

CITY OF LEXINGTON, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2012

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

CITY OF LEXINGTON, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FISCAL YEAR ENDED JUNE 30, 2012

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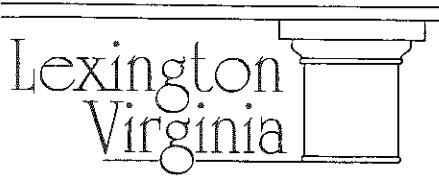
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## INTRODUCTORY SECTION



December 1, 2012

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, 2012 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, Rockbridge Area Network Authority, Regional Transit System, Maury Service Authority, Central Shenandoah Juvenile Detention Home and Industrial Development Authority have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

### **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 0.70/100 to 0.73/\$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 four-year reassessment scheduled for FY 14. The FY 12 current real estate tax collections translated to approximately \$54,365 per penny of the tax rate.

The City did not increase water and sewer rates in fiscal year ending June 30, 2012. The City received 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 12 totaled \$78,210 and will be dedicated by the Virginia Horse Center for long-term debt service costs.

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 City received additional grant funds to allow further planning and development of this park. 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 \$13.8 MIL over the next five years include bridge, sidewalk, municipal facility improvements, water and sewer utility line improvements, a water system upgrade, and recreational parks improvements. The next major project will be the construction of an estimated \$13.7 MIL elementary school to begin construction in fiscal year 2017.



Presently, almost 53% 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. Last, the City recently hired a consultant to study downtown parking and usage of street right of ways to interconnect with the North Lexington Chessie Nature Trail planned for development in the next five years.

### **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

\$20,314 for governmental funds were equivalent to less than one-half cent on the City real estate tax rate for the fiscal year ended June 30, 2012.

**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. 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.

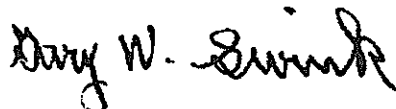
**Award:** As previously indicated, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lexington for its comprehensive annual financial report for the fiscal years ended June 30, 1994 through June 30, 2011. 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,

A handwritten signature in black ink that reads "Gary W. Swink". The signature is written in a cursive style with a large, prominent "G" and "S".

Gary Swink  
Director of Finance

# 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, 2011

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.



*Christopher P. Morrell*

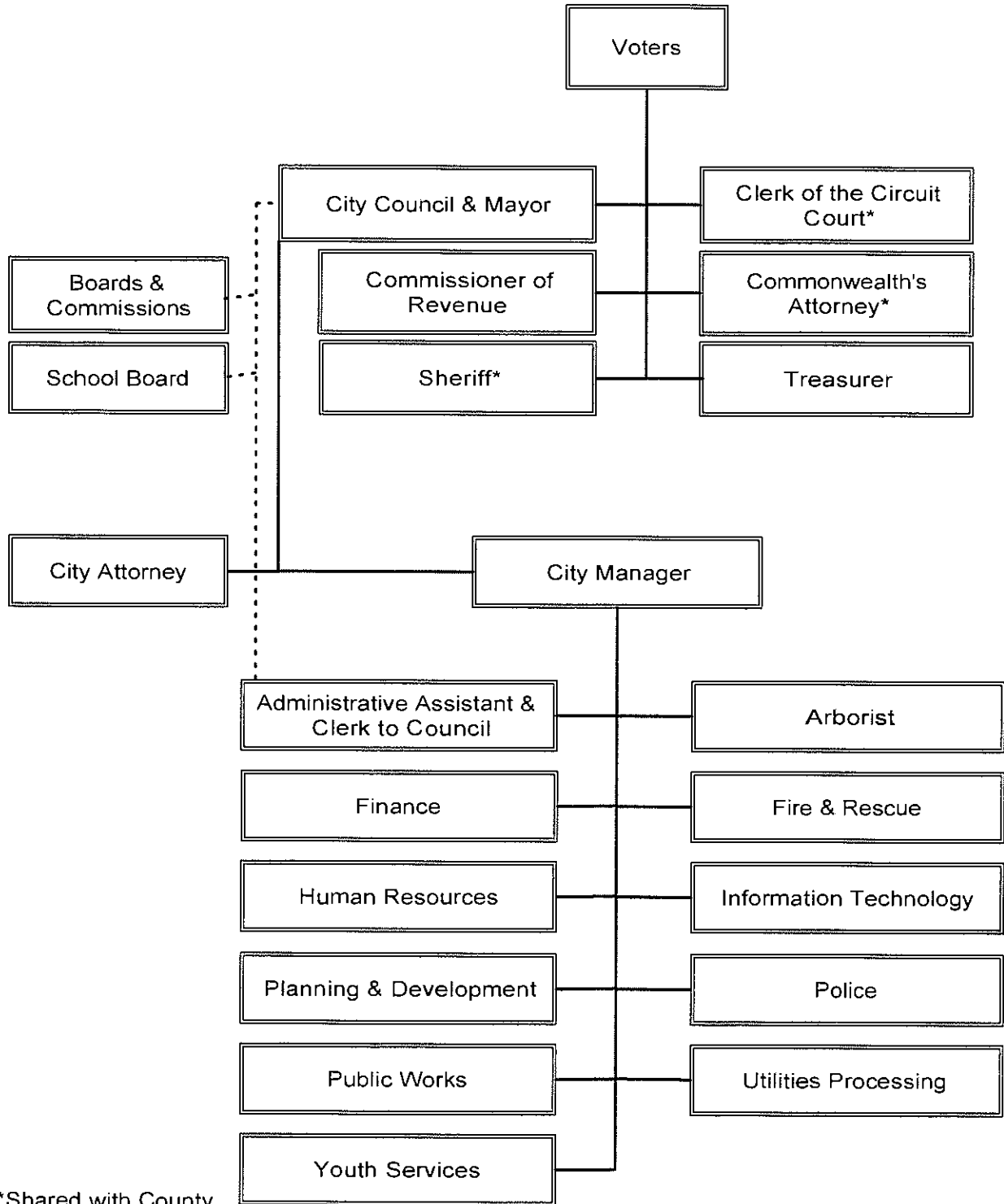
President

*Jeffrey R. Egan*

Executive Director

# CITY OF LEXINGTON

## Organizational Chart



\*Shared with County

..... Appointing authority only

CITY OF LEXINGTON, VIRGINIA

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CITY COUNCIL

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Bob Lera, Vice-Mayor R. David Cox George R. Pryde	Mimi Elrod, Mayor	Marilyn Alexander Mary P. Harvey-Halseth Charles "Chuck" Smith
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CITY SCHOOL BOARD

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Aaron Bruce, Vice Chair Leslie Straughan	Leonard Stewart, Jr., Chair	Richard Cruze, Jr. Jeannie VanNess
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OTHER OFFICIALS

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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 .....	Alfred S. Thomas
Fire and Rescue Chief .....	Ty Dickerson
Director of Planning and Development .....	Michael Zehner
Director of Utilities Processing.....	Rick Allen
Director of Public Works .....	Michael Kennedy
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, 2012, 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, 2012, 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 20, 2012 on our consideration of the City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedules of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the



information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and schedules of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington, Virginia's financial statements as a whole. The introductory section, other supplementary information, supporting schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The other supplementary information, supporting schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Robinson, Fauner, Cox Associates*

Blacksburg, Virginia  
November 20, 2012

## 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, 2012. 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 \$13,492,560 are more than total expenditures of \$13,137,002 by \$355,558. The City purchased \$123,996 of equipment replacement items from fund balance restricted for future equipment replacement needs. The equipment replacement items included two police vehicles, an animal control/parking enforcement pickup, a public works pickup, and a public works dump truck.
- The assets of the City of Lexington exceeded its liabilities at the close of the most recent fiscal year by \$22,519,032 (*net assets*). A total of \$10,946,479 (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, the unassigned fund balance for the general fund is \$5,080,601 or 40% of total general fund expenditures for \$12,613,608 in the year ended June 30, 2012.

### 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 \$22,519,032 at the close of the most recent fiscal year.

A portion of the City's net assets (48 percent) reflects its unrestricted net assets of \$10,946,470. 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 \$10,170,113. 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 \$1,123,246 for the fiscal year ending June 30, 2012. Most of this increase is attributable to the completion of a middle school addition and renovation capital project. The City completed additional capital improvements to a middle school using most of the \$1.5 MIL in 2010 bond proceeds with only \$51,689 remaining unexpended as of June 30, 2012.

**City of Lexington's Summary Statement of Net Assets**  
**as of June 30, 2012 and 2011**  
(In Thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current & other assets	\$ 13,850	\$ 12,387	\$ 2,630	\$ 1,804	\$ 16,480	\$ 14,191	\$ 1,925	\$ 1,493
Capital assets	26,290	26,631	2,769	2,036	29,059	28,667	1,861	2,013
Total assets	<u>\$ 40,140</u>	<u>\$ 39,018</u>	<u>\$ 5,399</u>	<u>\$ 3,840</u>	<u>\$ 45,539</u>	<u>\$ 42,858</u>	<u>\$ 3,786</u>	<u>\$ 3,506</u>
Long-term liabilities outstanding	\$ 19,181	\$ 19,933	\$ 67	\$ 65	\$ 19,248	\$ 19,998	\$ 154	\$ 149
Other liabilities	3,275	929	497	535	3,772	1,464	756	534
Total liabilities	<u>\$ 22,456</u>	<u>\$ 20,862</u>	<u>\$ 564</u>	<u>\$ 600</u>	<u>\$ 23,020</u>	<u>\$ 21,462</u>	<u>\$ 910</u>	<u>\$ 683</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 7,401	\$ 6,955	\$ 2,769	\$ 2,036	\$ 10,170	\$ 8,991	\$ 1,861	\$ 2,013
Restricted	1,403	1,479	—	—	1,403	1,479	—	—
Unrestricted	8,880	9,721	2,066	1,204	10,946	10,925	1,015	810
Total net assets	<u>\$ 17,684</u>	<u>\$ 18,155</u>	<u>\$ 4,835</u>	<u>\$ 3,240</u>	<u>\$ 22,519</u>	<u>\$ 21,395</u>	<u>\$ 2,876</u>	<u>\$ 2,823</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* (\$10,946,479) 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 79% 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, 2012 and 2011  
(In Thousands)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>								
Program Revenues:								
Chgs. for svcs.	\$ 1,151	\$ 1,049	\$ 5,649	\$ 5,209	\$ 6,800	\$ 6,258	\$ 244	\$ 232
Operating grants and contributions	1,002	1,256	—	—	1,002	1,256	3,163	3,041
Capital grants and contributions	9	126	—	—	9	126	—	—
General revenues:								
Property taxes	4,770	4,309	—	—	4,770	4,309	—	—
Other taxes	2,792	2,688	—	—	2,792	2,688	—	—
Grants and contributions not restricted to specific programs								
Other	1,181	938	—	—	1,181	938	—	—
Transfers	2,329	2,308	—	—	1,129	2,308	2,516	3,871
	<u>- 1,200</u>	<u>—</u>	<u>1,200</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total revenues</b>	<b><u>\$ 12,034</u></b>	<b><u>\$ 12,674</u></b>	<b><u>\$ 6,849</u></b>	<b><u>\$ 5,209</u></b>	<b><u>\$17,683</u></b>	<b><u>\$ 17,883</u></b>	<b><u>\$ 5,923</u></b>	<b><u>\$ 7,144</u></b>
<b>Expenses:</b>								
General Gov't.	\$ 1,394	\$ 1,222	\$ —	\$ —	\$ 1,394	\$ 1,222	\$ —	\$ —
Judicial Admin.	254	264	—	—	254	264	—	—
Public Safety	2,739	2,569	—	—	2,739	2,569	—	—
Public Works	2,564	3,046	—	—	2,564	3,046	—	—
Health & Welfare	736	751	—	—	736	751	—	—
Education	2,559	3,008	—	—	2,559	3,008	5,871	7,338
Parks, Rec. & Cultural	589	530	—	—	589	530	—	—
Community Development	1,108	1,196	—	—	1,108	1,196	—	—
Nondepartmental	—	—	—	—	—	—	—	—
Interest on Debt	562	602	—	—	562	602	—	—
Water & Sewer Utility	—	—	5,254	4,724	5,254	4,724	—	—
<b>Total Expenses</b>	<b><u>\$ 12,505</u></b>	<b><u>\$ 13,188</u></b>	<b><u>\$ 5,254</u></b>	<b><u>\$ 4,724</u></b>	<b><u>\$17,759</u></b>	<b><u>\$ 17,912</u></b>	<b><u>\$ 5,871</u></b>	<b><u>\$ 7,338</u></b>

Changes in net assets	-471	-514	1,595	485	1,124	-29	53	-194
Net assets beginning of year	<u>18,155</u>	<u>18,669</u>	<u>3,240</u>	<u>2,755</u>	<u>21,395</u>	<u>21,424</u>	<u>2,823</u>	<u>3,017</u>
Net assets end of year	<u>\$ 17,684</u>	<u>\$ 18,155</u>	<u>\$ 4,835</u>	<u>\$ 3,240</u>	<u>\$22,519</u>	<u>\$ 21,395</u>	<u>\$ 2,876</u>	<u>\$ 2,823</u>

**Governmental Revenues:**

- Property tax collections are up 9% or \$406,545. City Council raised the tax rate of \$0.70/\$100 of assessed value to \$0.73/\$100 of assessed value to support the FY 12 budgetary needs. The next four-year reassessment of real property taxes is scheduled in FY 14 to become effective in FY 15 for budgetary implications.
- Other local taxes are up \$103,733 or 4% for the current fiscal year ending June 30, 2012. The local sales and use taxes are up \$32,293 or 4%. The business license tax collections are up \$34,827 or 7%. The City overall local taxes did well as the local economy began to show positive signs of a recovery from the long and deep recession that began in FY 08.
- The meals tax increased \$64,108 or 10%. The bank stock tax decreased \$27,960 or 21%.
- The market interest earnings rate of return for investments remained drastically low reflecting a slight decrease of \$3,955 or 4% from use of money and property.
- Permits and license’s revenue increased \$38,391 or 71% due to several construction projects ongoing at Washington and Lee University.
- Landfill charges for services decreased \$1,210 or 1% due to less tonnage disposal from construction contractors remaining low, as well as the reduced tonnage resulting from the City’s recycling efforts.
- The City’s major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
General property taxes	\$ 4,806,977	36%
Other local taxes	2,792,046	21%
Charges for services	953,401	7%
Miscellaneous	2,184,657	16%
Recovered costs	221,354	2%
Intergovernmental	2,192,894	16%

**Governmental Expenses:**

- Increases in operational expenses closely paralleled inflation and growth in the demand for basic services. The governmental expenses totaled \$13,137,022 for the fiscal year ending June 30, 2012. The governmental expenses include \$123,996 in equipment replacement expenses from the restricted equipment replacement fund balance.
- General government administration expenses increased \$176,761 or 15%. A portion of this increase is attributable to improvements at a City building for a \$40,245 roof replacement and energy efficiency improvements totaling \$24,224. Also, contractual

legal service costs increased \$24,814. A part-time position to provide a downtown economic review and update, the purchase of check writing software, the addition of a part-time employee in the Treasurer's office, and the addition of a shared network administrator with the school system contributed to the significant increase in government administration costs for FY 12.

- The primary government's education expenses decreased \$1,489,519 or 39% from \$3,868,566 in FY 11 to \$2,379,047 in FY 12. Last fiscal year, the City provided \$1,500,000 in bond proceeds to complete the construction of a fully renovated middle school and administration annex plus an addition needed to meet future facility requirements for the local school system. The school employees received a double step pay increase in FY 12 to help catch up for not giving any pay increases in FY 10 and FY 11.
- Public safety expenses are up \$280,578 or 11% from \$2,518,329 in FY 11 to \$2,798,907 in FY 12. The City purchased two police vehicles for \$48,190. The fire department added eight new full-time positions in FY 12 to support fire and first aid operations. Also, the cost of vehicle operations increased significantly for both fuel and repair and maintenance costs.
- Public works expenses are down \$199,646 or 7% from \$2,583,860 in FY 11 to \$2,527,005 in FY 12. This decrease is somewhat attributable to a mild winter that produced a savings in snow removal costs. Also, the City eliminated pavement maintenance costs to defer state street maintenance funds needed to support a bridge maintenance project in FY 13.
- Health and welfare costs decreased \$14,309 or 2% due to decreased client service cases covered under the state mandated client services for public assistance to children needing institutional education and special needs care.
- Parks, recreation, and cultural operating expenditures are down \$44,354 or 8%. The City capital improvements for parks and recreation is down \$41,813 from \$51,625 in FY 11 to \$9,812 in FY 12.
- Capital project costs are up \$255,489 or 117%. The City purchased some land needed to support a Community Development Block Grant (CDBG) housing project for \$205,435. Also, engineering costs totaling \$44,112 added to the increased capital costs needed to support the infrastructure improvements for the residential CDBG housing project.
- Community development expenditures are down \$88,109 or 7%. The City entered an agreement with a local business to refurbish an old historic hotel in the main downtown central business district for a local contribution of \$498,920 in FY 11. The City contributed an additional \$83,284 in FY 12. Also, the City incurred expenditures to provide administrative and matching grant funds in support of the installation of broad band cable service to various public institutions throughout the City and Rockbridge County area.

