

FINANCIAL SECTION



MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and
Members of the City Council
City of Lexington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of City of Lexington ABC Board which represents 70 percent, 59 percent, and 87 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the City of Lexington ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Lexington ABC Board and the Lexington Tourism Authority were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based upon our audit and the report of the other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, North Carolina, as of June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 6 through 16, the Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress, and the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions on pages 83 through 86, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions on pages 87 through 88, and the Firefighters' and Rescue Squad Workers' Pension Funds' Schedule of the Proportionate Share of Net Pension Asset (Liability) on page 89 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules, component unit schedules, and statistical section, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, component unit schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of

management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules, component unit schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the City of Lexington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit prepared in accordance with *Government Auditing Standards* in considering the City of Lexington's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 24, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lexington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii-x of this report, and the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

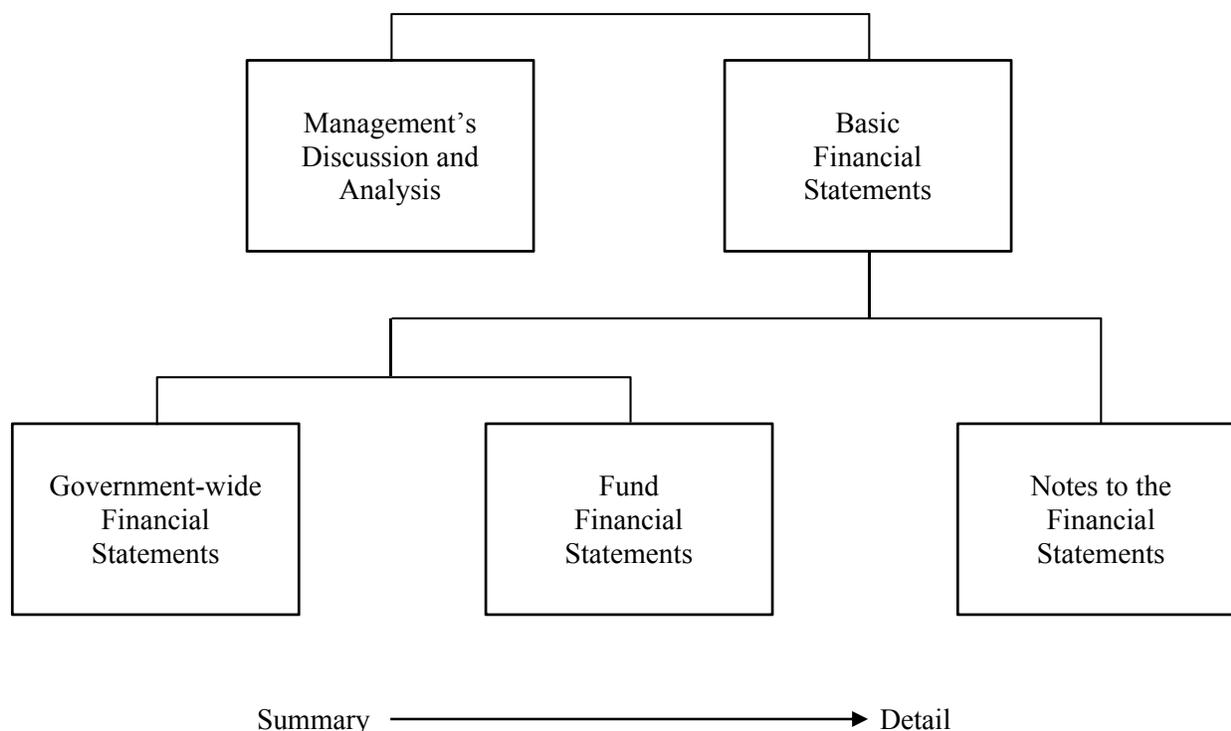
- The assets and deferred outflows of resources of the City of Lexington exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$165,590,931 (*net position*).
- The government's total net position increased by \$2,567,883, primarily due to delays in street maintenance activities, increases in unrestricted intergovernmental revenues such as sales and utilities sales taxes, and overall operating profitability of the City's Electric, Water and Wastewater, and Natural Gas utilities.
- As of the close of the current fiscal year, the City of Lexington's governmental funds reported combined ending fund balances of \$11,509,395, which is an increase of \$575,637 in comparison with the prior year. Approximately 44.9% of this total amount, or \$5,171,724, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,573,391, or 26.6% of total General Fund expenditures for the fiscal year. Unassigned fund balance represents a traditional fund balance reserve maintained for emergencies, liquidity and overall financial strength.
- The City of Lexington's total debt is \$22,002,592, which increased by \$5,118,007 (30.3%) during the current fiscal year. The key factor in this increase was the issuance of installment purchase debt in the amount of \$7,904,980 (\$377,980 for sanitation and police vehicles, \$1,707,000 for recreation improvements including Washington Park and Holt-Moffitt Baseball Park, \$3,306,000 for the construction of an Electric Operations Center, and \$2,514,000 for the construction of a Warehouse Center).
- The City of Lexington's bond rating was upgraded from A1 to Aa3 by Moody's in May 2016. The City continues to maintain its AA- bond rating by Standard and Poor's, which has been in place since June 2010.
- For 24 consecutive years, the City of Lexington has received a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) presented by the Government Finance Officers Association of the United States and Canada.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Lexington's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Lexington.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary funds statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **Supplementary Information** is provided to show details about the City's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the City's basic services such as general government, public safety, highways and streets, sanitation, and culture and recreation. Property taxes, sales taxes, intergovernmental revenues, user fees, along with various Federal and State grants finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the City's electric, water and wastewater, and natural gas utilities, as well as a municipally owned golf course. The final category is component units. The City includes three separate legal entities as component units in its report – the Lexington ABC Board, the Lexington Tourism Authority and Uptown Lexington. Although legally separate entities from the City, the ABC Board, the Tourism Authority and Uptown Lexington are important to the City. The City exercises control over the Boards by appointing members and exercises fiduciary responsibilities in the case of the Tourism Authority and Uptown Lexington. In addition, the ABC Board is required to distribute a portion of its profits to the City.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. 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 all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements such as the General Statutes, the City's budget ordinance, or bond covenants. All of the funds of City of Lexington can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term spending view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Lexington adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the City Council, 2) the final budget as amended by the City Council, 3) the actual resources, charges to appropriations, and ending balances in the General Fund, and 4) the difference or variance between the final budget and the actual resources and charges.

The basic governmental fund financial statements are Exhibits 3, 4, and 5 of this report.

Proprietary Funds – City of Lexington has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Lexington uses enterprise funds to account for its electric, water and wastewater, and natural gas utility operations, as well as its municipal golf course activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of City of Lexington.

