thereon dated November 5, 2010. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Lexington, Virginia's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Virginia's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

This report is intended solely for the information and use of management, City Council and others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kolunann Fauner, Co. Associates

Christiansburg, Virginia

November 5, 2010

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
COMPANY

A PROFESSIONAL LIMITED LIABILITY

**Report on Compliance with Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133
Independent Auditors' Report**

TO THE HONORABLE MEMBERS OF CITY COUNCIL
CITY OF LEXINGTON, VIRGINIA

Compliance

We have audited the City of Lexington, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Lexington, Virginia's major federal programs for the year ended June 30, 2010. The City of Lexington, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Lexington, Virginia's management. Our responsibility is to express an opinion on the City of Lexington, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lexington, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Lexington, Virginia's compliance with those requirements.

In our opinion, the 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, 2010.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, City Council others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Turner, & Associates

Christiansburg, Virginia
November 5, 2010

City of Lexington, Virginia
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2010

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture: Pass Through Payments: Department of Agriculture: Food distribution	10.555	40623	\$ 6,399
Department of Education: Child Nutrition Cluster: National school breakfast program	10.553	40591	\$ 4,221
National school lunch program	10.555	40623	37,257
State Department of Forestry: Cooperative forestry assistance	10.664		<u>19,612</u>
Total Department of Agriculture			<u>\$ 67,489</u>
Department of Environmental Quality Pass Through Payments: Department of : Virginia Water Facilities Revolving Fund	66.468	Not applicable	<u>\$ 39,765</u>
Department of Health and Human Services: Direct Payments: Headstart Program	93.600	Not applicable	<u>\$ 13,284</u>
Pass Through Payments: Department of Social Services: Promoting safe and stable families	93.556	90249, 90360	\$ 1,080
Temporary assistance for needy families	93.558	90109, 90110, 90111, 90112 90127, 90229, 90230, 90231 90232, 90247, 90366, 90409 90411, 90412, 90413	10
Foster care - Title IV-E	93.658	90105, 90106, 90107, 90209 90258, 90405, 90406, 90407 90636, 90637, 90639, 90658 90705, 90706, 90707, 90733 90738	2,993
Social services block grant	93.667	90120, 90122, 90123, 90240 90242, 90243, 90262, 90306 90312, 90322, 90339, 90340	8,893
Child Care and Development Fund Cluster: Child care mandatory and matching funds of the child care and development fund	93.596	90116, 90117, 90118, 90236 90237, 90238, 90378	94
Child care and development block grant	93.575	90544, 90545	<u>7,029</u>
Total Dept. Health & Human Services-pass through			<u>\$ 20,099</u>
Total Department Health and Human Services			<u>\$ 33,383</u>

City of Lexington, Virginia
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2010

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Transportation:			
Pass Through Payments:			
Virginia Department of Transportation:			
Highway planning and construction	20.205		\$ 119,538
State and community highway safety	20.600	SC-2010 50357 3977	<u>3,681</u>
Total Department of Transportation			<u>\$ 123,219</u>
Department of Homeland Security:			
Direct payments:			
Emergency management performance grants	97.042	52749	<u>\$ 25,072</u>
Department of Justice:			
Pass Through Payments:			
Department of Criminal Justice Service:			
Crime victim assistance	16.575	09VAGX0007	<u>\$ 1,903</u>
Department of Education:			
Pass Through Payments:			
Department of Education:			
ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants	84.394	62532	\$ 389,000
Safe and drug free schools and communities - state grants	84.186	65011	1,368
Educational technology - state grants	84.318	61600	2,170
Improving teacher quality state grants	84.367	61480	21,146
Title I, Part A Cluster:			
Title I: Grants to local educational agencies	84.010	42892, 42901	40,511
ARRA - Title I: Grants to local educational agencies	84.389	42913	32,023
Special Education Cluster:			
Special education - Preschool grants	84.173	62521	3,702
Special education - Grants to states	84.027	43071	201,736
ARRA - Special education - Grants to states	84.391	61245	30,215
ARRA - Special education - Preschool grants	84.392	62521	<u>3,347</u>
Total Department of Education			<u>\$ 725,218</u>
Total Expenditures of Federal Awards			<u>\$ 1,016,049</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, 2010

NOTE A--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City of Lexington, Virginia under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Lexington, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Lexington, Virginia.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

NOTE B--RELATIONSHIP TO THE FINANCIAL STATEMENTS:

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

Primary Government:	
General Fund total	\$ 70,367
County CIP Fund total	119,538
Enterprise: Utility Fund total	<u>39,765</u>
Total Primary Government	<u>\$ 229,670</u>
Component Unit Schools:	
School Operating Fund total	<u>\$ 786,379</u>
Total Component Unit Schools	<u>\$ 786,379</u>
Total Federal Assistance	<u><u>\$ 1,016,049</u></u>

City of Lexington, Virginia

Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
84.027/84.173/84.392/84.392	Special Education Cluster (IDEA)
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

City of Lexington, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

Section IV - Status of Prior Audit Findings and Questioned Costs

There are no financial statement or federal findings.