**Business-type activities.** Business-type activities contribute to the City of Lexington's net assets by \$4,835,307 accounting for 21% of the total primary government net assets. In FY 12, the City did not increase water and sewer rates to support cash flow needs for both operating and capital expenses of the water and sewer enterprise fund. Total revenues of \$5,649,222 exceeded total expenses of \$5,254,270 by \$394,952 or 8% resulting in an increase in net assets. Also, the City made a \$1,200,000 transfer to the water and sewer enterprise fund to fund the installation of a \$1.4 MIL electronic meter reading system attributes to most of the \$1.6 MIL increase in net assets for the water and sewer enterprise fund for FY 12



Other significant items to note include:

- Wholesale sewer costs from the Maury Service Authority (MSA) for the wastewater plant increased \$153,839 or 16% from \$949,338 in FY 11 to \$1,103,107 in FY 12. This increase is due to increased rainfall resulting in more storm water infiltration and inflow into the City's sanitary sewer system. Also, the City contractual payment to the MSA for debt service costs related to a recent wastewater treatment plant upgrade increased \$162,551 from \$565,618 in FY 11 to \$728,170 in FY 12. Infiltration and Inflow operating costs increased \$36,394 from \$17,826 in FY 11 to \$54,220 in FY 12. Last, the City gave a water storage tank to the MSA as in-kind contribution for offsetting a portion of capital project cost to support a water loop distribution system. The new water distribution improvements will increase water services and pressure to provide better fire flow protection to the City and the Rockbridge area. The remaining value of the water storage that needed to be depreciated resulted in a \$98,032 loss for the disposal for the fixed assets in FY 12.
- The water and sewer enterprise fund completed two waterline improvement projects for a total cost of \$205,558 and installed the new electronic meters under Phase I improvements for a cost of \$842,389. A total of \$557,611 remains available to complete Phase II of the electronic meter system improvements that will include the installation of the electronic radio frequency read capability of the more efficient and effective City-wide system.

**Financial Analysis of the City's Funds.** As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for 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 \$9,565,194, a decrease of \$844,442 in comparison with the prior year. All of this decrease is the result of making a \$1.2 MIL transfer to the water and sewer enterprise fund to fund the new electronic meter reading system. A total of \$969,998 is committed for the City's future General Fund equipment replacement purchases. The City committed fire department funds totaling \$58,449 and first aid funds totaling \$364,491 are to be used exclusively for the specific needs of the volunteer fire department or first aid members subject to City Council's appropriation. A total of \$409,701 is assigned for the carryover of committed projects not completed as of June 30, 2012 in the General Fund. A total of \$1,132,511 is committed for other capital project needs. A total of \$5,080,601 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been approved for cemetery maintenance or other miscellaneous ongoing projects not completed as of June 30, 2012.

The general fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,080,601, a decrease of \$2,125,701 in comparison with the prior year. Most of this decrease is attributable to the City's \$1,200,000 transfer to the water and sewer enterprise fund to support the previously mentioned electronic meter reading system. Also a \$500,000 reserve in the capital projects fund will be committed to a new elementary school construction project planned for FY 17. Last, the City contributed \$280,000 to support a CDBG residential housing project.

In FY 12, state and federal revenue sources decreased \$126,814 or 5%. These reductions hinder the City's ability to support basic City services such as law enforcement, constitutional offices for the commissioner of revenue and treasurer, the electoral board and registrar, the state juvenile criminal crime control act, and public assistance programs. As a measure of the adequacy of this fund balance, it may be useful to compare unassigned fund balance, to total fund expenditures and other uses of financing sources. Unassigned fund balance represents 40% or more than four 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, the committed fund balance of the capital projects fund, excluding carryover commitments for June 30, 2012 was \$25,297, an increase of \$21,027. The City expenses for capital projects are minimal for the past year to allow affordability to deal with the City's financial constraints presented by reduced state revenue sources. Also, the City is waiting for improved economic conditions to bring positive revenue trends to support overall operating and capital budgeting needs.

**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 \$2,066,589, an increase of \$862,174 or 72% 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 \$16,185,454 and the final amended budget of \$18,870,454 reflects an increase in appropriation for \$2,685,000. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 11 to FY 12 \$1,070,593 for ongoing projects or activities that could not be completed by June 30, 2011. Most of the carryover totaling \$727,771 is for capital projects related to parks and recreation improvements, public works infrastructure improvements, and public facility improvements. Other significant carryovers included \$183,500 as a contribution to a local hotel renovation project and \$78,774 for street maintenance projects.
- Under general administration, \$14,000 was transferred from the contingency account to hire a part-time employee to prepare a downtown economic development study.
- The City reallocated a budgetary savings of \$10,300 under judicial administration to provide an additional transfer of cemetery perpetual care funds to the permanent cemetery trust fund on June 30, 2012.
- The public safety division of expenses included appropriation of \$11,440 for contribution and grant funds. A budgetary savings of \$10,500 for custodial contractual services was transferred to the public works division of expenses to help offset the salaries and fringe benefits of a four member full-time janitorial work crew. The fire department appropriated \$155,000 of committed first-aid reserve funds to purchase a new ambulance.
- The public works division of expenses carried over \$78,774 of state street maintenance funds for operating maintenance needs in FY 12. Also, the City received an additional \$16,198 in state street maintenance funds that needed to be appropriated. Last, \$5,500 of council contingency funds were transferred to purchase twenty (20) recycling containers for City parks and the downtown area.
- Under the community development budget, the City carried over \$18,057 to support professional services. Also, \$100,000 of relocation assistance for residents of a local hotel under a renovation agreement between the owner and the City as well as \$83,500 for land acquisition needed to support the same project were carried over from FY 11 to FY 12. Last, the City appropriated \$89,022 of unassigned fund balance to meet matching and administrative costs associated with a contribution to the Rockbridge Area Network Association (RANA). This contribution represented the City's share of expense for over a \$7 MIL federal grant awarded to RANA for a broad band underground utility project.
- The City allocated from the unassigned fund balance \$280,000 to provide a contribution to a CDBG funded residential housing project. Also, the City appropriated \$20,000 of contingency funds and used an unspent appropriation of \$26,000 previously appropriated for relocation assistance of residents of a local hotel per a renovation agreement between the owner and the City to provide a \$46,000 additional appropriation to professional services needed for a "Main to Maury" downtown planning study.

## Capital Asset and Debt Administration

**Capital assets.** Governmental fund capital asset additions for \$477,200 included five equipment replacement items for \$123,996. Also, a land acquisition for \$205,336 was purchased to support the CDBG residential housing project. An exhaust ventilation system was installed in the fire house for a cost of \$83,340. Last, the former first aid building received a roof replacement with added insulation to improve energy efficiency for a total cost of \$64,527.

For business activities, the City completed two waterline improvement projects for a total cost of \$205,558. Also, Phase I of a new electronic meter reading system was installed for a cost of \$842,389. Under the separate component units, only central dispatch and regional tourism purchased capital additions. Backup UPS replacement battery units were installed for the dispatch center for a total cost of \$20,120. A new vehicle was purchased for the regional tourism program for \$17,826.

### 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 2,912	\$ 2,707	\$ —	\$ —	\$ 2,912	\$ 2,707	\$ 5	\$ 5
Buildings	17,638	17,989	—	—	17,638	17,989	1,799	1,938
Improvements								
other than buildings	855	922	30	129	885	1,051	—	—
Infrastructure	2,831	2,934	2,506	1,557	5,337	4,491	—	—
Machinery & Equip.	1,725	1,792	233	252	1,958	2,044	57	71
Construction in Progress	329	287	—	98	329	385	—	—
<b>Totals</b>	<b>\$ 26,290</b>	<b>\$ 26,631</b>	<b>\$ 2,769</b>	<b>\$ 2,036</b>	<b>\$ 29,059</b>	<b>\$ 28,667</b>	<b>\$ 1,861</b>	<b>\$ 2,014</b>

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 did not issue any long-term debt in FY 12. As of June 30, 2012, the City reports a total of \$51,689 remaining in unexpended bond proceeds from the VPSA 2010 bond issuance inclusive of interest earnings. At the end of the current fiscal year, the City of Lexington had total bonded debt outstanding of \$19,570,588. 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>2012</u>	<u>2011</u>
Governmental activities	\$19,570,588	\$ 20,410,294
Business-type activities	<u>0</u>	<u>0</u>
TOTAL	<u>\$19,570,588</u>	<u>\$ 20,410,294</u>

The City's total general obligation debt decreased by \$839,706 or 4% 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 \$58,217,479 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 2012, the unemployment rate for the City of Lexington is 13.2%. This exceeds the United States average unemployment rate of 8.4%, and the state's average rate of 6.0%.

During the current fiscal year, unassigned fund balance in the general fund decreased to \$5,080,061. The City of Lexington has appropriated \$121,819 of this amount for spending in the 2013 fiscal year budget. The City is restricting an additional \$55,000 to provide a \$555,000 reserve of funding for a new elementary school planned for in the City's future capital improvements for local schools. It is intended that this use of available fund balance will minimize the need to raise taxes or charges for services during the 2013 fiscal year.

The water and sewer utility fund rates were increased 3.5% for the 2013 budget year.

**Contacting the City's Financial Management**

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

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## Basic Financial Statements

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City of Lexington, Virginia  
Statement of Net Assets  
June 30, 2012

	Primary Government					Component Units				
	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Rockbridge Area Recreation			Regional Tourism	
						Organization	Organization	Organization		
<b>ASSETS</b>										
Cash and cash equivalents	\$ -	\$ 1,490,187	\$ 1,490,187	\$ 1,666,436	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 420,201
Cash in custody of others	908,012	-	908,012	-	-	-	-	-	-	-
Investments	9,039,546	-	9,039,546	51,026	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):										
Taxes receivable	632,585	-	632,585	-	-	-	-	-	-	-
Accounts receivable	366,781	1,140,217	1,506,998	-	131,430	-	55,526	-	-	1,467
Due from component unit	114,151	-	114,151	-	-	-	-	-	-	-
Due from other governmental units	939,107	-	939,107	207,430	9,553	-	33,025	-	-	-
Prepaid expenses	147,003	-	147,003	-	-	-	-	-	-	-
Deferred charges	300,222	-	300,222	-	-	-	-	-	-	-
Restricted assets:										
Permanently restricted:										
Cash and cash equivalents	350,347	-	350,347	-	-	-	-	-	-	-
Investments	1,052,093	-	1,052,093	-	-	-	-	-	-	-
Capital assets (net of accumulated depreciation):										
Land	2,912,496	-	2,912,496	4,550	-	-	-	-	-	-
Buildings	17,638,055	-	17,638,055	1,799,057	-	-	-	-	-	-
Improvements other than buildings	854,742	29,718	884,460	-	-	-	-	-	-	-
Machinery and equipment	1,724,782	232,551	1,957,333	57,492	506,248	-	19,668	-	-	15,916
Infrastructure	2,830,562	2,506,449	5,337,011	-	-	-	-	-	-	-
Construction in progress	329,348	-	329,348	-	-	-	-	-	-	-
Total assets	\$ 40,139,832	\$ 5,399,122	\$ 45,538,954	\$ 3,785,991	\$ 647,231	\$ 108,219	\$ 437,584	\$ -	\$ -	\$ 437,584
<b>LIABILITIES</b>										
Accounts payable	\$ 237,639	\$ 460,802	\$ 698,441	\$ 308,657	\$ 50,206	\$ 1,195	\$ 14,269	\$ -	\$ -	\$ 14,269
Payroll liabilities	166,558	-	166,558	37,970	-	-	-	-	-	-
Cash overdraft	2,419,594	-	2,419,594	-	-	-	-	-	-	-
Contracts payable	-	-	-	359,276	-	-	-	-	-	-
Accrued interest payable	38,425	-	38,425	-	-	-	-	-	-	-
Due to primary government	-	-	-	-	48,114	-	66,037	-	-	-
Unearned revenue	69,025	-	69,025	49,950	-	-	-	-	-	-
Deposits held in escrow	-	35,718	35,718	-	-	-	-	-	-	-
Unearned grant revenue	344,196	-	344,196	-	-	-	-	-	-	-
Long-term liabilities:										
Due within one year	873,849	6,730	880,579	10,351	2,196	2,281	2,281	2,011	-	2,011
Due in more than one year	18,306,821	60,565	18,367,386	144,186	19,762	20,529	20,529	18,103	-	18,103
Total liabilities	\$ 22,456,107	\$ 563,815	\$ 23,019,922	\$ 910,390	\$ 120,278	\$ 90,042	\$ 34,383	\$ -	\$ -	\$ 34,383
<b>NET ASSETS</b>										
Invested in capital assets, net of related debt	\$ 7,401,395	\$ 2,768,718	\$ 10,170,113	\$ 1,861,099	\$ 506,248	\$ 19,668	\$ 15,916	\$ -	\$ -	\$ 15,916
Restricted:										
Pickeral memorial	-	-	-	-	-	-	13,336	-	-	-
Perpetual cemetery care	1,402,440	-	1,402,440	-	-	-	-	-	-	-
Unrestricted (deficit)	8,879,890	2,066,589	10,946,479	1,014,502	20,705	(14,827)	387,285	-	-	387,285
Total net assets	\$ 17,683,725	\$ 4,835,307	\$ 22,519,032	\$ 2,875,601	\$ 526,953	\$ 18,177	\$ 403,201	\$ -	\$ -	\$ 403,201

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, 2012

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	Rockbridge Area Recreation Organization	Regional Tourism	
<b>PRIMARY GOVERNMENT:</b>												
Governmental activities:												
General government administration	\$ 1,394,341	\$ 60,688	\$ 158,305	\$ -	\$ (1,175,348)	\$ -	\$ (1,175,348)	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial administration	253,993	102,896	56,859	-	(94,238)	-	(94,238)	-	-	-	-	-
Public safety	2,738,700	461,518	221,736	-	(2,055,446)	-	(2,055,446)	-	-	-	-	-
Public works	2,564,140	429,463	359,507	-	(1,775,170)	-	(1,775,170)	-	-	-	-	-
Health and welfare	736,010	8,005	197,864	-	(530,141)	-	(530,141)	-	-	-	-	-
Education	2,559,153	-	-	-	(2,559,153)	-	(2,559,153)	-	-	-	-	-
Parks, recreation, and cultural	588,681	88,108	25,832	-	(474,741)	-	(474,741)	-	-	-	-	-
Community development	1,107,760	-	236,802	9,068	(861,890)	-	(861,890)	-	-	-	-	-
Interest on long-term debt	562,713	-	-	-	(562,713)	-	(562,713)	-	-	-	-	-
Total governmental activities	\$ 12,505,491	\$ 1,150,678	\$ 1,256,905	\$ 9,068	\$ (10,088,840)	\$ -	\$ (10,088,840)	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:												
Utility Fund	\$ 5,254,270	\$ 5,649,222	\$ -	\$ -	\$ -	\$ 394,952	\$ 394,952	\$ -	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 17,759,761	\$ 6,799,900	\$ 1,256,905	\$ 9,068	\$ (10,088,840)	\$ 394,952	\$ (9,693,888)	\$ -	\$ -	\$ -	\$ -	\$ -
<b>COMPONENT UNITS:</b>												
School Board	\$ 5,871,046	\$ 243,930	\$ 3,163,316	\$ -	\$ -	\$ -	\$ -	\$ (2,463,800)	\$ -	\$ -	\$ -	\$ -
Central Dispatch	373,425	-	113,108	-	-	-	-	(260,317)	-	-	-	-
Rockbridge Area Recreation Organization	204,126	103,075	-	-	-	-	-	-	-	(101,051)	-	-
Regional Tourism	181,812	10,612	8,000	-	-	-	-	-	-	-	(163,200)	-
Total component units	\$ 6,630,409	\$ 357,617	\$ 3,284,424	\$ -	\$ -	\$ -	\$ -	\$ (2,463,800)	\$ (260,317)	\$ (101,051)	\$ (163,200)	\$ -
General revenues:												
General property taxes					\$ 4,769,556	\$ -	\$ 4,769,556	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes:												
Local sales and use taxes					818,287	-	818,287	-	-	-	-	-
Consumers' utility taxes					305,319	-	305,319	-	-	-	-	-
Business license taxes					548,373	-	548,373	-	-	-	-	-
Restaurant food taxes					708,829	-	708,829	-	-	-	-	-
Hotel and motel room taxes					233,214	-	233,214	-	-	-	-	-
Other local taxes					178,024	-	178,024	-	-	-	-	-
Unrestricted revenues from use of money and property					143,954	-	143,954	4,428	629	49	-	-
Miscellaneous					466,202	-	466,202	132,669	220	25,848	1,310	-
Revenue sharing payments					1,718,455	-	1,718,455	-	-	-	-	-
Payments from the City of Lexington					926,921	-	926,921	2,379,047	191,359	72,225	179,447	-
Grants and contributions not restricted to specific programs					(1,200,000)	-	(1,200,000)	-	-	-	-	-
Transfers					9,617,134	\$ 1,200,000	\$ 10,817,134	\$ 2,516,144	\$ 192,208	\$ 98,122	\$ 180,757	\$ -
Total general revenues and transfers					\$ (471,706)	\$ 1,594,952	\$ 1,123,246	\$ 52,344	\$ (68,109)	\$ (2,929)	\$ 17,557	\$ -
Change in net assets					18,155,431	3,240,355	21,395,786	2,823,257	595,062	21,106	385,644	-
Net assets - beginning					17,683,725	4,835,307	22,519,032	2,875,601	526,953	18,177	403,201	-
Net assets - ending					\$ 17,683,725	\$ 4,835,307	\$ 22,519,032	\$ 2,875,601	\$ 526,953	\$ 18,177	\$ 403,201	\$ -