The City uses internal service funds to account for the following activities: fleet management, employee and retiree group insurance, risk management insurance and claims, and utility administration operations that primarily serve the City utilities such as billing, customer service and meter reading. In addition, the City uses internal service funds to account for the accumulation of resources for future capital needs of the Electric, Water and Wastewater, Natural Gas, and Fleet Management Funds and the accumulation of resources for rate stabilization in the Electric and Natural Gas Funds. With the exception of utility administration, capital reserve and rate stabilization, the majority of the internal service funds benefit predominantly governmental rather than business-type activities and have been included within the governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements are Exhibits 6, 7, and 8 of this report.

Notes to the Basic 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. The notes to the financial statements begin on page 37 of this report.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Lexington's progress in funding its obligation to provide pension and postemployment benefits to its employees. Required supplementary information can be found beginning on page 83 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City of Lexington's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 17,790,151	\$ 17,930,273	\$ 44,394,423	\$ 38,220,394	\$ 62,184,574	\$ 56,150,667
Capital assets	45,703,801	43,961,660	99,094,584	99,882,512	144,798,385	143,844,172
Deferred outflows of resources	638,659	681,739	348,793	353,597	987,452	1,035,336
Total assets and deferred outflows of resources	<u>64,132,611</u>	<u>62,573,672</u>	<u>143,837,800</u>	<u>138,456,503</u>	<u>207,970,411</u>	<u>201,030,175</u>
Current liabilities	2,339,978	1,919,537	7,481,653	6,781,636	9,821,631	8,701,173
Long-term liabilities outstanding	13,313,341	11,244,516	18,610,730	14,382,669	31,924,071	25,627,185
Deferred inflows of resources	409,912	2,422,363	223,866	1,256,406	633,778	3,678,769
Total liabilities and deferred inflows of resources	<u>16,063,231</u>	<u>15,586,416</u>	<u>26,316,249</u>	<u>22,420,711</u>	<u>42,379,480</u>	<u>38,007,127</u>
Net position						
Net investment in capital assets	40,746,459	39,963,277	89,108,109	88,722,117	129,854,568	128,685,394
Restricted	3,707,261	3,766,473	-	-	3,707,261	3,766,473
Unrestricted	3,615,660	3,257,506	28,413,442	27,313,675	32,029,102	30,571,181
Total net position	<u>\$ 48,069,380</u>	<u>\$ 46,987,256</u>	<u>\$ 117,521,551</u>	<u>\$ 116,035,792</u>	<u>\$ 165,590,931</u>	<u>\$ 163,023,048</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Lexington exceeded liabilities and deferred inflows by \$165,590,931 as of June 30, 2016. The City's net position increased by \$2,567,883 for the fiscal year ended June 30, 2016.

However, the largest portion (78.4%) of net position reflects the City's net investment in capital assets (e.g. land, buildings, machinery and equipment, infrastructure such as roads and bridges, and plants and distribution systems). The City of Lexington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lexington's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Lexington's net position, \$3,707,261, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$32,029,102 is unrestricted.

Several particular aspects of the City's financial operations influenced the total unrestricted net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection rate of 96.53%. The statewide average in fiscal year 2014-15 was 98.87%.
- Increased sales tax and utilities sales tax revenues of approximately \$222,000 and \$124,000, respectively, due to economic growth in the City.
- Piped natural gas sales tax revenues of approximately \$131,000 due to new statutory revenue source for cities in North Carolina that operate natural gas utilities.
- A decrease of approximately 6.65% in rates paid to ElectricCities for purchased power, netted with a decrease of approximately 2.7% in rates charged to electric customers contributed approximately \$1,500,000 in resources available to fund line relocations, delayed infrastructure maintenance, and to positively impact the financial position and liquidity of the Electric utility.
- Overall operating profitability of the City's Electric, Water and Wastewater, and Natural Gas utilities positively impacted the business-type activities unrestricted net position.
- Continued low cost of debt due to the City's excellent bond rating.
- The net position in business-type activities was also positively impacted by \$2.05 million of debt principal payments in the current year.

City of Lexington's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 1,876,150	\$ 1,884,188	\$ 70,572,791	\$ 76,621,422	\$ 72,448,941	\$ 78,505,610
Operating grants and contributions	2,035,092	813,602	823,343	46,368	2,858,435	859,970
Capital grants and contributions	578,556	25,000	-	-	578,556	25,000
General revenues						
Property taxes	9,147,226	9,355,556	-	-	9,147,226	9,355,556
Other taxes	318,347	314,466	-	-	318,347	314,466
Other general revenues	6,545,914	6,094,707	94,784	44,803	6,640,698	6,139,510
Total revenues	<u>20,501,285</u>	<u>18,487,519</u>	<u>71,490,918</u>	<u>76,712,593</u>	<u>91,992,203</u>	<u>95,200,112</u>

City of Lexington's Changes in Net Position (continued)

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Expenses						
General government	\$ 4,563,721	\$ 4,617,011	\$ -	\$ -	\$ 4,563,721	\$ 4,617,011
Public safety	10,289,676	9,711,455	-	-	10,289,676	9,711,455
Highways and streets	2,262,216	2,826,265	-	-	2,262,216	2,826,265
Sanitation	1,584,771	1,625,203	-	-	1,584,771	1,625,203
Culture and recreation	1,672,963	1,575,688	-	-	1,672,963	1,575,688
Economic and physical development	1,380,493	73,939	-	-	1,380,493	73,939
Interest on long-term debt	179,867	183,188	-	-	179,867	183,188
Electric	-	-	49,994,983	51,399,095	49,994,983	51,399,095
Water and Wastewater	-	-	8,185,398	7,788,441	8,185,398	7,788,441
Natural gas	-	-	8,438,306	10,347,419	8,438,306	10,347,419
Golf	-	-	871,926	815,233	871,926	815,233
Total expenses	21,933,707	20,612,749	67,490,613	70,350,188	89,424,320	90,962,937
Increase (decrease) in net position before transfers	(1,432,422)	(2,125,230)	4,000,305	6,362,405	2,567,883	4,237,175
Transfers	2,514,546	2,229,769	(2,514,546)	(2,229,769)	-	-
Increase in net position	1,082,124	104,539	1,485,759	4,132,636	2,567,883	4,237,175
Net position, beginning	46,987,256	46,882,717	116,035,792	111,903,156	163,023,048	158,785,873
Net position, ending	<u>\$ 48,069,380</u>	<u>\$ 46,987,256</u>	<u>\$ 117,521,551</u>	<u>\$ 116,035,792</u>	<u>\$ 165,590,931</u>	<u>\$ 163,023,048</u>

Governmental activities - Governmental activities increased the City's net position by \$1,082,124 accounting for 42.1% of the total growth in the net position of the City of Lexington. Key elements of this increase are as follows:

- Lexington experienced a decrease in property tax revenue. In large part this was driven by a tax revaluation that resulted in a reduction in existing tax base estimated at \$42,000,000. Economic activity, however, mitigated part of that loss with new tax base and taxable values only decreased by approximately \$23,000,000. This decrease in taxable values, coupled with increase in tax refunds and decreases in prior year collections, adversely impacted the net position by approximately \$373,000.
- As the economy continued to slowly improve, unrestricted intergovernmental revenues including local option sales taxes and utilities sales taxes increased by approximately \$426,000.
- The City received a CMAQ grant of approximately \$289,000 which was used to help fund the acquisition of two hybrid refuse trucks.
- The City entered into a service agreement with Lexington City Schools to provide school resource officers for a contract price of approximately \$106,000.
- Delays in street maintenance activities positively impacted the City's net position by approximately \$521,000.
- City management continued to evaluate opportunities for reductions in personnel costs by reorganizations and delays in hiring.