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



City of Lexington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
<b>ASSETS</b>				
Cash in custody of others	\$ -	\$ 908,012	\$ -	\$ 908,012
Investments	8,988,896	-	-	8,988,896
Receivables (net of allowance for uncollectibles):				
Taxes receivable	632,585	-	-	632,585
Accounts receivable	366,781	-	-	366,781
Due from component unit	114,151	-	-	114,151
Due from other governmental units	702,032	237,075	-	939,107
Prepaid items	147,003	-	-	147,003
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	350,347	350,347
Investments	-	-	1,052,093	1,052,093
Total assets	<u>\$ 10,951,448</u>	<u>\$ 1,145,087</u>	<u>\$ 1,402,440</u>	<u>\$ 13,498,975</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Reconciled overdraft	\$ 2,419,594	\$ -	\$ -	\$ 2,419,594
Accounts payable	225,063	12,576	-	237,639
Payroll liabilities	166,558	-	-	166,558
Deferred revenue	765,794	-	-	765,794
Deferred grant revenue	344,196	-	-	344,196
Total liabilities	<u>\$ 3,921,205</u>	<u>\$ 12,576</u>	<u>\$ -</u>	<u>\$ 3,933,781</u>
Fund balances:				
Nonspendable	\$ 147,003	\$ -	\$ 180,562	\$ 327,565
Restricted	-	-	1,221,878	1,221,878
Committed	1,392,938	1,132,511	-	2,525,449
Assigned	409,701	-	-	409,701
Unassigned	5,080,601	-	-	5,080,601
Total fund balances	<u>\$ 7,030,243</u>	<u>\$ 1,132,511</u>	<u>\$ 1,402,440</u>	<u>\$ 9,565,194</u>
Total liabilities and fund balances	<u>\$ 10,951,448</u>	<u>\$ 1,145,087</u>	<u>\$ 1,402,440</u>	<u>\$ 13,498,975</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, 2012

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 9,565,194
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,289,985
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	696,769
Internal service funds are used by management to charge the costs of certain activities, such as employee benefits, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	50,650
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(18,918,873)
Net assets of governmental activities	<u>\$ 17,683,725</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, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
<b>REVENUES</b>				
General property taxes	\$ 4,806,977	\$ -	\$ -	\$ 4,806,977
Other local taxes	2,792,046	-	-	2,792,046
Permits, privilege fees, and regulatory licenses	94,381	-	-	94,381
Fines and forfeitures	102,896	-	-	102,896
Revenue from the use of money and property	100,042	-	43,912	143,954
Charges for services	953,401	-	-	953,401
Miscellaneous	2,180,837	3,820	-	2,184,657
Recovered costs	221,354	-	-	221,354
Intergovernmental revenues:				
Commonwealth	1,890,383	-	-	1,890,383
Federal	38,801	263,710	-	302,511
Total revenues	<u>\$ 13,181,118</u>	<u>\$ 267,530</u>	<u>\$ 43,912</u>	<u>\$ 13,492,560</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,304,005	\$ 64,469	\$ -	\$ 1,368,474
Judicial administration	255,637	-	-	255,637
Public safety	2,701,882	97,025	-	2,798,907
Public works	2,492,655	34,350	-	2,527,005
Health and welfare	736,376	-	-	736,376
Education	2,379,047	-	-	2,379,047
Parks, recreation, and cultural	452,967	9,812	49,086	511,865
Community development	837,231	268,652	-	1,105,883
Nondepartmental	119,070	-	-	119,070
Debt service:				
Principal retirement	839,704	-	-	839,704
Interest and other fiscal charges	495,034	-	-	495,034
Total expenditures	<u>\$ 12,613,608</u>	<u>\$ 474,308</u>	<u>\$ 49,086</u>	<u>\$ 13,137,002</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 567,510</u>	<u>\$ (206,778)</u>	<u>\$ (5,174)</u>	<u>\$ 355,558</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ 1,068,000	\$ 32,300	\$ 1,100,300
Transfers out	(2,300,300)	-	-	(2,300,300)
Total other financing sources (uses)	<u>\$ (2,300,300)</u>	<u>\$ 1,068,000</u>	<u>\$ 32,300</u>	<u>\$ (1,200,000)</u>
Net change in fund balances	\$ (1,732,790)	\$ 861,222	\$ 27,126	\$ (844,442)
Fund balances - beginning	8,763,033	271,289	1,375,314	10,409,636
Fund balances - ending	<u>\$ 7,030,243</u>	<u>\$ 1,132,511</u>	<u>\$ 1,402,440</u>	<u>\$ 9,565,194</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, 2012

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

Net change in fund balances - total governmental funds	\$ (844,442)
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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.	(341,298)
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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.	(37,421)
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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.	839,704
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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.	(88,249)
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Change in net assets of governmental activities	<u>\$ (471,706)</u>
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The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia  
Statement of Net Assets  
Proprietary Fund  
June 30, 2012

	Enterprise Fund Utility Fund	Internal Service Funds
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,490,187	\$ -
Investments	-	101,676
Accounts receivable, net of allowance for uncollectibles	1,140,217	-
Total current assets	<u>\$ 2,630,404</u>	<u>\$ 101,676</u>
Noncurrent assets:		
Capital assets:		
Buildings	\$ 113,405	\$ -
Less accumulated depreciation	(113,405)	-
Improvements other than buildings	77,717	-
Less accumulated depreciation	(47,999)	-
Machinery and equipment	441,198	-
Less accumulated depreciation	(208,647)	-
Infrastructure	4,407,800	-
Less accumulated depreciation	(1,901,351)	-
Total capital assets	<u>\$ 2,768,718</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 2,768,718</u>	<u>\$ -</u>
Total assets	<u>\$ 5,399,122</u>	<u>\$ 101,676</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 460,802	\$ -
Compensated absences-current portion	6,730	-
Deposits held in escrow	35,718	-
Total current liabilities	<u>\$ 503,250</u>	<u>\$ -</u>
Noncurrent liabilities:		
OPEB Liability	\$ -	\$ 101,676
Compensated absences - net of current portion	60,565	-
Total noncurrent liabilities	<u>\$ 60,565</u>	<u>\$ 101,676</u>
Total liabilities	<u>\$ 563,815</u>	<u>\$ 101,676</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 2,768,718	\$ -
Unrestricted	2,066,589	-
Total net assets	<u>\$ 4,835,307</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, 2012

	Enterprise Fund <u>Utility Fund</u>	Internal Service <u>Funds</u>
<b>OPERATING REVENUES</b>		
Charges for services:		
Water and sewer revenues	\$ 5,633,839	\$ -
OPEB Contribution	-	16,728
Miscellaneous	15,383	-
Total operating revenues	<u>\$ 5,649,222</u>	<u>\$ 16,728</u>
<b>OPERATING EXPENSES</b>		
Administration	\$ 136,416	\$ -
Water treatment plant	633,461	-
Water treatment	5,525	-
Water distribution	951,453	-
Wastewater collection	1,975,599	-
MSA - Wastewater plant	1,089,606	-
Inflow and infiltration	54,220	-
Public Works Personnel	49,173	-
Miscellaneous	24,739	-
Internal services	108,016	-
Other post employment benefits	-	16,728
Depreciation	128,030	-
Total operating expenses	<u>\$ 5,156,238</u>	<u>\$ 16,728</u>
Operating income (loss)	<u>\$ 492,984</u>	<u>\$ -</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Loss on disposal of assets	\$ (98,032)	\$ -
Income before transfers	\$ 394,952	\$ -
Transfers in	\$ 1,200,000	\$ -
Change in net assets	<u>\$ 1,594,952</u>	<u>\$ -</u>
Total net assets - beginning	3,240,355	-
Total net assets - ending	<u>\$ 4,835,307</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, 2012

	Enterprise Fund <u>Utility</u> Fund	Internal Service <u>Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 5,640,937	\$ 16,728
Payments to suppliers	(3,554,630)	-
Payments to and for employees	(1,510,710)	-
Net cash provided by (used for) by operating activities	<u>\$ 575,597</u>	<u>\$ 16,728</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	\$ 1,200,000	\$ -
Net cash provided by (used for) by noncapital financing activities	<u>\$ 1,200,000</u>	<u>\$ -</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to capital assets	\$ (958,840)	\$ -
Net cash provided by (used for) by capital and related financing activities	<u>\$ (958,840)</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ 816,757	\$ 16,728
Cash and cash equivalents - beginning	673,430	84,948
Cash and cash equivalents - ending	<u>\$ 1,490,187</u>	<u>\$ 101,676</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 492,984	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:		
Depreciation expense	\$ 128,030	\$ -
(Increase) decrease in accounts receivable	(9,635)	-
Increase (decrease) in compensated absences	2,419	-
Increase (decrease) in accounts payable	(39,551)	-
Increase (decrease) in OPEB liability	-	16,728
Increase (decrease) customer deposits	1,350	-
Total adjustments	<u>\$ 82,613</u>	<u>\$ 16,728</u>
Net cash provided by (used for) by operating activities	<u>\$ 575,597</u>	<u>\$ 16,728</u>
Schedule of noncash capital and related financing activities:		
Capital and related financing activities:		
Disposal of capital assets	\$ 98,032	

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

CITY OF LEXINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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**Note 1-Summary of Significant Accounting Policies:**

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

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



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

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

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

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

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

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

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

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations -

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

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net 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 Net Assets is designed to display financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities.

The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

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

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

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

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

The 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.

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

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

The government reports the following major governmental funds:

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

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

The *Cemetery Trust Fund* (Permanent Fund) accounts for and reports 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

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

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

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.

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 non-spendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Property Taxes

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

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

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

4. Inventory

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

5. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$64,183 at June 30, 2012 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.

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

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

7. Capital assets (Continued)

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

8. Compensated Absences

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

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net 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.

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

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

10. Fund equity

Fund balances, presented in the governmental fund financial statements, represent the difference between assets and liabilities reported in a governmental fund. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds. This new standard (implemented in 2011) has not affected the total amount of reported fund balances but has substantially changed the categories and terminology used to describe their components. GASB Statement No. 54 requires that fund balances be classified into categories based upon the type of restrictions imposed on the use of funds. The City of Lexington, Virginia evaluated its funds at June 30, 2012 and classified fund balance into the following five categories:

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

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

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

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

Unassigned -this category is for any balances that have no restrictions placed upon them; positive amounts are only reported in the general fund.

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



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

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

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

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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**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 statement 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 (\$18,918,873), (\$154,537), and (\$64,882) 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	\$ (19,570,590)	\$ -	\$ -
Less: Discount on bond issuance	682,000	-	-
Less: Bond issuance costs	300,222	-	-
Accrued interest payable	(38,425)	-	-
Compensated absences	(241,430)	(103,511)	(64,882)
OPEB obligation	<u>(50,650)</u>	<u>(51,026)</u>	<u>-</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (18,918,873)</u>	<u>\$ (154,537)</u>	<u>\$ (64,882)</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 (\$341,298), (\$152,257), and (\$67,088) 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
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Capital outlays	\$ 519,533	\$ -	\$ 37,946
Depreciation expenses	(860,831)	(152,257)	(105,034)
	<u>                    </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</i> of governmental activities	\$ (341,298)	\$ (152,257)	\$ (67,088)
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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 \$839,704 difference in the primary government are as follows:

Principal repayments:

General obligation debt	<u>\$ 839,704</u>
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Net adjustment to decrease *net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities*

<u>\$ 839,704</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, "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 (\$88,249), (\$2,910), and \$7,560 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	\$ (20,570)	\$ (2,910)	\$ 7,560
(Increase) decrease in accrued interest	799	-	-
Amortization of issuance costs	<u>(68,478)</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>\$ (88,249)</u>	<u>\$ (2,910)</u>	<u>\$ 7,560</u>

**Note 3-Stewardship, Compliance, and Accountability:**

- A. Excess of expenditures over appropriations

For the year ended June 30, 2012, the City did not have any expenditures in excess of appropriations. Appropriations are not required for the permanent fund; therefore none have been reported in the schedules.

- B. Deficit fund equity

At June 30, 2012, there were no funds with deficit fund equity.

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**Note 4-Deposits and Investments:**

Deposits:

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

Investments:

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

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2012 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, 2012 were held in the City's name by the City's custodial bank; except \$39,741 of U.S. Treasuries, \$465,564 of Mutual Fund Bonds, and \$565,809 of Common Stocks, and \$81,810 of Other Funds where the underlying securities were uninsured and held by the investment's counterparty's trust department or agent but not in the name of the City. The Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2012 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.

<u>City's Rated Debt Investments' Values</u>		
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>	
	<u>Aaa</u>	<u>Unrated</u>
LGIP	\$ 8,988,896	\$ -
Bond Mutual Fund	-	465,564

**Note 4-Deposits and Investments: (Continued)**

Concentration of Credit Risk

At June 30, 2012, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

Interest Rate Risk

Investment Type	Fair Value	Maturity Date	Call Options
Mutual Fund Bonds:			
Neuberger Berman Income Fds High Inc	\$ 53,035	Upon demand	None
Templeton Income TR Global BD FD	33,907	Upon demand	None
Ridgeworth Fd-Seix Fltg Rt High Inc	29,298	Upon demand	None
Ridgeworth Fd-Intermediate BD	153,848	Upon demand	None
PIMCO Fds PAC Invt Mgmt Ser Invt	60,449	Upon demand	None
PIMCO FDS Low Duration FD	99,055	Upon demand	None
PIMCO Foreign Bd	35,972	Upon demand	None
LGIP	8,988,896	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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**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>Rockbridge County:</u>			
General Fund	\$ 221,354	\$ -	\$ -
<u>Commonwealth of Virginia:</u>			
Local sales tax	146,432	-	-
Communications sales and use tax	56,038	-	-
State sales tax	-	71,657	-
Categorical aid-shared expenses	12,510	-	-
Other categorical aid	2,660	102,000	42,578
Non-categorical aid	224,461	-	-
CDBG planning grant	233,213	-	-
Virginia public assistance funds	34,934	-	-
<u>Federal Government:</u>			
Categorical aid	7,505	-	-
School grants	-	33,773	-
Totals	<u>\$ 939,107</u>	<u>\$ 207,430</u>	<u>\$ 42,578</u>

**Note 6-Interfund/Component Unit Obligations and Transfers:**

Interfund/Component Unit Obligations for the fiscal year ended June 30, 2012 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	<u>\$ -</u>	<u>\$ 114,151</u>
Nonmajor Component Unit:		
Central Dispatch	\$ 48,114	\$ -
Rockbridge Area Recreation	<u>66,037</u>	<u>-</u>
Total Nonmajor Component Unit	<u>\$ 114,151</u>	<u>\$ -</u>

**Note 6-Interfund/Component Unit Obligations and Transfers: (Continued)**

Interfund transfers for the fiscal year ended June 30, 2012 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ -	\$ 2,300,300
Capital Projects Fund	1,068,000	-
Cemetary Fund	32,300	-
Utility Fund	1,200,000	-
Total	<u>\$ 2,300,300</u>	<u>\$ 2,300,300</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, 2012

**Note 7-Long-Term Obligations:**

Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2012.

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
General Obligation Bonds	\$ 20,410,294	\$ -	\$ (839,704)	\$ 19,570,590
Less: Discount on Issuance	(734,462)	-	52,462	(682,000)
OPEB Obligation	36,241	19,732	(5,323)	50,650
Compensated Absences	220,860	218,814	(198,244)	241,430
<b>Total</b>	<b>\$ 19,932,933</b>	<b>\$ 238,546</b>	<b>\$ (990,809)</b>	<b>\$ 19,180,670</b>

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2013	\$ 849,706	\$ 484,951
2014	859,706	474,151
2015	874,706	462,851
2016	884,706	451,051
2017	894,706	438,851
2018-2022	4,693,530	1,981,573
2023-2027	5,108,530	1,551,227
2028-2032	2,720,000	1,001,662
2033-2036	2,685,000	276,375
<b>Totals</b>	<b>\$ 19,570,590</b>	<b>\$ 7,122,692</b>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

Note 7-Long-Term Obligations: (Continued)

Primary Government - Governmental Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Bond	3.5%-5%	1/5/2006	2035	\$ 12,000,000	\$ 10,800,000	\$ 265,000
GO Bond	0.00%	11/13/2009	2026	8,410,000	7,420,590	494,706
VPSA Bond	0.00%	7/8/2010	2027	1,530,000	1,350,000	90,000
Subtotal GO Bonds					<u>19,570,590</u>	<u>849,706</u>
Less: Discount on Issuance					<u>(682,000)</u>	<u>-</u>
Total GO Bonds					<u>\$ 18,888,590</u>	<u>\$ 849,706</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 241,430	\$ 24,143
OPEB Obligation	n/a	n/a	n/a	n/a	50,650	-
Total Other Obligations					<u>\$ 292,080</u>	<u>\$ 24,143</u>
Total Long-term debt					<u>\$ 19,180,670</u>	<u>\$ 873,849</u>

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

Primary Government-Enterprise Activity Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2012.

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
Compensated Absences	\$ 64,876	\$ 48,863	\$ (46,444)	\$ 67,295
Total	<u>\$ 64,876</u>	<u>\$ 48,863</u>	<u>\$ (46,444)</u>	<u>\$ 67,295</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 7-Long-Term Obligations: (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	\$ 67,295	\$ 6,730

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 obligation transactions of the Component-Unit School Board for the year ended June 30, 2012.

	<u>Balance July 1, 2011</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Compensated Absences	\$ 100,601	\$ 2,910	\$ -	\$ 103,511
OPEB Obligation	48,707	54,473	(52,154)	51,026
<b>Total</b>	<b>\$ 149,308</b>	<b>\$ 57,383</b>	<b>\$ (52,154)</b>	<b>\$ 154,537</b>

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	\$ 103,511	\$ 10,351
OPEB Obligation	n/a	n/a	n/a	n/a	51,026	-
<b>Total Other Obligations</b>					<b>\$ 154,537</b>	<b>\$ 10,351</b>

Compensated absences are liquidated by the School Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

Discretely Presented Nonmajor Component Units:

The following is a summary of long-term obligation transactions of the Nonmajor Component Units for the year ended June 30, 2012.