Business-type activities - Business-type activities increased the City of Lexington's net position by \$1,485,759. Key elements of the business-type increase are as follows:

- A decrease in the rate paid for purchased power and cost containment measures contributed to operating margins in the three utility funds of Electric, Water and Wastewater and Natural Gas, resulting in an aggregate positive change of \$1,138,269 in the business-type activities net position.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds - The focus of the City of Lexington's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Lexington's financing requirements.

The General Fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, City of Lexington fund balance available for appropriation in the General Fund was \$6,590,044, while total fund balance reached \$9,657,721. The City of Lexington City Council has informally determined that the City should maintain an available fund balance of 25% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 30.90% of General Fund expenditures, while total fund balance represents 45.28% of the same amount. Of the fund balance available, \$229,026 is restricted in what it can be used for and \$15,329 has been committed for specific purposes. The City Council has appropriated \$772,298 of the fund balance available for use in the year ended June 30, 2017.

At June 30, 2016, the governmental funds of the City of Lexington reported a combined fund balance of \$11,509,395, with a net increase in fund balance of \$576,228. Included in this change in fund balance is an increase of \$288,433 in the General Fund and an increase of \$326,482 in the Capital Projects Fund. Much of the increase in the General Fund is due to increases in unrestricted intergovernmental revenues resulting from a slowly improving economy. Also contributing to this increase were decreases in retiree health care cost borne by the City and delays in street maintenance activities until the subsequent fiscal year. The increase in the Capital Projects Fund is temporary and is primarily related to unexpended debt proceeds and other cash being used to fund projects.

General Fund Budgetary Highlights – During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased appropriations by \$1,784,765, representing an 8.2 percent increase from the original budget. These included the following significant amendments: 1) \$969,621 for re-appropriation of prior year outstanding encumbrances, 2) \$357,000 in a midyear adjustment including \$175,000 for lights at Bingham Tennis Center, \$32,000 for application preparation costs for a Tiger Grant, and \$150,000 for additional support to the Golf Fund due to the impact of cold and wet conditions on revenues in that fund, 3) \$266,400 for additional funding for the 2014 Public Buildings Improvement Project, and 4) \$75,000 for funding for the Amphitheater Project. These amendments were funded with appropriation of fund balance.

Revenues were \$1,027,082 higher than the final budgeted amounts. Ad valorem tax revenues exceeded those amounts estimated with the budget by \$266,143, primarily because the assessed valuation and the collection rate exceeded the original estimates used in the budget. Unrestricted intergovernmental revenues exceeded budgeted amounts by \$508,957. Included in this category are the utilities sales tax and local option sales tax with revenues exceeding budgeted amounts by \$219,979 and \$181,485, respectively. Restricted intergovernmental revenues were more than budgeted amounts by \$107,178, primarily due to recognition of \$82,081 in FEMA disaster assistance funding earned in 2013-14 but not available for revenue recognition at that time. Sales and services exceeded budgeted amounts by \$150,767, primarily due to a \$106,534 fee under a new service contract for the provision of school resource officers.

Expenditures were \$1,949,588, or 8.2%, lower than the final budgeted amounts. Personnel costs were \$540,000 lower than the final budgeted amounts, primarily due to vacancies and delays in filling positions during the year. Another significant part of this variance is represented by outstanding encumbrances at June 30, 2016, which totaled \$707,783 for the General Fund. This amount includes \$487,224 related to street maintenance activities and \$130,932 related to lights at Bingham Tennis Center. These purchase and contractual commitments, although

originally authorized under budgetary appropriations for the year ended June 30, 2016, will be reflected as expenditures in the subsequent fiscal year. Debt service was \$105,834 lower than budget amounts, primarily because \$71,167 in repayments on internal borrowings were budgeted as debt service. Other expenditures were held in check by management in an effort to mitigate the continued impact of the economic downturn.

Installment purchase debt issuances were \$526,925 lower than the final budgeted amounts. Of the planned debt issuances, \$526,125 in borrowing that was planned for two hybrid refuse trucks was instead borrowed from the Natural Gas Fund.

Proprietary Funds – The City of Lexington’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Electric, Water and Wastewater, Natural Gas, and Golf funds at the end of the fiscal year amounted to \$8,936,802, \$4,358,829, \$5,961,075, and (\$46,909), respectively. Total unrestricted net position for all enterprise funds amounted to \$19,209,797.

The total change in net position for the Electric, Water and Wastewater, Natural Gas, and Golf funds were (\$325,312), \$429,752, \$1,033,829, and \$99,325, respectively. These changes include changes in net position invested in capital assets for the respective funds of \$220,922, (\$251,397), \$724,458, and \$76,218. The remaining changes represent changes in unrestricted net position for the funds.

Electric unrestricted net position decreased by \$546,234, primarily due to \$1,980,013 in planned non-capitalized relocation and reconductoring maintenance activities on the City’s electric infrastructure. Utility relocation agreements with the North Carolina Department of Transportation covered approximately \$620,000 of this cost. A 6.65% decrease in the rate paid for purchased power had a positive impact on the Electric Fund’s cash flow, and enabled the City to focus on previously delayed infrastructure maintenance projects and to pass along a 2.7% decrease in the rates charged to the City’s customers. Water and Wastewater unrestricted net position increased by \$681,149, primarily due to delays in capital spending and cost containment. Natural Gas unrestricted net position increased by \$309,371, primarily due to a continued positive operating margins. Cold and wet winter weather patterns, as well as declining trends in golf rounds nationally, continue to have an adverse impact on golf rounds and revenues. The General Fund provided \$150,000 in additional funding that was not included in the original budget to help mitigate the expected impact on golf revenues. Cost containment efforts in the Golf fund resulted in expenditures being \$55,070 less than the final budgeted amounts and unrestricted net position increased by \$23,107.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – As of June 30, 2016, the City of Lexington had \$144,798,385 invested in a broad range of capital assets, net of accumulated depreciation, for its governmental and business-type activities. This amount includes assets such as land, buildings, vehicles and equipment, roads and bridges, park facilities, and various utility plants, substations, and distribution system infrastructure.

Major capital asset transactions during the year include the following:

- Acquisition of an Animal Control truck at a cost of \$52,605.
- Acquisition of a Fire Department rescue truck at a cost of \$63,475.
- Acquisition of an asphalt truck at a cost of \$160,346.
- Acquisition of a front-loading refuse truck at a cost of \$325,555.
- Acquisition of two hybrid side-loading refuse trucks at a cost of \$809,922.
- Construction in progress for renovations to City Hall at a cost of \$1,170,472.
- Construction in progress for improvements to Washington Park at a cost of \$570,150.
- Construction in progress for Breeden Insurance Amphitheater at a cost of \$55,229.
- Acquisition of a 3-phase analyzer in the Electric Fund at a cost of \$53,302.
- Acquisition of a small bucket truck in the Electric Fund at a cost of \$137,914.
- Acquisition of a large bucket truck in the Electric Fund at a cost of \$233,736.
- Construction in progress for the Electric Operations Center at a cost of \$516,654.
- Acquisition of a service truck in the Natural Gas Fund at a cost of \$58,014.

- Infrastructure improvements in the Natural Gas Fund at a cost of \$835,659.
- Acquisition of a Vermeer Trencher and a John Deere Tractor in the Fleet Management Fund at a total acquisition cost of \$176,080.
- Construction in progress for the Warehouse Center in the Utilities Administration Fund at a cost of \$236,443.

**City of Lexington's Capital Assets
(Net of Depreciation)
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,252,779	\$ 2,252,779	\$ 2,051,883	\$ 2,051,883	\$ 4,304,662	\$ 4,304,662
Buildings	6,101,339	6,277,734	2,834,225	2,928,054	8,935,564	9,205,788
Other improvements	2,315,534	2,544,346	3,803,140	1,167,945	6,118,674	3,712,291
Machinery & equipment	5,069,827	3,920,542	1,863,733	1,493,362	6,933,560	5,413,904
Intangibles	819,523	975,706	154,891	163,722	974,414	1,139,428
Infrastructure	19,212,884	20,228,649	-	-	19,212,884	20,228,649
Plant & distribution systems	-	-	86,233,790	87,578,944	86,233,790	87,578,944
Construction in progress	9,931,915	7,761,904	2,152,922	4,498,602	12,084,837	12,260,506
Total	<u>\$ 45,703,801</u>	<u>\$ 43,961,660</u>	<u>\$ 99,094,584</u>	<u>\$ 99,882,512</u>	<u>\$ 144,798,385</u>	<u>\$ 143,844,172</u>

Additional information on the City's capital assets can be found in Note 2.A.4 of the Basic Financial Statements.

Long-term Debt – As of June 30, 2016, the City of Lexington had total bonded debt outstanding of \$3,008,284. Of this, \$1,374,000 is debt backed by the full faith and credit of the City; however, all of this general obligation debt is budgeted and paid for by revenues generated by the Electric Fund and the Water and Wastewater Fund. The remainder of the City's bonded debt represents \$1,634,284 in bonds secured solely by specified revenue sources in the Natural Gas Fund (i.e. revenue bonds). At June 30, 2016, the City had installment purchase debt outstanding of \$18,994,308. Installment purchase debt represents contracts entered into by the City for the acquisition or construction of capital assets and are secured by the assets being financed.

**City of Lexington's Outstanding Debt
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ -	\$ 146,775	\$ 1,374,000	\$ 1,933,225	\$ 1,374,000	\$ 2,080,000
Revenue bonds	-	-	1,634,284	1,907,034	1,634,284	1,907,034
Installment purchases	6,418,476	4,923,681	12,575,832	7,973,870	18,994,308	12,897,551
Total	<u>\$ 6,418,476</u>	<u>\$ 5,070,456</u>	<u>\$ 15,584,116</u>	<u>\$ 11,814,129</u>	<u>\$ 22,002,592</u>	<u>\$ 16,884,585</u>

The City of Lexington's total debt increased by \$5,118,007 (30.3%). During the past fiscal year, the City issued installment purchase debt in the amount of \$7,904,980 (\$377,980 for sanitation and police vehicles, \$1,707,000 for recreation improvements including Washington Park and Holt-Moffitt Baseball Park, \$3,306,000 for the construction of an Electric Operations Center, and \$2,514,000 for the construction of a Warehouse Center). Debt retirements totaled \$2,786,973.

As mentioned in the financial highlights section of this document, the City of Lexington's bond rating was upgraded from A1 to Aa3 by Moody's in May 2016. The City continues to maintain its AA- bond rating by Standard and Poor's, which has been in place since June 2010. These bond ratings are a clear indication of the sound financial condition of the City of Lexington. Excellent bond ratings are a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Lexington is \$101,475,652. The City has no bonds authorized but unissued at June 30, 2016.

Additional information regarding the City of Lexington's long-term debt can be found in Note 2.B.8 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors

- Unemployment. The local unemployment rate of 4.9% was slightly lower than the state rate of 5.1% at the end of the fiscal year, reflecting an improving trend from the previous year when the local and state unemployment rates were 5.8% and 6.1%, respectively.
- Principal property tax payers. Halyard North Carolina is the largest taxpayer in the City, with 6.11% of total assessed valuation.
- Principal utility customers. For the year ended June 30, 2016, the City of Lexington was the largest electric customer providing 2.65% of total electric revenue, PPG Industries was the largest water customer providing 9.37% of total water revenue, Davidson County schools was the largest wastewater customer providing 2.25% of total wastewater revenue, and PPG Industries was the largest natural gas customer providing 6.82% of total natural gas revenue.
- Inspections for commercial construction in the City totaled 1,238 with a value of \$29.2 million, representing an increase from prior year inspections totaling 747 with a value of \$16.5 million.
- Inspections for residential construction in the City totaled 941 with a value of \$7.2 million, representing an increase from prior year inspections totaling 803 with a value of \$4.5 million.
- The City took a significant step in attempting to control its own economic future by purchasing the Lexington Furniture Industries, Inc. Plant 1 property for \$1,000,000 with acquisition payments in previous fiscal years. However, redevelopment planning costs and Tiger II grant funding for this initiative are reflected in this financial report. Plant 1, which has been closed since 2003, contains 18 acres of land and over one million square feet of building space and is located adjacent to the heart of uptown Lexington and the newly renovated depot district. The City faced real threats of declining appearance and tax base due to the expected acquisition of the property by absentee ownership if the City decided against the purchase. This acquisition has financial impacts on current and future City budgets as the huge task of redevelopment of the property is addressed and additional grants are sought. However, it is considered a financial risk worth taking.
- Economic development grant initiatives landed United Furniture Industries locating in Lexington in May 2010, resulting in a gain of over \$5 million capital investment in the facility and equipment and 150 new manufacturing jobs pledged for the community over a three year period. In addition, an economic development grant partnership with Davidson County resulted in Moran Foods Save-A-Lot building a distribution center in Lexington Business Center, with over \$23 million capital investment and a minimum of 42 jobs pledged over a three year period. Moran Foods benefitted from the City acquiring a \$504,000 CDBG economic development grant to provide the needed water infrastructure to support their operations.
- CDBG economic development grants in the form of building reuse grants were announced in July 2015 for Piedmont Candy Company and for Masterbrand Cabinets. Piedmont Candy Company expects to add \$2 million in private investment and thirty-eight full time jobs as part of its expansion. Masterbrand Cabinets expects to add \$8 million in private investment and thirty-eight full time jobs as part of its expansion.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities – Property taxes and unrestricted intergovernmental revenues are expected to lead the increase in budgeted revenue by 7.6%. The property tax rate for 2016-17 increased by \$0.05 to \$0.65 per \$100 of assessed valuation. This rate increase, along with a modest increase in taxable values, is expected to increase budgeted ad valorem tax revenues by \$970,900. The increased revenue will help mitigate the impact of the tax revaluation in 2015-16 and provide necessary funding to attract, equip, and retain police officers. Despite the recent