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
Compensated Absences	\$ 72,442	\$ 45,303	\$ (52,863)	\$ 64,882

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	\$ 64,882	\$ 6,488

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

**Note 9-Employee Retirement System and Defined Benefit Pension Plans:**

A. Plan Description

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

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

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

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

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

A. Plan Description (Continued)

Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

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

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

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the City of Lexington, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City of Lexington, Virginia's contribution rate for the fiscal year ended 2012 was 9.77% 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 compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. 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 2012 was 0% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2012, the City of Lexington, Virginia's annual pension cost of \$456,692 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.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) <sup>1</sup>	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2012	\$ 456,692	100.00%	\$ -
	6/30/2011	422,340	100.00%	-
	6/30/2010	397,229	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2012	\$ -	100.00%	\$ -
	6/30/2011	-	100.00%	-
	6/30/2010	-	100.00%	-

<sup>1</sup> Employer portion only

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

C. Annual Pension Cost (Continued)

The FY 2012 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) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.5 % to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50%. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City of Lexington, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Lexington, Virginia's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2011, the most recent actuarial valuation date, the plan was 74.92% funded. The actuarial accrued liability for benefits was \$21,434,004, and the actuarial value of assets was \$16,058,891, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,375,113. The covered payroll (annual payroll of active employees covered by the plan) was \$4,256,042, and ratio of the UAAL to the covered payroll was 126.29%.

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

As of June 30, 2011, the most recent actuarial valuation date, the plan was 126.69% funded. The actuarial accrued liability for benefits was \$377,652, and the actuarial value of assets was \$478,429, resulting in an overfunded actuarial accrued liability (UAAL) of (\$100,777). The covered payroll (annual payroll of active employees covered by the plan) was \$50,732, and ratio of the UAAL to the covered payroll was (198.65%).

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

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

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

Plan Description

The Lexington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/2011-annual-report.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. 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 \$152,921, \$89,914, and \$152,470, for the fiscal years ended 2012, 2011, and 2010, respectively. Employer contributions represented 6.33%, 3.93%, and 6.25%, of covered payroll for the fiscal years ended 2012, 2011, and 2010, respectively.

**Note 10-Unearned/Deferred 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 \$1,109,990 is comprised of the following:

Prepaid Property Taxes - Property taxes totaling \$69,025 not due until December 5, 2012, but paid prior to June 30, 2012.

Property Taxes Receivable - Taxes billed and not due until after June 30, 2012, less amounts received 60 days after the period end totaled \$696,769.

Deferred Grants - Grant revenue collected by the City for various purposes that has not met the revenue criteria totaled \$344,196.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**Note 11-Capital Assets:**

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,707,159	\$ 205,337	\$ -	\$ 2,912,496
Construction in progress	287,015	42,333	-	329,348
Total capital assets not being depreciated	<u>\$ 2,994,174</u>	<u>\$ 247,670</u>	<u>\$ -</u>	<u>\$ 3,241,844</u>
Capital assets, being depreciated:				
Buildings	\$ 20,001,903	\$ 64,527	\$ -	\$ 20,066,430
Improvements other than buildings	1,383,335	-	-	1,383,335
Infrastructure	5,089,552	-	-	5,089,552
Machinery and equipment	5,559,430	207,336	(99,411)	5,667,355
Total capital assets being depreciated	<u>\$ 32,034,220</u>	<u>\$ 271,863</u>	<u>\$ (99,411)</u>	<u>\$ 32,206,672</u>
Less: accumulated depreciation for:				
Buildings	\$ (2,012,884)	\$ (415,491)	\$ -	\$ (2,428,375)
Improvements other than buildings	(461,193)	(67,400)	-	(528,593)
Infrastructure	(2,155,514)	(103,476)	-	(2,258,990)
Machinery and equipment	(3,767,520)	(274,464)	99,411	(3,942,573)
Total accumulated depreciation	<u>\$ (8,397,111)</u>	<u>\$ (860,831)</u>	<u>\$ 99,411</u>	<u>\$ (9,158,531)</u>
Total capital assets being depreciated, net	<u>\$ 23,637,109</u>	<u>\$ (588,968)</u>	<u>\$ -</u>	<u>\$ 23,048,141</u>
Governmental activities capital assets, net	<u>\$ 26,631,283</u>	<u>\$ (341,298)</u>	<u>\$ -</u>	<u>\$ 26,289,985</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**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	\$ 97,607	\$ -	\$ (97,607)	\$ -
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	442,708	-	(364,991)	77,717
Infrastructure	3,410,403	1,047,947	(50,550)	4,407,800
Machinery and equipment	432,698	8,500	-	441,198
Total capital assets being depreciated	<u>\$ 4,399,214</u>	<u>\$ 1,056,447</u>	<u>\$ (415,541)</u>	<u>\$ 5,040,120</u>
Less: accumulated depreciation for:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(313,933)	(1,025)	266,959	(47,999)
Infrastructure	(1,853,381)	(98,520)	50,550	(1,901,351)
Machinery and equipment	(180,162)	(28,485)	-	(208,647)
Total accumulated depreciation	<u>\$ (2,460,881)</u>	<u>\$ (128,030)</u>	<u>\$ 317,509</u>	<u>\$ (2,271,402)</u>
Total capital assets being depreciated, net	<u>\$ 1,938,333</u>	<u>\$ 928,417</u>	<u>\$ (98,032)</u>	<u>\$ 2,768,718</u>
Business-type activities capital assets, net	<u>\$ 2,035,940</u>	<u>\$ 928,417</u>	<u>\$ (195,639)</u>	<u>\$ 2,768,718</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**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	\$ 21,999
Public safety	240,221
Public works	332,964
Education	180,106
Parks, recreation, and culture	80,661
Community development	4,880
	<hr/>
Total depreciation expense-governmental activities	\$ 860,831
	<hr/>
Business-type activities:	
Water and Sewer Fund	\$ 128,030
	<hr/>

Capital asset activity for the School Board for the year ended June 30, 2012 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
Total capital assets not being depreciated	<hr/> \$ 4,550	<hr/> \$ -	<hr/> \$ -	<hr/> \$ 4,550
Capital assets, being depreciated:				
Buildings	\$ 4,357,610	\$ -	\$ -	\$ 4,357,610
Machinery and equipment	279,630	-	(42,970)	236,660
Total capital assets being depreciated	<hr/> \$ 4,637,240	<hr/> \$ -	<hr/> \$ (42,970)	<hr/> \$ 4,594,270
Less: accumulated depreciation for:				
Buildings	\$ (2,419,898)	\$ (138,655)	\$ -	\$ (2,558,553)
Machinery and equipment	(208,536)	(13,602)	42,970	(179,168)
Total accumulated depreciation	<hr/> \$ (2,628,434)	<hr/> \$ (152,257)	<hr/> \$ 42,970	<hr/> \$ (2,737,721)
Total capital assets being depreciated, net	<hr/> \$ 2,008,806	<hr/> \$ (152,257)	<hr/> \$ -	<hr/> \$ 1,856,549
School board capital assets, net	<hr/> \$ 2,013,356	<hr/> \$ (152,257)	<hr/> \$ -	<hr/> \$ 1,861,099

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 11-Capital Assets: (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 \$152,257

Discretely Presented Component Units - Nonmajor:

Capital asset activity for the Nonmajor Component Units for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment - Central Dispatch	\$ 882,377	\$ 20,120	\$ (9,692)	\$ 892,805
Machinery and equipment - RARO	30,533	-	-	30,533
Machinery and equipment - Regional Tourism	11,664	17,826	-	29,490
Total capital assets being depreciated	\$ 924,574	\$ 37,946	\$ (9,692)	\$ 952,828
Less: accumulated depreciation for:				
Machinery and equipment - Central Dispatch	\$ (297,094)	\$ (99,155)	\$ 9,692	\$ (386,557)
Machinery and equipment - RARO	(6,896)	(3,969)	-	(10,865)
Machinery and equipment - Regional Tourism	(11,664)	(1,910)	-	(13,574)
Total accumulated depreciation	\$ (315,654)	\$ (105,034)	\$ 9,692	\$ (410,996)
Total capital assets being depreciated, net	\$ 608,920	\$ (67,088)	\$ -	\$ 541,832
Nonmajor component unit capital assets, net	\$ 608,920	\$ (67,088)	\$ -	\$ 541,832

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

Public safety	\$ 99,155
Parks, recreation, and cultural	3,969
Community development	<u>1,910</u>
Total depreciation expense-nonmajor component units	<u>\$ 105,034</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 12-Risk Management:**

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

**Note 13-Contingent Liabilities:**

The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction and recent upgrades of its current wastewater treatment plant. The MSA's debt totaled \$12,306,652 as of June 30, 2012, and is scheduled to be completely retired by June of 2031. The City paid \$728,170 to the MSA in FY12 for half of the debt service; the County of Rockbridge pays an equal assessment. An annual assessment of \$727,123 per year is scheduled thru fiscal year ending June 30, 2018. The annual assessment will be reduced to \$161,504 for fiscal year ending June 30, 2019 thru June 30, 2031.

**Note 14-Surety Bonds:**

Primary Government:

<u>Fidelity &amp; Deposit Company of Maryland-Surety:</u>	
Alfred Thomas, Chief of Police	\$ 30,000
Pat DeLaney, Treasurer	500,000
Karen T. Roundy, Commissioner of Revenue	3,000
<u>Virginia Municipal Liability Pool - Surety:</u>	
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 2012, the City paid the MSA \$1,753,905 for bulk purchases of water and sewer services, as well as a \$728,170 assessment for debt service. The City also received \$1,809,221 from the MSA under the operating agreements described above.

Solid Waste Authority of Rockbridge County: The City of Lexington, along with other localities, participates in the Solid Waste Authority of Rockbridge County, which operates a regional landfill. Each participating jurisdiction is responsible through tipping fees for its proportionate share of operating costs. Each jurisdiction, after consultation with the committee, will determine tipping fees to be charged to waste generators within their jurisdiction. The tipping fee charged in 2012 was \$26/ton for refuse disposal at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual per student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,100,000 for high school student tuition in 2012.

**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 2012, the City received \$1,718,455 from the County representing the revenue sharing payment under this agreement.

**Note 17-Litigation:**

A jury, in June 2012, found the City guilty of gross negligence and maintaining a nuisance ruling in favor of the claimant, Charles Volpe. Charles Volpe's mother was awarded \$100,000 in damages. One month later, a motion for additur was made on behalf of the Volpe family. The plaintiff filed a request for Additur and for a new trial both of which were denied. If a subsequent appeal is filed, the attorney handling the Case for the City under its insurance policy is confident that the result will be substantially similar to the prior award.

**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.

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 2012, the City contributed \$57,477 in total for current premiums and prefunding amounts.

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

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**Note 18-Other Postemployment Benefits: (Continued)**

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	\$ 19,400	\$ 54,400	\$ 73,800
Interest on net OPEB obligation	1,540	2,192	3,732
Adjustment to annual required contribution	(1,208)	(2,119)	(3,327)
Annual OPEB cost (expense)	19,732	54,473	74,205
Actual contributions	(5,323)	(52,154)	(57,477)
Increase in net OPEB obligation	14,409	2,319	16,728
Net OPEB obligation - beginning of year	36,241	48,707	84,948
Net OPEB obligation - end of year	\$ 50,650	\$ 51,026	\$ 101,676

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 19,732	27%	\$ 50,650
6/30/2011	21,900	27%	36,241
6/30/2010	28,900	65%	20,313

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 54,473	96%	\$ 51,026
6/30/2011	60,600	95%	48,707
6/30/2010	65,400	65%	45,977



**Note 18-Other Postemployment Benefits: (Continued)**

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$699,700, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,306,774, and ratio of the UAAL to the covered payroll was 16.25%.

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, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return per annum. An annual healthcare cost trend rate of 10 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage of projected payroll over the remaining amortization period, which at June 30, 2012, was 30 years. Amortizations are open ended in that they begin anew at each valuation date.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 19-Fund Balance Classifications:**

Fund balance classifications for the primary government are as follows:

	General Fund	Capital Projects Fund	Permanent Fund
Nonspendable			
Prepays	\$ 147,003	\$ -	\$ -
Corpus	-	-	180,562
Total Nonspendable	<u>\$ 147,003</u>	<u>\$ -</u>	<u>\$ 180,562</u>
Restricted:			
Perpetual cemetery care	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,221,878</u>
Committed:			
First aid	\$ 364,491	\$ -	\$ -
Fire	58,449	-	-
Equipment replacement	969,998	-	-
Capital projects	-	1,132,511	-
Total Committed	<u>\$ 1,392,938</u>	<u>\$ 1,132,511</u>	<u>\$ -</u>
Assigned:			
Carryovers	<u>\$ 409,701</u>	<u>\$ -</u>	<u>\$ -</u>

Fund balance classifications for the component units are as follows:

	Rockbridge Area			
	School Board	Central Dispatch	Recreation Organization	Regional Tourism
Restricted:				
Pickeral memorial	\$ -	\$ -	\$ 13,336	\$ -
Committed:				
Equipment replacement	\$ -	\$ 42,663	\$ 7,710	\$ -
Special revenue funds	1,118,013	-	273	407,399
Total Committed	<u>\$ 1,118,013</u>	<u>\$ 42,663</u>	<u>\$ 7,983</u>	<u>\$ 407,399</u>

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## Required Supplementary Information

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City of Lexington, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 4,730,500	\$ 4,730,500	\$ 4,806,977	\$ 76,477
Other local taxes	2,722,500	2,727,110	2,792,046	64,936
Permits, privilege fees, and regulatory licenses	32,154	32,154	94,381	62,227
Fines and forfeitures	109,900	110,725	102,896	(7,829)
Revenue from the use of money and property	105,300	105,300	100,042	(5,258)
Charges for services	953,500	953,500	953,401	(99)
Miscellaneous	2,065,200	2,086,095	2,180,837	94,742
Recovered costs	214,300	214,300	221,354	7,054
Intergovernmental revenues:				
Commonwealth	2,191,700	2,304,369	1,890,383	(413,986)
Federal	27,400	40,168	38,801	(1,367)
Total revenues	\$ 13,152,454	\$ 13,304,221	\$ 13,181,118	\$ (123,103)
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,280,807	\$ 1,318,870	\$ 1,304,005	\$ 14,865
Judicial administration	289,628	279,328	255,637	23,691
Public safety	2,886,322	3,090,881	2,701,882	388,999
Public works	3,021,840	3,135,867	2,492,655	643,212
Health and welfare	739,871	742,263	736,376	5,887
Education	2,379,047	2,379,047	2,379,047	-
Parks, recreation, and cultural	454,066	461,170	452,967	8,203
Community development	670,834	995,439	837,231	158,208
Nondepartmental	156,800	127,459	119,070	8,389
Debt service:				
Principal retirement	839,706	839,706	839,704	2
Interest and other fiscal charges	495,033	495,033	495,034	(1)
Total expenditures	\$ 13,213,954	\$ 13,865,063	\$ 12,613,608	\$ 1,251,455
Excess (deficiency) of revenues over (under) expenditures	\$ (61,500)	\$ (560,842)	\$ 567,510	\$ 1,128,352
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ (2,005,000)	\$ (2,300,300)	\$ (2,300,300)	\$ -
Total other financing sources (uses)	\$ (2,005,000)	\$ (2,300,300)	\$ (2,300,300)	\$ -
Net change in fund balances	\$ (2,066,500)	\$ (2,861,142)	\$ (1,732,790)	\$ 1,128,352
Fund balances - beginning	-	-	8,763,033	8,763,033
Fund balances - ending	\$ (2,066,500)	\$ (2,861,142)	\$ 7,030,243	\$ 9,891,385

REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
JUNE 30, 2012

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**Note 1-Stewardship, Compliance, and Accountability:**

A. Budgetary information

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

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: the General Fund, the Capital Projects Fund, the Water and Sewer Utility Fund, and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation for each function level or division of expenditures. The City Manager is authorized to transfer budgeted amounts between departments of a function level of expenditures. The School Board is authorized to transfer budgeted amounts within the departments at the function level of a school system category of expense.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the General Capital Projects Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. The City commits fund balances for certain designated ongoing projects at fiscal year end. Appropriations are then made in the first quarter budget amendments of the following year for the commitment. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by project. Several supplemental appropriations were necessary during this fiscal year.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
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  
Schedules of Pension and OPEB Funding Progress  
June 30, 2012

## 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)
6/30/2011	\$ 16,058,891	\$ 21,434,004	\$ 5,375,113	74.92%	\$ 4,256,042	126.29%
6/30/2010	15,632,479	20,486,431	4,853,952	76.31%	4,374,190	110.97%
6/30/2009	15,535,346	18,804,586	3,269,240	82.61%	4,330,712	75.49%

## 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)
6/30/2011	\$ 478,429	\$ 377,652	\$ (100,777)	126.69%	\$ 50,732	-198.65%
6/30/2010	486,719	373,106	(113,613)	130.45%	80,172	-141.71%
6/30/2009	503,301	390,294	(113,007)	128.95%	80,172	-140.96%

## 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)
7/1/2010	\$ -	\$ 699,700	\$ 699,700	0.00%	\$ 4,306,774	16.25%
7/1/2010	-	857,800	857,800	0.00%	4,454,362	19.26%
7/1/2008	-	1,009,500	1,009,500	0.00%	4,226,708	23.88%

## Other Supplementary Information Section

## CAPITAL PROJECTS FUND

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### MAJOR GOVERNMENTAL FUNDS

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



City of Lexington, Virginia  
 Capital Projects Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Miscellaneous	\$ 31,500	\$ 35,320	\$ 3,820	\$ (31,500)
Intergovernmental revenues:				
Federal	152,000	1,334,752	263,710	(1,071,042)
Total revenues	<u>\$ 183,500</u>	<u>\$ 1,370,072</u>	<u>\$ 267,530</u>	<u>\$ (1,102,542)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 721,000	\$ 743,000	\$ 64,469	\$ 678,531
Public safety	18,000	116,500	97,025	19,475
Public works	44,000	452,741	34,350	418,391
Parks, recreation, and cultural	183,500	412,850	9,812	403,038
Community development	-	980,000	268,652	711,348
Total expenditures	<u>\$ 966,500</u>	<u>\$ 2,705,091</u>	<u>\$ 474,308</u>	<u>\$ 2,230,783</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (783,000)</u>	<u>\$ (1,335,019)</u>	<u>\$ (206,778)</u>	<u>\$ 1,128,241</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 783,000	\$ 1,068,000	\$ 1,068,000	\$ -
Total other financing sources uses	<u>\$ 783,000</u>	<u>\$ 1,068,000</u>	<u>\$ 1,068,000</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ (267,019)	\$ 861,222	\$ 1,128,241
Fund balances - beginning	-	-	271,289	271,289
Fund balances - ending	<u>\$ -</u>	<u>\$ (267,019)</u>	<u>\$ 1,132,511</u>	<u>\$ 1,399,530</u>