unfavorable effects of the population decline from the Census 2010 and the aftermath of the ‘great recession’ on City revenue sources, sales tax and some State collected local revenues are projected to increase in Fiscal Year 2016-17 from the previous year’s final budget estimates. The City will use its revenues to finance programs currently in place and to make key investments towards City Council's goals, including green initiatives and recreation. The City plans to continue with the fourth of a four year phase-in of a residential recycling rollout program. Plans for multi-year strategic investments in recreation are being continued as well. Ongoing investments include the redevelopment of Washington Park, a City of Lexington recreational park. A Parks and Recreation Trust Fund grant has been obtained to assist with funding for this recreational initiative. Other ongoing and planned investments include improvements to Holt-Moffitt Baseball Park, the construction of an Breeden Insurance Amphitheater, and the development of Radcliff Skate Park. It is anticipated that these and other recreation improvements will be financed with installment purchase debt and debt service estimates for these have been budgeted accordingly.

Budgeted expenditures in the General Fund are expected to decrease approximately 2.6% to \$22,296,445. The biggest driver of this decrease is a \$1,461,858 decrease in budgeted capital outlay. In the 2015-16 fiscal year, the City made significant investments in heavy vehicles and equipment with the acquisition of 3 refuse trucks and 1 paving truck. These investments do not need to be made in 2016-17. The largest increments of increases are in employee compensation, including compensation and benefits adjustments. The increase include adjustments to begin addressing difficulties in attracting and retaining police officers.

Business-type Activities – City residents benefited from an average 2.0% electric rate decrease effective July 1, 2016. This rate decrease is primarily attributable to the North Carolina Municipal Power Agency No. 1 passing on wholesale power cost decreases to the City of Lexington in 2015-16. In addition, the City is in the process of constructing new Electric Operations Center and Warehouse Center Facilities. The City Warehouse is operated out of the Utility Administration Internal Service Fund. The replacement of these facilities was financed with installment purchase debt issued in 2015-16. Both the Electric Fund budget and the Utility Administration Internal Service Fund financial plan include provisions for debt service on these facilities.

REQUESTS FOR INFORMATION

This report is designed to provide our citizens, customers, investors and creditors with a general overview of the City’s finances and to demonstrate the City’s accountability for the money received for the reporting period of July 1, 2015 through June 30, 2016. Questions concerning any of the information found in this report or requests for additional information should be directed to the City of Lexington Finance Department, 28 West Center Street, Lexington, NC 27292 or visit the City’s website at www.LexingtonNC.gov.



BASIC FINANCIAL STATEMENTS

(This Page Is Intentionally Blank)

City of Lexington, North Carolina
Statement of Net Position
June 30, 2016

Exhibit 1

	Primary Government			Component Units		
	Governmental Activities	Business- type Activities	Total	ABC Board	Tourism Authority	Uptown Lexington
ASSETS						
Cash and cash equivalents	\$ 14,415,681	\$ 23,793,381	\$ 38,209,062	\$ 196,597	\$ 362,723	\$ 118,066
Receivables (net)						
Taxes	705,630	-	705,630	-	-	-
Accounts - billed	204,837	3,778,741	3,983,578	-	-	-
Accounts - unbilled	70,364	4,636,189	4,706,553	-	-	310
Interest	3,445	6,663	10,108	-	-	-
Due from other governments	2,278,269	926,243	3,204,512	-	-	-
Due from component units	93,167	-	93,167	-	-	-
Due from primary government	-	-	-	-	29,207	-
Internal balances	(1,929,352)	1,929,352	-	-	-	-
Inventories	158,696	2,290,708	2,449,404	413,826	-	-
Prepaid items	3,329	17,000	20,329	4,830	-	-
Restricted cash and cash equivalents	1,786,085	6,595,513	8,381,598	-	-	-
Equity interest in joint venture	-	420,633	420,633	-	-	-
Capital assets						
Land and other non-depreciable assets	12,184,694	4,204,805	16,389,499	253,386	-	-
Other capital assets, net of accumulated depreciation	33,519,107	94,889,779	128,408,886	286,966	-	-
Total capital assets	<u>45,703,801</u>	<u>99,094,584</u>	<u>144,798,385</u>	<u>540,352</u>	<u>-</u>	<u>-</u>
Total assets	<u>63,493,952</u>	<u>143,489,007</u>	<u>206,982,959</u>	<u>1,155,605</u>	<u>391,930</u>	<u>118,376</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>638,659</u>	<u>348,793</u>	<u>987,452</u>	<u>27,964</u>	<u>-</u>	<u>-</u>

Continued on next page.