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD**

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**MAJOR GOVERNMENTAL FUNDS**

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

City of Lexington, Virginia  
Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2012

	<u>School Operating Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,666,436
Due from other governmental units	207,430
Total assets	<u>\$ 1,873,866</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 308,657
Payroll liabilities	37,970
Contracts payable	359,276
Deferred revenue	49,950
Total liabilities	<u>\$ 755,853</u>
Fund balances:	
Committed	<u>\$ 1,118,013</u>
Total fund balances	<u>\$ 1,118,013</u>
Total liabilities and fund balances	<u>\$ 1,873,866</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Total fund balances per above	\$ 1,118,013
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,861,099
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.	51,026
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(154,537)
Net assets of governmental activities	<u>\$ 2,875,601</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, 2012

	<u>School Operating Fund</u>
<b>REVENUES</b>	
Revenue from the use of money and property	\$ 4,428
Charges for services	243,930
Miscellaneous	132,669
Recovered costs	11,762
Intergovernmental revenues:	
Local government	2,379,047
Commonwealth	2,778,942
Federal	384,374
Total revenues	\$ 5,935,152
<b>EXPENDITURES</b>	
Current:	
Education	\$ 5,715,144
Capital projects	12,497
Total expenditures	\$ 5,727,641
Excess (deficiency) of revenues over (under) expenditures	\$ 207,511
Net change in fund balances	\$ 207,511
Fund balances - beginning	910,502
Fund balances - ending	\$ 1,118,013
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	\$ 207,511
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.	(152,257)
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.	(2,910)
Change in net assets of governmental activities	\$ 52,344

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, 2012

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 600	\$ 600	\$ 4,428	\$ 3,828
Charges for services	238,801	238,801	243,930	5,129
Miscellaneous	600	132,600	132,669	69
Recovered costs	-	6,632	11,762	5,130
Intergovernmental revenues:				
Local government	2,379,047	2,379,047	2,379,047	-
Commonwealth	2,605,450	2,748,818	2,778,942	30,124
Federal	338,808	382,224	384,374	2,150
Total revenues	<u>\$ 5,563,306</u>	<u>\$ 5,888,722</u>	<u>\$ 5,935,152</u>	<u>\$ 46,430</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 5,765,787	\$ 6,144,507	\$ 5,715,144	\$ 429,363
Capital projects	-	81,823	12,497	69,326
Total expenditures	<u>\$ 5,765,787</u>	<u>\$ 6,226,330</u>	<u>\$ 5,727,641</u>	<u>\$ 498,689</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (202,481)</u>	<u>\$ (337,608)</u>	<u>\$ 207,511</u>	<u>\$ 545,119</u>
Net change in fund balances	\$ (202,481)	\$ (337,608)	\$ 207,511	\$ 545,119
Fund balances - beginning	-	-	910,502	910,502
Fund balances - ending	<u>\$ (202,481)</u>	<u>\$ (337,608)</u>	<u>\$ 1,118,013</u>	<u>\$ 1,455,621</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, 2012

	Rockbridge Area Recreation			
	Central Dispatch <u>Fund</u>	Organization <u>Fund</u>	Regional Tourism <u>Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 420,201	\$ 420,201
Receivables (net of allowance for uncollectibles):				
Accounts receivable	131,430	55,526	1,467	188,423
Due from other governmental units	9,553	33,025	-	42,578
Total assets	<u>\$ 140,983</u>	<u>\$ 88,551</u>	<u>\$ 421,668</u>	<u>\$ 651,202</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 50,206	\$ 1,195	\$ 14,269	\$ 65,670
Due to primary government	48,114	66,037	-	114,151
Total liabilities	<u>\$ 98,320</u>	<u>\$ 67,232</u>	<u>\$ 14,269</u>	<u>\$ 179,821</u>
Fund balances:				
Restricted	\$ -	\$ 13,336	\$ -	\$ 13,336
Committed	42,663	7,983	407,399	458,045
Total fund balances	<u>\$ 42,663</u>	<u>\$ 21,319</u>	<u>\$ 407,399</u>	<u>\$ 471,381</u>
Total liabilities and fund balances	<u>\$ 140,983</u>	<u>\$ 88,551</u>	<u>\$ 421,668</u>	<u>\$ 651,202</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because				
Total fund balances per above			\$	471,381
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				541,832
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.				(64,882)
Net assets of governmental activities			<u>\$</u>	<u>948,331</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, 2012

	Rockbridge Area Recreation			<u>Total</u>
	Central Dispatch <u>Fund</u>	Organization <u>Fund</u>	Regional Tourism <u>Fund</u>	
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 629	\$ 49	\$ -	\$ 678
Charges for services	-	103,075	10,612	113,687
Miscellaneous	220	25,848	1,310	27,378
Recovered costs	792,488	237,803	413,740	1,444,031
Intergovernmental revenues:				
Local government	191,359	72,225	179,447	443,031
Commonwealth	113,108	-	8,000	121,108
Total revenues	<u>\$ 1,097,804</u>	<u>\$ 439,000</u>	<u>\$ 613,109</u>	<u>\$ 2,149,913</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	\$ 1,090,563	\$ -	\$ -	\$ 1,090,563
Parks, recreation, and cultural	-	439,112	-	439,112
Community development	-	-	614,191	614,191
Total expenditures	<u>\$ 1,090,563</u>	<u>\$ 439,112</u>	<u>\$ 614,191</u>	<u>\$ 2,143,866</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 7,241</u>	<u>\$ (112)</u>	<u>\$ (1,082)</u>	<u>\$ 6,047</u>
Net change in fund balances	\$ 7,241	\$ (112)	\$ (1,082)	\$ 6,047
Fund balances - beginning	35,422	21,431	408,481	465,334
Fund balances - ending	<u>\$ 42,663</u>	<u>\$ 21,319</u>	<u>\$ 407,399</u>	<u>\$ 471,381</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 \$ 6,047

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. (67,088)

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. 7,560

Change in net assets of governmental activities \$ (53,481)



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, 2012

	Central Dispatch Fund				Rockbridge Area Recreation Organization (RARO)				Regional Tourism			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final			Original	Final		
<b>REVENUES</b>												
Revenue from the use of money and property	\$ 1,000	\$ 1,000	\$ 629	\$ (371)	\$ -	\$ -	\$ 49	\$ 49	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	125,532	125,532	103,075	(22,457)	5,000	5,000	10,612	5,612
Miscellaneous	-	-	220	220	15,000	15,000	25,848	10,848	2,350	2,350	1,310	(1,040)
Recovered costs	850,155	850,155	792,488	(57,667)	223,463	223,463	237,803	14,340	413,740	413,740	413,740	-
Intergovernmental revenues:												
Local government	205,283	205,283	191,359	(13,924)	82,596	82,596	72,225	(10,371)	179,447	179,447	179,447	-
Commonwealth	100,000	100,000	113,108	13,108	-	-	-	-	-	-	8,000	8,000
Total revenues	\$ 1,156,438	\$ 1,156,438	\$ 1,097,804	\$ (58,634)	\$ 446,591	\$ 446,591	\$ 439,000	\$ (7,591)	\$ 600,537	\$ 600,537	\$ 613,109	\$ 12,572
<b>EXPENDITURES</b>												
Current:												
Public safety	\$ 1,156,438	\$ 1,199,198	\$ 1,090,563	\$ 108,635	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, recreation, and cultural	-	-	-	-	446,591	446,591	439,112	7,479	-	-	-	-
Community development	-	-	-	-	-	-	-	-	600,537	614,191	614,191	-
Total expenditures	\$ 1,156,438	\$ 1,199,198	\$ 1,090,563	\$ 108,635	\$ 446,591	\$ 446,591	\$ 439,112	\$ 7,479	\$ 600,537	\$ 614,191	\$ 614,191	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (42,760)	\$ 7,241	\$ 50,001	\$ -	\$ -	\$ (112)	\$ (112)	\$ -	\$ (13,654)	\$ (1,082)	\$ 12,572
Net change in fund balances	\$ -	\$ (42,760)	\$ 7,241	\$ 50,001	\$ -	\$ -	\$ (112)	\$ (112)	\$ -	\$ (13,654)	\$ (1,082)	\$ 12,572
Fund balances - beginning	-	-	35,422	35,422	-	-	21,431	21,431	-	-	408,481	408,481
Fund balances - ending	\$ -	\$ (42,760)	\$ 42,663	\$ 85,423	\$ -	\$ -	\$ 21,319	\$ 21,319	\$ -	\$ (13,654)	\$ 407,399	\$ 421,053

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## Supporting Schedules

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City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government:</b>				
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 4,039,600	\$ 4,039,600	\$ 4,060,190	\$ 20,590
Real and personal public service corporation taxes	91,400	91,400	115,862	24,462
Personal property taxes	549,100	549,100	577,659	28,559
Penalties	27,800	27,800	31,209	3,409
Interest	22,600	22,600	22,057	(543)
Total general property taxes	<u>\$ 4,730,500</u>	<u>\$ 4,730,500</u>	<u>\$ 4,806,977</u>	<u>\$ 76,477</u>
Other local taxes:				
Local sales and use taxes	\$ 796,200	\$ 796,200	\$ 818,287	\$ 22,087
Consumers' utility taxes	313,900	313,900	305,319	(8,581)
Consumption taxes	28,000	28,000	25,583	(2,417)
Business license taxes	540,000	540,000	548,373	8,373
Bank stock taxes	124,300	124,300	108,258	(16,042)
Taxes on recordation and wills	52,300	52,300	44,183	(8,117)
Hotel and motel room taxes	208,400	213,010	233,214	20,204
Restaurant food taxes	659,400	659,400	708,829	49,429
Total other local taxes	<u>\$ 2,722,500</u>	<u>\$ 2,727,110</u>	<u>\$ 2,792,046</u>	<u>\$ 64,936</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 4,300	\$ 4,300	\$ 5,781	\$ 1,481
Building permits	27,054	27,054	87,643	60,589
Excavation permits	700	700	925	225
Hunting and fishing permits	100	100	32	(68)
Total permits, privilege fees, and regulatory licenses	<u>\$ 32,154</u>	<u>\$ 32,154</u>	<u>\$ 94,381</u>	<u>\$ 62,227</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 60,900	\$ 60,900	\$ 53,024	\$ (7,876)
Parking fines	39,900	39,900	39,530	(370)
Courthouse fees	8,800	8,800	9,217	417
Asset Forfeiture	300	1,125	1,125	-
Total fines and forfeitures	<u>\$ 109,900</u>	<u>\$ 110,725</u>	<u>\$ 102,896</u>	<u>\$ (7,829)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 62,200	\$ 62,200	\$ 65,285	\$ 3,085
Revenue from use of property	43,100	43,100	34,757	(8,343)
Total revenue from use of money and property	<u>\$ 105,300</u>	<u>\$ 105,300</u>	<u>\$ 100,042</u>	<u>\$ (5,258)</u>
Charges for services:				
Charges for finance	\$ 57,500	\$ 57,500	\$ 60,514	\$ 3,014
Charges for public safety	12,100	12,100	9,723	(2,377)
Charges for youth services	5,300	5,300	8,005	2,705

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for rescue services	\$ 386,000	\$ 386,000	\$ 357,414	\$ (28,586)
Charges for public works	50,300	50,300	90,379	40,079
Charges for grave openings	22,000	22,000	29,075	7,075
Charges for burial spaces	25,500	25,500	39,800	14,300
Charges for recreation	94,300	94,300	78,873	(15,427)
Charges for sanitation and waste removal	138,500	138,500	136,730	(1,770)
Charges for landfill fees	152,600	152,600	133,479	(19,121)
Charges for community activity support	7,100	7,100	6,400	(700)
Charges for farmer's market	2,200	2,200	2,835	635
Charges for other services	100	100	174	74
Total charges for services	<u>\$ 953,500</u>	<u>\$ 953,500</u>	<u>\$ 953,401</u>	<u>\$ (99)</u>
Miscellaneous revenue:				
Miscellaneous	\$ 354,300	\$ 375,195	\$ 462,382	\$ 87,187
County revenue sharing	1,710,900	1,710,900	1,718,455	7,555
Total miscellaneous revenue	<u>\$ 2,065,200</u>	<u>\$ 2,086,095</u>	<u>\$ 2,180,837</u>	<u>\$ 94,742</u>
Recovered costs:				
Joint services fire and rescue	\$ 211,300	\$ 211,300	\$ 219,710	\$ 8,410
Parking Garage	3,000	3,000	1,644	(1,356)
Total recovered costs	<u>\$ 214,300</u>	<u>\$ 214,300</u>	<u>\$ 221,354</u>	<u>\$ 7,054</u>
Total revenue from local sources	<u>\$ 10,933,354</u>	<u>\$ 10,959,684</u>	<u>\$ 11,251,934</u>	<u>\$ 292,250</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 300	\$ 300	\$ 94	\$ (206)
Mobile home titling tax	100	100	-	(100)
Motor vehicle rental tax	2,000	2,000	2,366	366
State recordation tax	14,100	14,100	13,480	(620)
Communications tax	338,100	338,100	328,125	(9,975)
Personal property tax relief funds	581,200	581,200	581,200	-
Other noncategorical aid	1,000	1,000	1,656	656
Total noncategorical aid	<u>\$ 936,800</u>	<u>\$ 936,800</u>	<u>\$ 926,921</u>	<u>\$ (9,879)</u>
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 178,100	\$ 178,100	\$ 180,632	\$ 2,532
Commissioner of revenue	71,400	71,400	70,416	(984)
Treasurer	56,700	56,700	55,166	(1,534)
Registrar/electoral board	27,500	30,227	30,479	252
Total shared expenses	<u>\$ 333,700</u>	<u>\$ 336,427</u>	<u>\$ 336,693</u>	<u>\$ 266</u>

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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	\$ 602,700	\$ 697,672	\$ 359,507	\$ (338,165)
Welfare payments	233,000	233,000	174,081	(58,919)
Comprehensive services	54,300	54,300	56,059	1,759
Fire program grant	19,200	32,325	25,319	(7,006)
Four for life	3,500	3,500	3,759	259
Arts grant	5,000	5,000	5,000	-
Criminal justice services grant	3,500	3,500	800	(2,700)
Other categorical aid	-	1,845	2,244	399
Total other categorical aid	<u>\$ 921,200</u>	<u>\$ 1,031,142</u>	<u>\$ 626,769</u>	<u>\$ (404,373)</u>
Total categorical aid	<u>\$ 1,254,900</u>	<u>\$ 1,367,569</u>	<u>\$ 963,462</u>	<u>\$ (404,107)</u>
Total revenue from the Commonwealth	<u>\$ 2,191,700</u>	<u>\$ 2,304,369</u>	<u>\$ 1,890,383</u>	<u>\$ (413,986)</u>
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ 22,000	\$ 22,000	\$ 23,783	\$ 1,783
Forfeited Assets	400	400	-	(400)
Department of motor vehicles grant	5,000	14,443	12,026	(2,417)
Department of forestry grant	-	3,325	2,992	(333)
Total categorical aid	<u>\$ 27,400</u>	<u>\$ 40,168</u>	<u>\$ 38,801</u>	<u>\$ (1,367)</u>
Total revenue from the federal government	<u>\$ 27,400</u>	<u>\$ 40,168</u>	<u>\$ 38,801</u>	<u>\$ (1,367)</u>
Total General Fund	<u>\$ 13,152,454</u>	<u>\$ 13,304,221</u>	<u>\$ 13,181,118</u>	<u>\$ (123,103)</u>
Capital Projects Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	\$ 31,500	\$ 35,320	\$ 3,820	\$ (31,500)
Total miscellaneous revenue	<u>\$ 31,500</u>	<u>\$ 35,320</u>	<u>\$ 3,820</u>	<u>\$ (31,500)</u>

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Fund: (Continued)</b>				
Revenue from the federal government:				
Categorical aid:				
TEA - 21 grant	\$ 152,000	\$ 612,752	\$ 9,068	\$ (603,684)
MME Grant	-	22,000	20,832	(1,168)
CDBG	-	700,000	233,810	(466,190)
Total categorical aid	<u>\$ 152,000</u>	<u>\$ 1,334,752</u>	<u>\$ 263,710</u>	<u>\$ (1,071,042)</u>
Total revenue from the federal government	<u>\$ 152,000</u>	<u>\$ 1,334,752</u>	<u>\$ 263,710</u>	<u>\$ (1,071,042)</u>
Total Capital Projects Fund	<u>\$ 183,500</u>	<u>\$ 1,370,072</u>	<u>\$ 267,530</u>	<u>\$ (1,102,542)</u>
<b>Permanent Fund</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 43,912	\$ 43,912
Total Permanent Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,912</u>	<u>\$ 43,912</u>
Total Primary Government	<u>\$ 13,335,954</u>	<u>\$ 14,674,293</u>	<u>\$ 13,492,560</u>	<u>\$ (1,181,733)</u>
<b>Discretely Presented Component Units:</b>				
<b>Major Fund:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 300	\$ 300	\$ 847	\$ 547
Revenue from the use of property	300	300	3,581	3,281
Total revenue from use of money and property	<u>\$ 600</u>	<u>\$ 600</u>	<u>\$ 4,428</u>	<u>\$ 3,828</u>
Charges for services:				
Cafeteria sales	\$ 80,000	\$ 80,000	\$ 67,796	\$ (12,204)
Tuition and payments from other divisions	158,801	158,801	176,134	17,333
Total charges for services	<u>\$ 238,801</u>	<u>\$ 238,801</u>	<u>\$ 243,930</u>	<u>\$ 5,129</u>
Miscellaneous revenue:				
Other miscellaneous	\$ 600	\$ 132,600	\$ 132,669	\$ 69
Recovered costs:				
Other recovered costs	\$ -	\$ 6,632	\$ 11,762	\$ 5,130
Total revenue from local sources	<u>\$ 240,001</u>	<u>\$ 378,633</u>	<u>\$ 392,789</u>	<u>\$ 14,156</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 2,379,047	\$ 2,379,047	\$ 2,379,047	\$ -
Total revenues from local governments	<u>\$ 2,379,047</u>	<u>\$ 2,379,047</u>	<u>\$ 2,379,047</u>	<u>\$ -</u>