City of Lexington, North Carolina
Statement of Net Position
June 30, 2016

Exhibit 1
continued

	Primary Government			Component Units		
	Governmental Activities	Business- type Activities	Total	ABC Board	Tourism Authority	Uptown Lexington
LIABILITIES						
Accounts payable and accrued liabilities	\$ 2,034,214	\$ 6,206,287	\$ 8,240,501	\$ 245,586	\$ 2,348	\$ 3,652
Due to component units	29,207	-	29,207	-	-	-
Due to primary government	-	-	-	93,167	-	-
Unearned revenue	9,780	-	9,780	-	-	-
Payable from restricted assets	266,777	1,275,366	1,542,143	-	-	-
Long-term liabilities						
Net pension liability	1,230,313	403,653	1,633,966	8,796	-	-
Due in one year	1,358,707	2,781,622	4,140,329	34,782	3,854	-
Due in more than one year	10,724,321	15,425,455	26,149,776	81,770	-	-
Total liabilities	<u>15,653,319</u>	<u>26,092,383</u>	<u>41,745,702</u>	<u>464,101</u>	<u>6,202</u>	<u>3,652</u>
DEFERRED INFLOWS OF RESOURCES	<u>409,912</u>	<u>223,866</u>	<u>633,778</u>	<u>4,572</u>	<u>-</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	40,746,459	89,108,109	129,854,568	423,800	-	-
Restricted for						
Stabilization by state statute	3,072,894	-	3,072,894	-	29,207	-
Council chamber improvements	10,000	-	10,000	-	-	-
Law enforcement	185,378	-	185,378	-	-	-
Highways and streets	219,026	-	219,026	-	-	-
Urban redevelopment	48,000	-	48,000	-	-	-
Capital projects	171,963	-	171,963	-	-	-
Uptown revitalization	-	-	-	-	-	114,724
Working capital	-	-	-	125,356	-	-
Tourism promotion	-	-	-	-	356,521	-
Unrestricted	<u>3,615,660</u>	<u>28,413,442</u>	<u>32,029,102</u>	<u>165,740</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 48,069,380</u>	<u>\$ 117,521,551</u>	<u>\$ 165,590,931</u>	<u>\$ 714,896</u>	<u>\$ 385,728</u>	<u>\$ 114,724</u>

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

City of Lexington, North Carolina
Statement of Activities
For the fiscal year ended June 30, 2016

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-type Activities	Total	ABC Board	Tourism Authority	Uptown Lexington
Primary government										
Governmental Activities										
General government	\$ 4,563,721	\$ 15,021	\$ 136	\$ -	\$ (4,548,564)	\$ -	\$ (4,548,564)			
Public safety	10,289,676	382,193	91,652	-	(9,815,831)	-	(9,815,831)			
Highways and streets	2,262,216	290	616,467	-	(1,645,459)	-	(1,645,459)			
Sanitation	1,584,771	1,171,703	12,140	289,449	(111,479)	-	(111,479)			
Culture and recreation	1,672,963	106,829	90,791	289,107	(1,186,236)	-	(1,186,236)			
Economic and physical development	1,380,493	200,114	1,223,906	-	43,527	-	43,527			
Interest on long-term debt	179,867	-	-	-	(179,867)	-	(179,867)			
Total governmental activities	<u>21,933,707</u>	<u>1,876,150</u>	<u>2,035,092</u>	<u>578,556</u>	<u>(17,443,909)</u>	<u>-</u>	<u>(17,443,909)</u>			
Business-type activities										
Electric	49,994,983	51,048,228	619,872	-	-	1,673,117	1,673,117			
Water and Wastewater	8,185,398	8,835,534	-	-	-	650,136	650,136			
Natural Gas	8,438,306	10,035,838	203,471	-	-	1,801,003	1,801,003			
Golf	871,926	653,191	-	-	-	(218,735)	(218,735)			
Total business-type activities	<u>67,490,613</u>	<u>70,572,791</u>	<u>823,343</u>	<u>-</u>	<u>-</u>	<u>3,905,521</u>	<u>3,905,521</u>			
Total primary government	<u>\$ 89,424,320</u>	<u>\$ 72,448,941</u>	<u>\$ 2,858,435</u>	<u>\$ 578,556</u>	<u>(17,443,909)</u>	<u>3,905,521</u>	<u>(13,538,388)</u>			
Component units										
ABC Board	\$ 4,187,349	\$ 4,225,608	\$ -	\$ -			\$ 38,259	\$ -	\$ -	
Tourism Authority	270,185	-	354,598	-			-	84,413	-	
Uptown Lexington	287,325	950	276,781	-			-	-	(9,594)	
Total component units	<u>\$ 4,744,859</u>	<u>\$ 4,226,558</u>	<u>\$ 631,379</u>	<u>\$ -</u>			<u>38,259</u>	<u>84,413</u>	<u>(9,594)</u>	

Continued on next page.

City of Lexington, North Carolina
Statement of Activities
For the fiscal year ended June 30, 2016

Exhibit 2
continued

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position						
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Component Units			
				Governmental Activities	Business-type Activities	Total	ABC Board	Tourism Authority	Uptown Lexington	
General revenues										
Taxes										
Property taxes				\$ 9,147,226	\$ -	\$ 9,147,226	\$ -	\$ -	\$ -	
Other taxes				318,347	-	318,347	-	-	-	
Grants and contributions not restricted to specific programs				6,487,277	-	6,487,277	-	-	-	
Investment earnings, unrestricted				53,649	94,784	148,433	265	581	159	
Miscellaneous, unrestricted				4,988	-	4,988	-	-	-	
Total general revenues not including transfers				16,011,487	94,784	16,106,271	265	581	159	
Transfers				2,514,546	(2,514,546)	-	-	-	-	
Total general revenues and transfers				18,526,033	(2,419,762)	16,106,271	265	581	159	
Change in net position				1,082,124	1,485,759	2,567,883	38,524	84,994	(9,435)	
Net position - beginning				46,987,256	116,035,792	163,023,048	676,372	300,734	124,159	
Net position - ending				\$ 48,069,380	\$ 117,521,551	\$ 165,590,931	\$ 714,896	\$ 385,728	\$ 114,724	

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

City of Lexington, North Carolina
Balance Sheet
Governmental Funds
June 30, 2016

Exhibit 3

	Major Fund	Total Non-	Total
	General	Major Funds	Governmental
	Fund		Funds
Assets			
Cash and cash equivalents	\$ 8,528,261	\$ 799,181	\$ 9,327,442
Receivables (net)			
Property taxes	701,249	4,381	705,630
Accounts - billed	145,327	-	145,327
Accounts - unbilled	70,364	-	70,364
Interest	2,131	92	2,223
Due from other governments	1,961,786	262,533	2,224,319
Due from other funds	76,805	-	76,805
Advance to other funds	45,000	-	45,000
Due from component unit	93,167	-	93,167
Prepaid items	3,329	-	3,329
Restricted cash and cash equivalents			
Customer deposits	80,925	-	80,925
Powell bill	219,026	-	219,026
Economic development deposit	25,000	-	25,000
Construction in progress - unexpended debt proceeds	-	1,461,134	1,461,134
Total assets	\$ 11,952,370	\$ 2,527,321	\$ 14,479,691
Liabilities			
Accounts payable and accrued liabilities	\$ 856,523	\$ 364,238	\$ 1,220,761
Due to other funds	112,613	76,805	189,418
Due to component units	29,207	-	29,207
Unearned revenue	-	9,780	9,780
Liabilities payable from restricted assets			
Accounts payable	-	160,852	160,852
Deposits	105,925	-	105,925
Advance from other funds	451,117	45,000	496,117
Total liabilities	1,555,385	656,675	2,212,060
Deferred inflows of resources	739,264	18,972	758,236

Continued on next page.

City of Lexington, North Carolina
Balance Sheet
Governmental Funds
June 30, 2016

Exhibit 3
continued

	Major Fund General Fund	Total Non- Major Funds	Total Governmental Funds
Fund balances			
Nonspendable			
Prepaid items	\$ 3,329	\$ -	\$ 3,329
Restricted			
Stabilization by state statute	3,064,348	8,546	3,072,894
Council chamber improvements	10,000	-	10,000
Law enforcement	-	185,378	185,378
Streets	219,026	-	219,026
Urban redevelopment	-	48,000	48,000
Capital projects			
Recreation improvements	-	1,461,134	1,461,134
Business park development	-	171,963	171,963
Committed			
Public buildings improvements	-	138,456	138,456
Recreation improvements	-	119,771	119,771
Other	15,329	11,369	26,698
Assigned			
Subsequent year's expenditures	772,298	-	772,298
Unassigned			
Total fund balances	9,657,721	1,851,674	11,509,395
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,952,370	\$ 2,527,321	\$ 14,479,691

Continued on next page.

City of Lexington, North Carolina
Balance Sheet
Governmental Funds
June 30, 2016

Exhibit 3
continued

		Total Governmental Funds
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Fund balances as reported on the Balance Sheet of Governmental Funds	\$	11,509,395
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 104,108,258	
Accumulated depreciation	(58,404,457)	
Less internal service funds' net capital assets included in net position adjustment below	(1,341,562)	44,362,239
Deferred outflows of resources related to pensions are not reported in the funds		
Deferred outflows of resources for governmental activities	638,659	
Less internal service funds' deferred outflows of resources included in net position adjustment below	(33,231)	605,428
Other long-term assets are not available to pay for current-period expenditures and are therefore inflows of resources in the funds.		758,236
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(39,696)	
Bonds and installment financing	(6,418,476)	
Compensated absences	(953,737)	
Net pension obligation	(491,202)	
Other postemployment benefits	(3,890,872)	
Landfill monitoring	(80,000)	
Economic development grants	(510,417)	(12,384,400)
Net pension liability		
Net pension liability for governmental activities	(739,111)	
Add internal service funds' net pension asset included in net position adjustment below	38,457	(700,654)
Deferred inflows of resources related to pensions are not reported in the funds		
Deferred inflows of resources for governmental activities	(409,912)	
Add internal service funds' deferred inflows of resources included in net position adjustment below	21,329	(388,583)
Internal service funds are used by management to charge the costs of certain activities (Fleet Management, Group Insurance, Risk Management) to individual funds.		
Net position of governmental-type internal service funds	5,454,046	
Portion of net position allocated to business type activities	(1,146,327)	4,307,719
Net position of governmental activities		\$ 48,069,380

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

City of Lexington, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2016

Exhibit 4

	Major Fund General Fund	Total Non- Major Funds	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 8,989,843	\$ 105,524	\$ 9,095,367
Other taxes and licenses	318,347	-	318,347
Unrestricted intergovernmental	6,487,277	-	6,487,277
Restricted intergovernmental	1,109,653	1,421,029	2,530,682
Permits and fees	212,467	-	212,467
Sales and services	1,445,567	112,689	1,558,256
Investment earnings	34,511	2,265	36,776
Miscellaneous	156,253	125,150	281,403
Total revenues	18,753,918	1,766,657	20,520,575
Expenditures			
Current			
General government	4,280,230	1,219,400	5,499,630
Public safety	10,079,358	92,383	10,171,741
Highways and streets	1,318,940	-	1,318,940
Sanitation	2,676,662	-	2,676,662
Culture and recreation	1,598,038	685,990	2,284,028
Economic and physical development	129,710	1,639,489	1,769,199
Debt service			
Principal	681,960	-	681,960
Interest and other charges	168,945	-	168,945
Total expenditures	20,933,843	3,637,262	24,571,105
Revenues over (under) expenditures	(2,179,925)	(1,870,605)	(4,050,530)
Other financing sources (uses)			
Installment purchase debt issued	377,980	1,707,000	2,084,980
Transfers from other funds	2,799,687	482,690	3,282,377
Transfers to other funds	(770,884)	(31,290)	(802,174)
Sales of capital assets	61,575	-	61,575
Total other financing sources (uses)	2,468,358	2,158,400	4,626,758
Net change in fund balances	288,433	287,795	576,228
Fund balances - beginning	9,369,879	1,563,879	10,933,758
Increase (decrease) in central purchasing inventory	(591)	-	(591)
Fund balances - ending	\$ 9,657,721	\$ 1,851,674	\$ 11,509,395

Continued on next page.

City of Lexington, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2016

Exhibit 4
continued

		Total Governmental Funds
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:		
Net change in fund balances - total governmental funds	\$	576,228
Change in fund balance due to change in reserve for inventory		(591)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay expenditures which were capitalized	\$ 3,995,506	
Capital outlay recharacterized as principal payment on seller financed debt	(55,000)	
Depreciation expense for governmental assets	<u>(2,284,852)</u>	1,655,654
Net book value of capital assets transferred to business-type activities are reported as transfers in the Statement of Activities		(554)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		591,131
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Proceeds from the sale of assets	(61,575)	
Gain (loss) on the sale of capital assets	3,468	
Gain (loss) on the scrapping of capital assets	(4,542)	
Change in unavailable revenues	<u>(28,901)</u>	(91,550)
The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are 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.		
New long-term debt issued	(2,084,980)	
Principal payments on long-term debt	681,960	
Principal payment on seller financed debt (recharacterized from capital outlay)	55,000	
Increase in accrued interest payable	<u>(10,922)</u>	(1,358,942)
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.		
Compensated absences	(26,616)	
Pension expense	(365,774)	
Net pension obligation	21,787	
Other postemployment benefits	(85,726)	
Landfill monitoring	20,000	
Economic development grants	<u>72,916</u>	(363,413)
Internal service funds are used by management to charge the costs of certain activities (Fleet Management, Group Insurance, Risk Management) to individual funds.		
Net revenue of governmental-type internal service funds	107,491	
Portion of revenue allocated to business-type activities	<u>(33,330)</u>	<u>74,161</u>
Total change in net position of governmental activities	\$	<u><u>1,082,124</u></u>