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 443,845	\$ 445,640	\$ 442,712	\$ (2,928)
Basic school aid	1,463,935	1,569,542	1,589,687	20,145
Remedial summer education	14,342	14,342	14,342	-
Gifted and talented	14,324	15,220	15,424	204
Remedial education	18,988	20,176	20,445	269
Special education	193,209	205,296	208,039	2,743
Textbook payment	13,511	14,357	18,137	3,780
Social security fringe benefits	91,941	97,693	98,998	1,305
Retirement fringe benefits	83,280	88,490	89,672	1,182
Group life insurance instructional	3,331	3,540	3,587	47
Early reading intervention	6,562	8,202	8,202	-
Homebound education	-	85	85	-
At risk payments	5,607	6,028	6,098	70
School food	1,925	1,761	1,478	(283)
Technology	102,000	102,000	102,000	-
Vocational education	33,645	35,750	36,227	477
English as a second language	10,107	12,782	12,782	-
C. I. H. Harm	58,672	58,672	58,672	-
NBC	-	-	2,500	2,500
Other state funds	46,226	49,242	49,855	613
Total categorical aid	<u>\$ 2,605,450</u>	<u>\$ 2,748,818</u>	<u>\$ 2,778,942</u>	<u>\$ 30,124</u>
Total revenue from the Commonwealth	<u>\$ 2,605,450</u>	<u>\$ 2,748,818</u>	<u>\$ 2,778,942</u>	<u>\$ 30,124</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 51,598	\$ 58,631	\$ 54,297	\$ (4,334)
Title VI-B - Special education, grants to states	116,333	119,248	105,401	(13,847)
Title II, part A	-	31,043	26,715	(4,328)
Title III	-	2,425	2,425	-
Headstart	12,500	12,500	16,492	3,992
School lunch program	35,000	35,000	55,667	20,667
ARRA Education jobs fund	123,377	123,377	123,377	-
Total categorical aid	<u>\$ 338,808</u>	<u>\$ 382,224</u>	<u>\$ 384,374</u>	<u>\$ 2,150</u>
Total revenue from the federal government	<u>\$ 338,808</u>	<u>\$ 382,224</u>	<u>\$ 384,374</u>	<u>\$ 2,150</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 5,563,306</u>	<u>\$ 5,888,722</u>	<u>\$ 5,935,152</u>	<u>\$ 46,430</u>

City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Discretely Presented Component Units: (Continued)</b>				
<b>Nonmajor Funds:</b>				
<b>Central Dispatch Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 1,000	\$ 1,000	\$ 629	\$ (371)
Miscellaneous revenue:				
Other miscellaneous	\$ -	\$ -	\$ 220	\$ 220
Recovered costs:				
City of Buena Vista	\$ 183,646	\$ 183,646	\$ 171,189	\$ (12,457)
County of Rockbridge	637,062	637,062	593,850	(43,212)
VMI	29,447	29,447	27,449	(1,998)
Total recovered costs	\$ 850,155	\$ 850,155	\$ 792,488	\$ (57,667)
Total revenue from local sources	\$ 851,155	\$ 851,155	\$ 793,337	\$ (57,818)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 205,283	\$ 205,283	\$ 191,359	\$ (13,924)
Revenue from the Commonwealth:				
Categorical aid:				
Virginia wireless	\$ 100,000	\$ 100,000	\$ 113,108	\$ 13,108
Total Central Dispatch Fund	\$ 1,156,438	\$ 1,156,438	\$ 1,097,804	\$ (58,634)
<b>Rockbridge Area Recreation Organization (RARO):</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 49	\$ 49
Charges for services:				
Charges for programs	\$ 125,532	\$ 125,532	\$ 103,075	\$ (22,457)
Miscellaneous revenue:				
Other miscellaneous	\$ 15,000	\$ 15,000	\$ 25,848	\$ 10,848
Recovered costs:				
County of Rockbridge	\$ 223,463	\$ 223,463	\$ 237,803	\$ 14,340
Total revenue from local sources	\$ 363,995	\$ 363,995	\$ 366,775	\$ 2,780



City of Lexington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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)				
Nonmajor Funds: (Continued)				
Rockbridge Area Recreation Organization (RARO): (Continued)				
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 82,596	\$ 82,596	\$ 72,225	\$ (10,371)
Total Rockbridge Area Recreation Organization (RARO)	<u>\$ 446,591</u>	<u>\$ 446,591</u>	<u>\$ 439,000</u>	<u>\$ (7,591)</u>
Regional Tourism:				
Revenue from local sources:				
Charges for services:				
Charges for tours	\$ 2,000	\$ 2,000	\$ 4,201	\$ 2,201
Other charges for services	3,000	3,000	6,411	3,411
Total charges for services	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 10,612</u>	<u>\$ 5,612</u>
Miscellaneous revenue:				
Other miscellaneous	\$ 2,350	\$ 2,350	\$ 1,310	\$ (1,040)
Recovered costs:				
City of Buena Vista	\$ 42,279	\$ 42,279	\$ 42,279	\$ -
County of Rockbridge	371,461	371,461	371,461	-
Total recovered costs	<u>\$ 413,740</u>	<u>\$ 413,740</u>	<u>\$ 413,740</u>	<u>\$ -</u>
Total revenue from local sources	<u>\$ 421,090</u>	<u>\$ 421,090</u>	<u>\$ 425,662</u>	<u>\$ 4,572</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 179,447	\$ 179,447	\$ 179,447	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
Other categorical aid	\$ -	\$ -	\$ 8,000	\$ 8,000
Total Regional Tourism	<u>\$ 600,537</u>	<u>\$ 600,537</u>	<u>\$ 613,109</u>	<u>\$ 12,572</u>
Total Nonmajor Component Units	<u>\$ 2,203,566</u>	<u>\$ 2,203,566</u>	<u>\$ 2,149,913</u>	<u>\$ (53,653)</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government:</b>				
<b>General Fund:</b>				
General government administration:				
Legislative:				
City council	\$ 49,950	\$ 49,950	\$ 51,486	\$ (1,536)
General and financial administration:				
City manager	\$ 181,129	\$ 195,129	\$ 192,924	\$ 2,205
Director of finance	286,913	286,913	285,816	1,097
City attorney	59,932	63,632	71,226	(7,594)
Commissioner of revenue	224,204	224,204	218,922	5,282
Assessment board	2,500	2,500	1,475	1,025
Treasurer	194,486	206,475	190,957	15,518
Human Resources	64,220	63,726	61,918	1,808
Information technology	145,836	150,836	155,322	(4,486)
OPEB contribution	14,400	14,400	14,408	(8)
Total general and financial administration	<u>\$ 1,173,620</u>	<u>\$ 1,207,815</u>	<u>\$ 1,192,968</u>	<u>\$ 14,847</u>
Board of elections:				
Electoral board and officials	\$ 57,237	\$ 61,105	\$ 59,551	\$ 1,554
Total general government administration	<u>\$ 1,280,807</u>	<u>\$ 1,318,870</u>	<u>\$ 1,304,005</u>	<u>\$ 14,865</u>
Judicial administration:				
Courts:				
Judicial services	\$ 230,580	\$ 220,280	\$ 193,700	\$ 26,580
VJCCCA services	59,048	59,048	61,937	(2,889)
Total courts	<u>\$ 289,628</u>	<u>\$ 279,328</u>	<u>\$ 255,637</u>	<u>\$ 23,691</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,480,272	\$ 1,486,677	\$ 1,463,955	\$ 22,722
Contributions to Central dispatch - component unit	205,283	205,283	191,359	13,924
Total law enforcement and traffic control	<u>\$ 1,685,555</u>	<u>\$ 1,691,960</u>	<u>\$ 1,655,314</u>	<u>\$ 36,646</u>
Fire and rescue services:				
Fire department	\$ 1,045,478	\$ 1,080,162	\$ 913,743	\$ 166,419
Fire department - reserve activity	12,500	20,970	16,785	4,185
Rescue services - reserve activity	5,000	160,000	267	159,733
Total fire and rescue services	<u>\$ 1,062,978</u>	<u>\$ 1,261,132</u>	<u>\$ 930,795</u>	<u>\$ 330,337</u>
Correction and detention:				
Juvenile probation and detention	\$ 66,318	\$ 66,318	\$ 57,403	\$ 8,915
Special services	71,471	71,471	58,370	13,101
Total correction and detention	<u>\$ 137,789</u>	<u>\$ 137,789</u>	<u>\$ 115,773</u>	<u>\$ 22,016</u>
Total public safety	<u>\$ 2,886,322</u>	<u>\$ 3,090,881</u>	<u>\$ 2,701,882</u>	<u>\$ 388,999</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 353,231	\$ 369,429	\$ 274,210	\$ 95,219
Public works labor pool	233,555	233,555	104,250	129,305
Equipment operations	281,433	281,433	240,866	40,567
Pavement Maintenance	137,809	216,583	48,680	167,903
Drain Maintenance	58,391	58,391	55,418	2,973
Snow Removal	73,910	73,910	11,384	62,526
Traffic	263,371	263,371	203,344	60,027
Parking Garage	15,546	15,546	16,606	(1,060)
Emergency Need	-	-	10,321	(10,321)
Community activity support	48,109	51,164	52,128	(964)
Public works administration	150,436	150,436	168,199	(17,763)
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,615,791	\$ 1,713,818	\$ 1,185,406	\$ 528,412
Sanitation and waste removal:				
Solid waste management	\$ 886,531	\$ 892,031	\$ 846,178	\$ 45,853
Maintenance of general buildings and grounds:				
General properties	\$ 125,493	\$ 135,993	\$ 111,171	\$ 24,822
Park maintenance	255,138	255,138	226,692	28,446
Cemeteries maintenance	138,887	138,887	123,208	15,679
Total maintenance of general buildings and grounds	\$ 519,518	\$ 530,018	\$ 461,071	\$ 68,947
Total public works	\$ 3,021,840	\$ 3,135,867	\$ 2,492,655	\$ 643,212
Health and welfare:				
Health:				
Health and welfare	\$ 665,828	\$ 668,220	\$ 665,827	\$ 2,393
Youth services administration	74,043	74,043	70,549	3,494
Total health	\$ 739,871	\$ 742,263	\$ 736,376	\$ 5,887
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	\$ 2,379,047	\$ 2,379,047	\$ 2,379,047	\$ -
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 252,192	\$ 256,802	\$ 256,802	\$ -
Municipal swimming pool	119,278	121,772	123,940	(2,168)
Contribution to RARO - component unit	82,596	82,596	72,225	10,371
Total parks and recreation	\$ 454,066	\$ 461,170	\$ 452,967	\$ 8,203

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Community development:				
Planning and community development:				
Planning and development	\$ 332,087	\$ 396,144	\$ 344,054	\$ 52,090
Housing program	2,300	2,300	5,565	(3,265)
REL Rel.As	-	74,000	48,856	25,144
Tree board	31,603	34,928	35,302	(374)
Community development contributions	120,397	295,964	224,007	71,957
Water quality management	5,000	12,656	-	12,656
Contribution to regional tourism - component unit	179,447	179,447	179,447	-
Total planning and community development	<u>\$ 670,834</u>	<u>\$ 995,439</u>	<u>\$ 837,231</u>	<u>\$ 158,208</u>
Nondepartmental:				
Nondepartmental	\$ 156,800	\$ 127,459	\$ 119,070	\$ 8,389
Debt service:				
Principal retirement	\$ 839,706	\$ 839,706	\$ 839,704	\$ 2
Interest and other fiscal charges	495,033	495,033	495,034	(1)
Total debt service	<u>\$ 1,334,739</u>	<u>\$ 1,334,739</u>	<u>\$ 1,334,738</u>	<u>\$ 1</u>
Total General Fund	<u>\$ 13,213,954</u>	<u>\$ 13,865,063</u>	<u>\$ 12,613,608</u>	<u>\$ 1,251,455</u>
<b>Capital Projects Fund:</b>				
General government administration:				
General and financial administration:				
City hall improvements	\$ 83,000	\$ 83,000	\$ -	\$ 83,000
WES-Replace	500,000	500,000	-	500,000
R. Sq. B. Imp.	38,000	38,000	40,245	(2,245)
E.E. Project	100,000	122,000	24,224	97,776
Total general and financial administration	<u>\$ 721,000</u>	<u>\$ 743,000</u>	<u>\$ 64,469</u>	<u>\$ 678,531</u>
Total general government administration	<u>\$ 721,000</u>	<u>\$ 743,000</u>	<u>\$ 64,469</u>	<u>\$ 678,531</u>
Public safety:				
Fire and rescue services:				
Police Station	\$ 6,000	\$ 6,000	\$ 5,767	\$ 233
New F/S	12,000	110,500	91,258	19,242
Total fire and rescue services	<u>\$ 18,000</u>	<u>\$ 116,500</u>	<u>\$ 97,025</u>	<u>\$ 19,475</u>
Total public safety	<u>\$ 18,000</u>	<u>\$ 116,500</u>	<u>\$ 97,025</u>	<u>\$ 19,475</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Fund: (Continued)</b>				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Courthouse square lot improvement	\$ 7,000	\$ 20,000	\$ -	\$ 20,000
Randolph street utility line	-	332,084	8	332,076
Miscellaneous access improvements	5,000	5,000	-	5,000
New sidewalks	-	24,250	-	24,250
Nelson street bridge	-	39,407	1,820	37,587
Public works improvements	32,000	32,000	32,522	(522)
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 44,000</u>	<u>\$ 452,741</u>	<u>\$ 34,350</u>	<u>\$ 418,391</u>
Total public works	<u>\$ 44,000</u>	<u>\$ 452,741</u>	<u>\$ 34,350</u>	<u>\$ 418,391</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Jordan's point park	\$ -	\$ 102,333	\$ 6,093	\$ 96,240
Jordan's point park trail connection	183,500	301,697	3,719	297,978
Skateboard Park	-	8,820	-	8,820
Total parks and recreation	<u>\$ 183,500</u>	<u>\$ 412,850</u>	<u>\$ 9,812</u>	<u>\$ 403,038</u>
Total parks, recreation, and cultural	<u>\$ 183,500</u>	<u>\$ 412,850</u>	<u>\$ 9,812</u>	<u>\$ 403,038</u>
Community development				
Planning and community development				
Thompson's knoll housing project	\$ -	\$ 980,000	\$ 268,652	711,348
Total community development	<u>\$ -</u>	<u>\$ 980,000</u>	<u>\$ 268,652</u>	<u>\$ 711,348</u>
Total Capital Projects Fund	<u>\$ 966,500</u>	<u>\$ 2,705,091</u>	<u>\$ 474,308</u>	<u>\$ 2,230,783</u>
<b>Permanent Fund:</b>				
Parks, recreation, and cultural:				
Parks and recreation:				
Cemetery	\$ -	\$ -	\$ 49,086	\$ (49,086)
Total Permanent Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,086</u>	<u>\$ (49,086)</u>
Total Primary Government	<u>\$ 14,180,454</u>	<u>\$ 16,570,154</u>	<u>\$ 13,137,002</u>	<u>\$ 3,433,152</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Discretely Presented Component Units:</b>				
<b>Major Fund:</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Administration, attendance, & health	\$ 355,725	\$ 356,678	\$ 354,583	\$ 2,095
Instruction costs:				
Classroom instruction	\$ 4,753,290	\$ 5,081,057	\$ 4,680,376	\$ 400,681
OPEB contribution	2,300	2,300	2,320	(20)
Total instruction costs	<u>4,755,590</u>	<u>5,083,357</u>	<u>4,682,696</u>	<u>400,661</u>
School food services:				
Administration of school food program	\$ 170,774	\$ 170,774	\$ 167,043	\$ 3,731
Operating costs:				
Operation and maintenance of school plant	\$ 483,698	\$ 533,698	\$ 510,822	\$ 22,876
Total education	<u>\$ 5,765,787</u>	<u>\$ 6,144,507</u>	<u>\$ 5,715,144</u>	<u>\$ 429,363</u>
Capital projects:				
Middle school	\$ -	\$ 81,823	\$ 12,497	\$ 69,326
Total Discretely Presented Component Unit - School Board	<u>\$ 5,765,787</u>	<u>\$ 6,226,330</u>	<u>\$ 5,727,641</u>	<u>\$ 498,689</u>
<b>Nonmajor Funds:</b>				
<b>Central Dispatch Fund:</b>				
Public safety:				
Law enforcement and traffic control:				
Central dispatch	\$ 1,156,438	\$ 1,199,198	\$ 1,090,563	\$ 108,635
Total Central Dispatch Fund	<u>\$ 1,156,438</u>	<u>\$ 1,199,198</u>	<u>\$ 1,090,563</u>	<u>\$ 108,635</u>
<b>Rockbridge Area Recreation Organization (RARO):</b>				
Parks, recreation, and cultural:				
Parks and recreation:				
Administration	\$ 292,168	\$ 292,168	\$ 292,588	\$ (420)
Programs	154,423	154,423	146,524	7,899
Total parks and recreation	<u>\$ 446,591</u>	<u>\$ 446,591</u>	<u>\$ 439,112</u>	<u>\$ 7,479</u>
Total Rockbridge Area Recreation Organization (RARO)	<u>\$ 446,591</u>	<u>\$ 446,591</u>	<u>\$ 439,112</u>	<u>\$ 7,479</u>

City of Lexington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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)				
Nonmajor Funds: (Continued)				
Regional Tourism:				
Community development:				
Planning and community development:				
Tourism	\$ 600,537	\$ 614,191	\$ 613,652	\$ 539
Other planning and community development	-	-	539	(539)
Total planning and community development	<u>\$ 600,537</u>	<u>\$ 614,191</u>	<u>\$ 614,191</u>	<u>\$ -</u>
Total Regional Tourism	<u>\$ 600,537</u>	<u>\$ 614,191</u>	<u>\$ 614,191</u>	<u>\$ -</u>
Total Nonmajor Component Units	<u>\$ 2,203,566</u>	<u>\$ 2,259,980</u>	<u>\$ 2,143,866</u>	<u>\$ 116,114</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	91
<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	101
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	105
<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	109
<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	111
<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 Ten Fiscal Years  
 (accrual basis of accounting)  
 (amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 3,696	\$ 2,164	\$ 6,443	\$ (4,091)	\$ 9,404	\$ 11,611	\$ 6,086	\$ 7,378	\$ 6,955	\$ 7,401
Restricted	1,272	1,322	1,404	1,394	1,522	1,434	1,269	1,314	1,479	1,403
Unrestricted	7,629	6,930	7,101	18,925	7,113	4,219	7,682	9,977	9,721	8,880
Total governmental activities net assets	\$ 12,597	\$ 10,416	\$ 14,948	\$ 16,228	\$ 18,039	\$ 17,264	\$ 15,037	\$ 18,669	\$ 18,155	\$ 17,684
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 694	\$ 963	\$ 1,247	\$ 1,332	\$ 1,635	\$ 1,812	\$ 1,864	\$ 1,921	\$ 2,036	\$ 2,769
Unrestricted	2,054	1,542	1,188	954	546	561	627	834	1,204	2,066
Total business-type activities	\$ 2,748	\$ 2,505	\$ 2,435	\$ 2,286	\$ 2,181	\$ 2,373	\$ 2,491	\$ 2,755	\$ 3,240	\$ 4,835
<b>Primary Government</b>										
Invested in capital assets, net of related debt	\$ 4,390	\$ 3,127	\$ 7,690	\$ (2,759)	\$ 11,039	\$ 13,423	\$ 7,950	\$ 9,299	\$ 8,991	\$ 10,170
Restricted for perpetual care	1,272	1,322	1,404	1,394	1,522	1,434	1,269	1,314	1,479	1,403
Unrestricted	9,683	8,472	8,289	19,879	7,659	4,780	8,309	10,811	10,925	10,946
Total primary government net assets	\$ 15,345	\$ 12,921	\$ 17,383	\$ 18,514	\$ 20,220	\$ 19,637	\$ 17,528	\$ 21,424	\$ 21,395	\$ 22,519

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Expenses</b>										
Governmental activities:										
General government administration	\$ 863	\$ 1,114	\$ 929	\$ 1,036	\$ 1,121	\$ 1,299	\$ 1,252	\$ 1,292	\$ 1,222	\$ 1,394
Judicial administration	105	433	474	551	1,281	3,252	2,813	258	264	254
Public Safety	1,677	1,863	2,082	2,151	2,178	2,425	2,684	2,586	2,569	2,739
Public Works	2,256	2,036	2,468	2,793	2,362	3,005	3,063	2,971	3,046	2,564
Health and welfare	495	749	746	654	569	628	565	652	751	736
Education	1,844	2,066	1,758	1,806	1,893	2,187	2,553	1,874	3,008	2,559
Parks, recreation and cultural	463	401	468	529	518	672	871	600	530	589
Community development	492	518	541	558	811	759	706	716	1,196	1,108
Non-departmental	218	188	156	38	-	-	10	-	-	-
Interest on long-term debt	5	6	3	383	725	615	584	562	602	563
<b>Total governmental activities expenses</b>	\$ 8,418	\$ 9,374	\$ 9,625	\$ 10,499	\$ 11,458	\$ 14,842	\$ 15,101	\$ 11,511	\$ 13,188	\$ 12,506
Business-type activities:										
Utility fund	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254
<b>Total business-type activities</b>	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478	\$ 4,497	\$ 4,510	\$ 4,724	\$ 5,254
<b>Total primary government expenses</b>	\$ 12,041	\$ 13,104	\$ 13,744	\$ 14,847	\$ 15,769	\$ 19,320	\$ 19,598	\$ 16,021	\$ 17,912	\$ 17,760

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government administration	\$ -	\$ 312	\$ 47	\$ 51	\$ 60	\$ 52	\$ 57	\$ 68	\$ 58	\$ 61
Judicial administration	46	-	61	60	-	106	124	95	104	103
Public Safety	182	164	388	318	274	386	410	465	415	462
Public Works	376	272	322	375	407	349	365	384	370	429
Health and welfare	2	2	2	2	3	3	5	4	4	8
Parks, recreation and cultural	219	123	67	73	84	93	88	97	98	88
Community development	-	3	-	-	1	2	2	-	-	-
Operating grants and contributions	1,020	1,264	1,327	1,269	1,332	1,327	1,188	1,327	1,256	1,003
Capital grants and contributions	177	-	15	44	136	100	61	120	126	9
<b>Total governmental activities program revenues</b>	<b>\$ 2,022</b>	<b>\$ 2,140</b>	<b>\$ 2,229</b>	<b>\$ 2,192</b>	<b>\$ 2,297</b>	<b>\$ 2,418</b>	<b>\$ 2,300</b>	<b>\$ 2,560</b>	<b>\$ 2,431</b>	<b>\$ 2,163</b>
Business-type activities:										
Charges for services:										
Utility fund	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669	\$ 4,615	\$ 4,733	\$ 5,209	\$ 5,649
Capital grants and contributions	-	-	-	-	-	-	-	40	-	-
<b>Total business-type activities program revenues</b>	<b>\$ 3,415</b>	<b>\$ 3,473</b>	<b>\$ 4,049</b>	<b>\$ 4,212</b>	<b>\$ 4,206</b>	<b>\$ 4,669</b>	<b>\$ 4,615</b>	<b>\$ 4,773</b>	<b>\$ 5,209</b>	<b>\$ 5,649</b>
<b>Total primary government program revenues</b>	<b>\$ 5,437</b>	<b>\$ 5,613</b>	<b>\$ 6,278</b>	<b>\$ 6,404</b>	<b>\$ 6,503</b>	<b>\$ 7,087</b>	<b>\$ 6,915</b>	<b>\$ 7,333</b>	<b>\$ 7,640</b>	<b>\$ 7,812</b>
Net (expense)/revenue:										
Governmental activities	\$ (6,396)	\$ (7,234)	\$ (7,396)	\$ (8,307)	\$ (9,161)	\$ (12,424)	\$ (12,801)	\$ (8,951)	\$ (10,757)	\$ (10,343)
Business-type activities	(208)	(257)	(70)	(136)	(105)	191	118	263	485	395
<b>Total primary government net expense</b>	<b>\$ (6,604)</b>	<b>\$ (7,491)</b>	<b>\$ (7,466)</b>	<b>\$ (8,443)</b>	<b>\$ (9,266)</b>	<b>\$ (12,233)</b>	<b>\$ (12,683)</b>	<b>\$ (8,688)</b>	<b>\$ (10,272)</b>	<b>\$ (9,948)</b>
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental activities:										
Taxes:										
Property taxes	\$ 3,079	\$ 3,048	\$ 3,085	\$ 3,922	\$ 3,990	\$ 4,141	\$ 4,337	\$ 4,607	\$ 4,309	\$ 4,770
Local sales and use taxes	641	661	646	710	749	795	791	773	786	818
Taxes on recordation and wills	39	46	67	70	75	61	47	49	50	44
Motor vehicle licenses taxes	65	65	65	65	64	65	63	28	-	-

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>General Revenues and Other Changes in Net Assets (Continued)</b>										
Governmental activities: (Continued)										
Taxes: (Continued)										
Consumer utility taxes	\$ 508	\$ 515	\$ 520	\$ 504	\$ 399	\$ 310	\$ 312	\$ 312	\$ 313	\$ 305
Business licenses taxes	425	473	488	528	552	608	603	534	513	548
Restaurant food taxes	496	542	553	551	580	597	634	620	645	709
Hotel and motel room taxes	103	109	175	188	203	207	204	205	217	233
Communications taxes	-	-	-	-	158	369	335	337	-	-
Other local taxes	195	180	180	195	135	66	72	141	164	134
Unrestricted grants and contributions	579	604	554	590	613	638	573	603	938	1,181
Unrestricted revenues from use of money and property	290	130	416	684	1,204	797	222	169	188	144
Miscellaneous	1,362	1,683	1,451	1,568	1,999	2,995	2,382	2,279	2,120	2,185
Transfers	-	-	-	12	-	-	-	-	-	(1,200)
Gain on sale of assets	-	-	-	-	-	-	-	1,926	-	-
<b>Total governmental activities</b>	<b>\$ 7,782</b>	<b>\$ 8,056</b>	<b>\$ 8,200</b>	<b>\$ 9,587</b>	<b>\$ 10,721</b>	<b>\$ 11,649</b>	<b>\$ 10,575</b>	<b>\$ 12,583</b>	<b>\$ 10,243</b>	<b>\$ 9,871</b>
Business-type activities:										
Unrestricted revenues from use of money and property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -
Miscellaneous	15	13	-	-	-	-	-	-	-	-
Transfers	-	-	-	(12)	-	-	-	-	-	1,200
<b>Total business-type activities</b>	<b>\$ 15</b>	<b>\$ 13</b>	<b>\$ -</b>	<b>\$ (12)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 1,200</b>
<b>Total primary government</b>	<b>\$ 7,797</b>	<b>\$ 8,069</b>	<b>\$ 8,200</b>	<b>\$ 9,575</b>	<b>\$ 10,721</b>	<b>\$ 11,649</b>	<b>\$ 10,575</b>	<b>\$ 12,584</b>	<b>\$ 10,243</b>	<b>\$ 11,071</b>
<b>Change in Net Assets</b>										
Governmental activities	\$ 1,387	\$ 822	\$ 804	\$ 1,280	\$ 1,560	\$ (775)	\$ (2,226)	\$ 3,632	\$ (514)	\$ (472)
Business-type activities	(193)	(244)	(70)	(148)	(105)	191	118	264	485	1,595
<b>Total primary government</b>	<b>\$ 1,194</b>	<b>\$ 578</b>	<b>\$ 734</b>	<b>\$ 1,132</b>	<b>\$ 1,455</b>	<b>\$ (584)</b>	<b>\$ (2,108)</b>	<b>\$ 3,896</b>	<b>\$ (29)</b>	<b>\$ 1,123</b>

Table 3

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

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax (1)	Business License Tax	Communications Sales and Use Tax (1)	Motor Vehicle License Tax		Bank Stock Tax	Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (1)	Total
2011-12	\$ 4,806,977	\$ 818,287	\$ 305,319	\$ 548,373	\$ -	\$ -	\$ -	\$ 108,258	\$ 44,183	\$ 233,214	\$ 708,829	\$ 25,583	\$ 7,599,023
2010-11	4,400,432	785,995	312,810	513,546	-	-	-	136,218	50,127	217,279	644,721	27,617	7,088,745
2009-10	4,448,766	772,970	312,122	534,270	336,598	27,786	112,451	49,360	46,559	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	39,413	61,427	204,461	633,501	27,963	7,499,153
2007-08	4,144,128	794,444	310,248	607,520	368,921	65,470	50,363	74,877	202,549	580,080	596,602	27,416	7,222,594
2006-07	3,914,166	749,153	398,743	552,145	158,198	63,592	64,867	76,839	70,330	187,805	551,363	84,681	6,828,547
2005-06	3,337,123	710,095	503,772	527,575	-	65,320	55,932	67,102	45,628	109,141	541,988	130,481	5,704,033
2004-05	3,125,624	646,198	519,509	488,447	-	64,983	49,275	39,058	103,186	496,443	138,315	5,379,467	
2003-04	3,112,731	661,378	515,744	472,684	-	64,687	56,395	39,058	103,186	496,443	138,315	5,379,467	
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) The state began a 5% communications sales and use tax on January 1, 2007. This tax was recorded as a local tax beginning in that fiscal year. Beginning in the 2010-11 fiscal year the City has been informed that the tax should be recorded as revenues from the Commonwealth. The state collects the Telephone utility taxes, local E-911 taxes, and cable television system franchise fees and redistributes .076958% of the total collections based on a pre-certified calculation of each jurisdiction's allocation percentage as reported to the State Auditor of Public Accounts for revenue collections for each fiscal year.

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011 (1)	2012
<b>General Fund</b>										
Reserved	\$ 30,339	\$ -	\$ 35,900	\$ 35,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,893,300	5,805,400	6,902,072	7,488,971	8,573,394	8,690,276	6,842,571	8,902,100	-	-
Nonspendable	-	-	-	-	-	-	-	-	104,062	147,003
Committed	-	-	-	-	-	-	-	-	1,205,144	1,392,938
Assigned	-	-	-	-	-	-	-	-	247,525	409,701
Unassigned	-	-	-	-	-	-	-	-	7,206,302	5,080,601
<b>Total general fund</b>	<b>\$ 5,923,639</b>	<b>\$ 5,805,400</b>	<b>\$ 6,937,972</b>	<b>\$ 7,524,871</b>	<b>\$ 8,573,394</b>	<b>\$ 8,690,276</b>	<b>\$ 6,842,571</b>	<b>\$ 8,902,100</b>	<b>\$ 8,763,033</b>	<b>\$ 7,030,243</b>
<b>All other governmental funds</b>										
Reserved, reported in:										
Permanent Fund	\$ 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	-	-	-	-	-	-	-	-	-	-
Special revenues	342,932	183,400	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Capital Projects	306,616	269,430	254,488	10,890,018	8,912,026	3,033,371	224,876	185,226	-	-
Special revenues	2,387	1,897	-	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	-	180,562	180,562
Permanent Fund	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	1,194,752	1,221,878
Permanent Fund	-	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	271,289	1,132,511
Capital Projects	-	-	-	-	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 1,923,935</b>	<b>\$ 1,776,492</b>	<b>\$ 1,658,924</b>	<b>\$ 12,284,371</b>	<b>\$ 10,433,419</b>	<b>\$ 4,467,624</b>	<b>\$ 1,493,553</b>	<b>\$ 1,499,375</b>	<b>\$ 1,646,603</b>	<b>\$ 2,534,951</b>

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

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>										
General property taxes	\$ 2,908	\$ 3,113	\$ 3,126	\$ 3,337	\$ 3,914	\$ 4,144	\$ 4,438	\$ 4,449	\$ 4,400	\$ 4,807
Other local taxes	2,472	2,591	2,694	2,810	2,914	3,078	3,061	3,000	2,688	2,792
Licenses and permits	30	50	145	56	180	108	79	100	56	94
Fines and forfeitures	97	82	105	94	104	106	124	95	100	103
Use of money & property	291	130	415	684	1,204	797	222	169	188	144
Charges for services	415	548	637	729	829	777	848	918	894	954
Miscellaneous	1,363	1,529	1,451	1,568	1,999	2,995	2,382	2,279	2,120	2,185
Recovered costs	281	121	158	207	208	255	180	179	155	221
Intergovernmental	1,776	1,867	1,896	1,903	2,082	2,065	1,821	2,050	2,320	2,193
<b>Total revenues</b>	<b>\$ 9,633</b>	<b>\$ 10,031</b>	<b>\$ 10,627</b>	<b>\$ 11,388</b>	<b>\$ 13,434</b>	<b>\$ 14,325</b>	<b>\$ 13,155</b>	<b>\$ 13,239</b>	<b>\$ 12,921</b>	<b>\$ 13,493</b>
<b>Expenditures</b>										
General government administration	\$ 857	\$ 865	\$ 901	\$ 1,000	\$ 1,025	\$ 1,141	\$ 1,175	\$ 1,204	\$ 1,168	\$ 1,364
Judicial administration	56	433	474	551	1,385	3,252	4,389	259	266	256
Public safety	1,662	1,905	2,100	3,049	2,340	2,377	2,689	2,540	2,490	2,715
Public works	2,132	2,271	2,583	2,738	2,140	2,630	3,002	2,624	2,719	2,224
Health and Welfare	497	749	745	653	569	628	565	652	751	736
Education	1,844	2,066	1,758	1,806	1,893	1,484	2,553	1,873	2,858	2,379
Parks, recreation and cultural	420	372	474	516	487	1,310	1,539	533	448	508
Community development	491	515	537	575	768	757	697	711	1,194	1,100
Nondepartmental	5	4	3	38	36	193	95	-	-	-
Capital outlay(1)	1,544	63	-	313	2,164	4,794	-	8,437	1,164	520
Debt service:										
Principal	669	716	668	697	748	1,000	689	1,328	835	840
Interest	218	195	167	390	681	608	574	560	534	495
Bond Issuance Costs	-	-	-	-	-	-	-	115	-	-
<b>Total Expenditures</b>	<b>\$ 10,395</b>	<b>\$ 10,154</b>	<b>\$ 10,410</b>	<b>\$ 12,326</b>	<b>\$ 14,236</b>	<b>\$ 20,174</b>	<b>\$ 17,967</b>	<b>\$ 20,836</b>	<b>\$ 14,427</b>	<b>\$ 13,137</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$ (762)</b>	<b>\$ (123)</b>	<b>\$ 217</b>	<b>\$ (938)</b>	<b>\$ (802)</b>	<b>\$ (5,849)</b>	<b>\$ (4,812)</b>	<b>\$ (7,597)</b>	<b>\$ (1,506)</b>	<b>\$ 356</b>



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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Other financing sources (uses)</b>										
Transfers in	\$ 397	\$ 742	\$ 758	\$ 11,457	\$ 399	\$ 970	\$ 1,640	\$ 85	\$ 177	\$ 1,100
Transfers out	(397)	(742)	(758)	(11,445)	(399)	(970)	(1,650)	(95)	(193)	(2,300)
Bonds issued	385	-	-	12,000	-	-	-	8,410	1,530	-
Discount on bonds issued	-	-	-	-	-	-	-	(787)	-	-
Payments to refunded bond escrow agent	(385)	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	72	-	138	-	-	-	2,049	-	-
<b>Total other financing sources (uses)</b>	\$ -	\$ 72	\$ -	\$ 12,150	\$ -	\$ -	\$ (10)	\$ 9,662	\$ 1,514	\$ (1,200)
<b>Net change in fund balances</b>	\$ (762)	\$ (51)	\$ 217	\$ 11,212	\$ (802)	\$ (5,849)	\$ (4,822)	\$ 2,065	\$ 8	\$ (844)
Debt service as a percentage of noncapital expenditures	10.0%	9.0%	8.0%	9.0%	11.8%	10.5%	7.0%	15.4%	10.3%	10.6%

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

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

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

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

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

(1) City began recording this information in 2006.

Source: Commissioner of Revenue

Table 9

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

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility			Total Direct Rate (2)
					Real Estate	Personal Property	Total	
2011-12	\$ 0.73	\$ 4.25	0.73	\$ 4.25	\$ 0.715	\$ 4.25	\$ 9.19	
2010-11	0.70	4.25	0.70	4.25	0.675	4.25	9.05	
2009-10	0.65	4.25	0.65	4.25	0.64	3.95	8.28	
2008-09	0.64	3.95	0.64	3.95	0.62	3.95	7.94	
2007-08	0.60	3.95	0.60	3.95	0.58	3.95	7.91	
2006-07	0.56	3.95	0.56	3.95	0.62	3.95	7.46	
2005-06	0.67	3.95	0.67	3.95	0.66	3.95	9.20	
2004-05	0.64	3.95	0.64	3.95	0.64	3.95	-	
2003-04	0.64	3.95	0.64	3.95	0.69	3.95	-	
2002-03	0.73	3.95	0.73	3.95	0.72	3.95	-	

(1) Per \$100 of assessed value.

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

Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia  
Principal Taxpayers  
June 30, 2012

Taxpayer Name	Fiscal year ended June 30, 2012			Fiscal year ended June 30, 2003		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
Central Telephone of Virginia	6,515,532	1	1.12%	7,327,013	1	2.17%
Washington and Lee University	6,134,900	2	1.05%	3,038,700	4	0.90%
HI of Lexington, LLC	5,936,800	3	1.02%	3,251,000	3	0.96%
Dominion Virginia Power	5,712,762	4	0.98%	3,894,485	2	1.16%
Walker/Wood LC & Woods Family Trust	3,853,700	5	0.66%	2,081,700	10	0.62%
Rockbridge Square Associates	3,497,400	6	0.60%	2,942,400	5	0.87%
HCMF XXII LTD Partnership	3,428,200	7	0.59%	2,623,800	6	0.78%
Bank of Rockbridge	3,090,700	8	0.53%	-	-	-
Summit Square Partners	3,084,300	9	0.53%	-	-	-
Kroger Partnership	3,075,600	10	0.53%	-	-	-
Lexington Medical Buildings				2,384,400	7	0.71%
Lexington House Associates				2,271,300	8	0.67%
IRT Property				2,082,700	9	0.62%
	<u>\$ 44,329,894</u>		<u>7.61%</u>	<u>\$ 31,897,498</u>		<u>9.47%</u>

(1) Total assessed valuation of real estate was \$582,174,791 as of June 30, 2012.

(2) Total assessed valuation of real estate was \$336,913,011 as of June 30, 2003.

Source: Commissioner of Revenue and Finance Department

Table 11

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

Fiscal Year	Total Tax Levy (1, 2)		Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)		Total Tax Collections	Percent of Total Tax Collections to Tax Levy (4)		Outstanding Delinquent Taxes (1,3)		Percent of Delinquent Taxes to Tax Levy
	\$	%			\$	%		\$	%	\$	%	
2011-12	\$ 5,482,776		\$ 5,221,615	95.24%	\$ 113,296		\$ 5,334,911	97.30%	\$ 711,479		12.98%	
2010-11	5,259,055		4,866,471	92.54%	67,102		4,933,573	93.81%	699,266		13.30%	
2009-10	5,089,509		4,891,228	96.10%	86,242		4,977,470	97.80%	711,451		13.98%	
2008-09	4,842,235		4,813,870	99.41%	42,712		4,856,582	100.30%	632,988		13.07%	
2007-08	4,822,549		4,669,876	96.83%	63,178		4,733,054	98.14%	734,963		15.24%	
2006-07	4,434,075		4,398,602	99.20%	72,851		4,471,453	100.84%	662,871		14.95%	
2005-06	3,936,642		3,780,352	96.03%	74,758		3,855,110	97.93%	568,484		14.44%	
2004-05	3,787,838		3,563,524	94.08%	66,926		3,630,450	95.84%	458,027		12.09%	
2003-04	3,661,319		3,557,033	97.15%	66,737		3,623,770	98.97%	543,329		14.84%	
2002-03	3,542,094		3,354,320	94.70%	50,628		3,404,948	96.13%	587,249		16.58%	

(1) Exclusive of penalties and interest.

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

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

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

Source: Commissioner of Revenue and Treasurer.

Table 12

City of Lexington, Virginia  
 Ratios of Outstanding Debt by Type  
 Last Seven 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				
2012	\$ 19,570,590	\$ -	\$ -		\$ 19,570,590	1.76%	\$ 2,779
2011	20,410,294	-	-		20,410,294	1.82%	2,899
2010	19,715,000	-	-		19,715,000	1.76%	2,800
2009	12,632,992	-	-		12,632,992	1.21%	1,752
2008	13,322,292	-	42,806		13,365,098	1.35%	1,841
2007	14,317,241	5,000	221,411		14,543,652	1.57%	2,158
2006	15,060,606	10,000	395,038		15,465,644	1.72%	2,282

(1) City began recording this information in 2006.



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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Less:		Net Bonded Debt (4)(5)(6)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Payable from Enterprise Fund				
2011-12	-	\$ 615,200	\$ 19,570,590	\$ -		\$ 19,570,590	3.180%	\$ 2,779
2010-11	7,197	614,491	20,410,294	-		20,410,294	3.320%	2,898
2009-10	7,042	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

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

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

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

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

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

(6) FY 2010-11, City issued \$1,530,000 in general obligation bonds to complete the City's renovation and addition to the middle school capital project.

Table 14

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2011-12	\$ 839,704	\$ 495,034	\$ 1,334,738	\$ 18,186,431	7.3%
2010-11	834,706	534,345	1,369,051	19,292,892	7.1%
2009-10	1,327,992	533,785	1,861,777	26,303,375	7.1%
2008-09	689,358	574,412	1,263,770	22,923,952	5.5%
2007-08	999,949	607,663	1,607,612	25,268,779	6.4%
2006-07	748,365	681,431	1,429,796	19,252,432	7.4%
2005-06	697,094	389,788	1,086,882	17,315,676	6.3%
2004-05	667,609	166,296	833,905	15,283,963	5.5%
2003-04	716,358	194,660	911,018	14,060,940	6.5%
2002-03	668,747	230,284	899,031	14,569,083	6.2%

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

(2) Information from Table 6.

City of Lexington, Virginia  
Computation of Legal Debt Margin  
June 30, 2012  
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 33,691	\$ 40,499	\$ 41,093	\$ 41,087	\$ 58,560	\$ 60,245	\$ 60,058	\$ 60,294	\$ 58,213	\$ 58,218
Total net debt applicable to limit	6,022	5,153	4,327	15,466	14,544	13,370	12,633	19,715	20,410	19,571
Legal debt margin	27,669	35,346	36,766	25,621	44,016	46,875	47,425	40,579	37,803	38,647
Total net debt applicable to the limit as a percentage of debt limit	17.9%	12.7%	10.5%	37.6%	24.8%	22.2%	21.0%	32.7%	35.1%	33.6%
<b>Legal Debt Margin Calculated for Fiscal Year 2012</b>										
	Assessed value									
	\$ 582,175									
	Debt limit (10% of assessed value)									
	\$ 58,218									
	Debt applicable to limit:									
	General Obligation Bonds 19,571									
	Less: amount set aside for repayment of general obligation debt									
	Total net applicable to limit									
	-									
	Legal debt margin									
	\$ 38,647									

Table 16

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

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands)(2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)			
2011-12	-	(5) \$	-	(5) \$	-	(5)	667	13.2%
2010-11	7,197	-	(5)	-	(5)	621	11.8%	
2009-10	7,042	1,110,646	30,854	619	14.5%			
2008-09	7,282	1,122,581	32,617	613	12.2%			
2007-08	7,211	1,118,605	32,348	615	8.3%			
2006-07	7,261	1,041,089	29,712	646	5.4%			
2005-06	7,206	988,969	28,442	626	5.0%			
2004-05	7,097	927,803	26,936	626	5.0%			
2003-04	6,900	891,371	26,165	626	2.4%			
2002-03	6,800	839,032	23,612	647	2.6%			

(1) Center for public service at the University of Virginia, [www.coopercenter.org](http://www.coopercenter.org)

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

(3) Lexington City Schools.

(4) Virginia Employment Commission.

(5) Information unavailable.

Table 17

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

Employer	Fiscal year ended June 30, 2012			Fiscal year ended June 30, 2003		
	Employment Range	Rank	% of Total City Employees (1)	Employment Range	Rank	% of Total City Employees
Washington & Lee University	1000-1499	1	22.8%	500-999	1	17.8%
Virginia Military Institute	500-999	2	13.5%	500-999	2	12.5%
Stonewall Jackson Hospital	under 500	3	4.5%	under 500	3	8.5%
City of Lexington	under 500	4	3.8%	under 500	5	3.5%
Heritage Hall Health Care (HCMF)	under 500	5	3.1%	under 500	7	1.4%
Kroger Company	under 500	6	1.6%	under 500	6	1.5%
Lexington City Schools	under 500	7	1.4%	under 500	9	1.3%
The VMI Foundation	under 500	8	1.4%			
Rockbridge Farmers' Co-op	under 500	9	1.1%	under 500	8	1.3%
Rockbridge Regional Library	under 500	10	1.0%			
Rockbridge County				under 500	4	6.5%
Rockbridge Area Community Services Board				under 500	10	1.1%

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

Table 18

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

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government administration	13	13	14	14	14	14	14	14	14	14
Judicial administration	-	-	-	-	-	-	-	-	-	1
Public safety										
Police										
Officers	15	15	15	15	15	16	16	16	16	16
Civilians	2	2	2	2	2	2	2	3	3	3
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Fire	-	-	-	-	-	-	-	1	1	9
Public works										
Administration & maintenance	34	34	35	36	36	36	36	35	35	34
Solid waste management	11	11	11	11	11	11	11	12	10	10
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	5	5	5	5	5	5	5	5	5	5
Utilities processing										
Water treatment	6	6	7	7	7	7	7	7	7	7
Wastewater treatment	9	9	9	10	10	10	10	10	11	11
<b>Total</b>	<b>98</b>	<b>98</b>	<b>101</b>	<b>103</b>	<b>103</b>	<b>104</b>	<b>104</b>	<b>106</b>	<b>106</b>	<b>113</b>

Source: Government finance department

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

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

Source: Various city departments

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

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

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

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

Table 20

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

Function	Fiscal Year						
	2006	2007	2008	2009	2010	2011	2012
Public safety							
Police							
Stations	1	1	1	1	1	1	1
Patrol units	10	12	12	12	13	13	13
Fire							
Stations	1	1	1	1	1	1	1
Public works							
Highways and streets							
Streets (miles)	60	60	60	60	60	60	60
Streetlights	516	527	527	529	530	530	530
Traffic signal intersections	12	12	12	12	12	12	13
Traffic signal lights	98	98	98	98	98	98	130
Parking garage	-	-	-	1	1	1	1
Cemeteries Maintenance							
Cemeteries	2	2	2	2	2	2	2
Sanitation and waste removal							
Collection trucks	5	5	5	5	5	5	5
Health, education and welfare							
Hospitals	1	1	1	1	1	1	1
Number of hospital beds	25	25	25	25	25	25	25
Leisure services							
Parks acreage	37	37	37	37	40	40	40
Parks	8	8	8	8	8	8	8
Swimming Pools	1	1	2	2	2	2	2
Community centers	1	1	1	1	-	-	-
Utilities processing							
Water							
Water mains (miles)	30	30	30	30	30	30	30
Fire hydrants	266	268	268	268	268	268	268
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer							
Sanitary sewers (miles)	40	40	40	40	40	40	40
Storm sewers (miles)	5	5	5	5	5	5	5
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Component unit - school board							
Education							
Elementary schools	1	1	1	1	1	1	1
Middle schools	1	1	1	1	1	1	1
Jointly operated high school	1	1	1	1	1	1	1

Source: Various city departments

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

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



Table 21

City of Lexington, Virginia  
 Schedule of Joint Services Contract Billing  
 For the Year Ended June 30, 2012

	Parking Garage	Fire	Recreation						RARO Total	Totals
			RARO Administration	Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other		
Salaries and fringe benefits	\$ 2,725	\$ 376,744	\$ 251,284	\$ 9,237	\$ 6,748	\$ 11,790	\$ 2,206	\$ 2,656	\$ 283,921	\$ 663,390
Contractual services	-	173,449	6,489	-	-	-	-	100	6,589	180,038
Other expenses	13,881	224,086	34,815	663	1,907	11,600	2,750	20	51,755	289,722
Totals	\$ 16,606	\$ 774,279	\$ 292,588	\$ 9,900	\$ 8,655	\$ 23,390	\$ 4,956	\$ 2,776	\$ 342,265	\$ 1,133,150
Less: Revenue for Operations	\$ -	\$ (357,414)	\$ (6,495)	\$ (4,355)	\$ (3,550)	\$ (8,325)	\$ (5,580)	\$ (3,770)	\$ (32,075)	\$ (389,489)
Net Expenses	\$ 16,606	\$ 416,865	\$ 286,093	\$ 5,545	\$ 5,105	\$ 15,065	\$ (624)	\$ (994)	\$ 310,190	\$ 743,661
Rockbridge County participation	9.90%	52.71%	76.38%	78.58%	81.72%	79.15%	69.23%	73.94%	76.66%	61.74%
Rockbridge County share	\$ 1,644	\$ 219,710	\$ 218,518	\$ 4,357	\$ 4,172	\$ 11,924	\$ (432)	\$ (735)	\$ 237,804	\$ 459,158

## COMPLIANCE SECTION

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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, 2012, which collectively comprise the City of Lexington, Virginia's basic financial statements and have issued our report thereon dated November 20, 2012. 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

Management of City of Lexington, Virginia is responsible for establishing and maintaining effective 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, 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.

*Robinson, Fauser, Co. Associates*

Blacksburg, Virginia  
November 20, 2012

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## Independent Auditors' 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

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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, 2012. 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, 2012.

### 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.

*Robinson, Jaeger, Co. Associates*

Blacksburg, Virginia  
November 20, 2012

City of Lexington, Virginia  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2012

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 (Child Nutrition Cluster)	10.555	40623	\$ 6,971
Department of Education:			
National School Lunch Program (Child Nutrition Cluster)	10.555	40623	<u>42,500</u> \$ 49,471
National School Breakfast Program (Child Nutrition Cluster)	10.553	40591	6,196
Department of Social Services:			
State Department of Forestry:			
ARRA Cooperative Forestry Assistance	10.664	90224, 90403, 90404 N/A	<u>2,992</u>
Total Department of Agriculture			<u>\$ 58,659</u>
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	90249, 90360	\$ 9,391
Temporary Assistance for Needy Families	93.558	90109, 90110, 90111, 90112 90127, 90229, 90230, 90231 90232, 90247, 90366, 90409 90411, 90412, 90413	618
Foster Care - Title IV-E	93.658	90105, 90106, 90107, 90209	5,325
Social Services Block Grant	93.667	90120, 90122, 90123, 90240 90242, 90243, 90262, 90306 90312, 90322, 90339, 90340 90237, 90238, 90378	5,133
Child Care and Development Block Grant	93.575	90544, 90545	<u>3,316</u>
Total Department Health and Human Services			<u>\$ 23,783</u>
Department of Transportation:			
Pass Through Payments:			
Virginia Department of Transportation:			
Highway planning and construction	20.205	N/A	<u>\$ 21,094</u>
Department of the Interior:			
Direct payments:			
Abandoned Mine Land Reclamation (AMLR) Program	15.252	N/A	<u>\$ 20,832</u>
Department of Housing and Urban Development			
Pass Through Payments:			
Department of Housing and Community Development:			
Community Development Block Grant	14.228	N/A	<u>\$ 233,810</u>

City of Lexington, Virginia  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2012

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Education:			
Pass Through Payments:			
Department of Education:			
Career and Technical Education: Basic Grants to States	84.048	61095	\$ 16,492
Education Technology - State Grants	84.318	61600	2,425
Improving Teacher Quality State Grants	84.367	61480	26,715
Title I Grants to Local Educational Agencies	84.010	42892, 42901	54,297
Special Education - Grants to States	84.027	43071	105,401
ARRA Education Jobs Fund	84.410	62700	123,377
Total Department of Education			<u>\$ 328,707</u>
Total Expenditures of Federal Awards			<u>\$ 686,885</u>

## 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, 2012. 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.

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

## NOTE C--RELATIONSHIP TO THE FINANCIAL STATEMENTS:

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

Intergovernmental federal revenues per the basic financial statements:

Primary Government:	
General Fund total	\$ 38,801
County CIP Fund total	<u>263,710</u>
Total Primary Government	<u>\$ 302,511</u>
Component Unit Schools:	
School Operating Fund total	<u>\$ 384,374</u>
Total Component Unit Schools	<u>\$ 384,374</u>
Total Federal Assistance	<u>\$ 686,885</u>



**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
84.410	ARRA - Education Jobs Fund
14.228	Community Development Block Grant

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

**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.