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

City of Lexington, North Carolina

Exhibit 5

General Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Ad valorem taxes	\$ 8,723,700	\$ 8,723,700	\$ 8,989,843	\$ 266,143
Other taxes and licenses	308,800	333,800	318,347	(15,453)
Unrestricted intergovernmental	5,978,320	5,978,320	6,487,277	508,957
Restricted intergovernmental	713,025	1,002,475	1,109,653	107,178
Permits and fees	206,900	206,900	212,467	5,567
Sales and services	1,282,100	1,294,800	1,445,567	150,767
Investment earnings	20,090	20,090	34,511	14,421
Miscellaneous	158,326	169,326	156,253	(13,073)
Total revenues	<u>17,391,261</u>	<u>17,729,411</u>	<u>18,753,918</u>	<u>1,024,507</u>
Expenditures				
Current				
General government	4,506,941	4,572,996	4,280,230	292,766
Public safety	10,475,244	10,545,370	10,079,358	466,012
Highways and streets	1,889,271	1,889,383	1,318,940	570,443
Sanitation	1,909,082	2,777,072	2,676,662	100,410
Culture and recreation	1,741,398	1,959,238	1,598,038	361,200
Economic and physical development	107,776	174,018	129,710	44,308
Debt service				
Principal	801,442	774,882	681,960	92,922
Interest and other charges	163,912	190,472	168,945	21,527
Total expenditures	<u>21,595,066</u>	<u>22,883,431</u>	<u>20,933,843</u>	<u>1,949,588</u>
Revenues over (under) expenditures	<u>(4,203,805)</u>	<u>(5,154,020)</u>	<u>(2,179,925)</u>	<u>2,974,095</u>
Other financing sources (uses)				
Installment purchase debt issued	378,780	904,905	377,980	(526,925)
Transfers from other funds	2,799,687	2,799,687	2,799,687	-
Transfers to other funds	(274,484)	(770,884)	(770,884)	-
Sales of capital assets	7,000	59,000	61,575	2,575
Total other financing sources (uses)	<u>2,910,983</u>	<u>2,992,708</u>	<u>2,468,358</u>	<u>(524,350)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(1,292,822)	(2,161,312)	288,433	2,449,745
Fund balance appropriated	<u>1,292,822</u>	<u>2,161,312</u>	-	<u>(2,161,312)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	288,433	<u>\$ 288,433</u>
Fund balance - beginning			9,369,879	
Increase (decrease) in central purchasing inventory			<u>(591)</u>	
Fund balance - ending			<u>\$ 9,657,721</u>	

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

City of Lexington, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2016

Exhibit 6

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf		
Assets						
Current assets						
Cash and cash equivalents	\$ 6,686,513	\$ 3,713,842	\$ 4,726,948	\$ 138,296	\$ 15,265,599	\$ 3,322,134
Receivables (net)						
Accounts - billed	2,700,571	619,796	370,762	-	3,691,129	147,122
Accounts - unbilled	3,817,857	518,766	299,566	-	4,636,189	-
Interest	2,793	1,699	1,620	10	6,122	1,763
Due from other governments	599,661	66,637	236,900	13,716	916,914	63,279
Due from other funds	-	-	112,613	-	112,613	-
Restricted cash and cash equivalents						
Customer deposits	686,211	60,375	163,185	1,000	910,771	-
Construction in progress - unexpended debt proceeds	3,270,613	-	-	-	3,270,613	2,327,028
Debt service escrow	-	-	87,101	-	87,101	-
Inventories	1,201,225	385,183	704,300	-	2,290,708	158,696
Prepaid items	-	-	-	-	-	17,000
Total current assets	<u>18,965,444</u>	<u>5,366,298</u>	<u>6,702,995</u>	<u>153,022</u>	<u>31,187,759</u>	<u>6,037,022</u>
Noncurrent assets						
Advances to other funds	-	-	451,117	-	451,117	-
Designated cash and cash equivalents						
Electric fund	-	-	-	-	-	2,457,128
Water and wastewater fund	-	-	-	-	-	1,342,527
Water and wastewater fund - capital recovery	-	-	-	-	-	1,836,382
Natural gas fund	-	-	-	-	-	1,504,287
Fleet management fund	-	-	-	-	-	487,322
Group insurance fund	-	-	-	-	-	2,666,241

Continued on next page.

City of Lexington, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2016

Exhibit 6
continued

	Business-type Activities - Enterprise Funds					
	Electric	Water and Wastewater	Natural Gas	Golf	Total Enterprise Funds	Internal Service Funds
Equity interest in joint venture	\$ -	\$ 420,633	\$ -	\$ -	\$ 420,633	\$ -
Capital assets						
Land and other non-depreciable assets	2,264,569	1,019,272	398,363	40,728	3,722,932	496,873
Other capital assets, net of accumulated depreciation	30,908,920	38,408,004	21,076,325	1,138,898	91,532,147	4,684,194
Total capital assets	<u>33,173,489</u>	<u>39,427,276</u>	<u>21,474,688</u>	<u>1,179,626</u>	<u>95,255,079</u>	<u>5,181,067</u>
Total noncurrent assets	<u>33,173,489</u>	<u>39,847,909</u>	<u>21,925,805</u>	<u>1,179,626</u>	<u>96,126,829</u>	<u>15,474,954</u>
Total assets	<u>52,138,933</u>	<u>45,214,207</u>	<u>28,628,800</u>	<u>1,332,648</u>	<u>127,314,588</u>	<u>21,511,976</u>
Deferred outflows of resources	<u>77,921</u>	<u>134,911</u>	<u>57,311</u>	<u>20,146</u>	<u>290,289</u>	<u>91,735</u>
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	5,112,396	325,087	526,076	29,337	5,992,896	304,747
Unpaid claims costs	-	-	-	-	-	682,401
Compensated absences	78,000	126,000	52,000	15,000	271,000	82,000
General obligation bonds payable	148,985	393,015	-	-	542,000	-
Revenue bonds payable	-	-	284,358	-	284,358	-
Installment purchases payable	778,447	428,297	107,429	154,491	1,468,664	167,600
Liabilities payable from restricted assets						
Accounts payable	315,160	-	-	-	315,160	49,435
Customer deposits	686,211	60,375	163,185	1,000	910,771	-
Total current liabilities	<u>7,119,199</u>	<u>1,332,774</u>	<u>1,133,048</u>	<u>199,828</u>	<u>9,784,849</u>	<u>1,286,183</u>

Continued on next page.

City of Lexington, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2016

Exhibit 6
continued

	Business-type Activities - Enterprise Funds					Total Enterprise Funds	Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf			
Noncurrent liabilities							
Compensated absences	\$ 3,433	\$ 57,385	\$ 48,308	\$ 15,026	\$ 124,152	\$ 31,873	
Other postemployment benefits	500,561	751,446	357,668	123,469	1,733,144	610,318	
Net pension liability	90,177	156,130	66,326	23,315	335,948	106,162	
General obligation bonds payable	213,981	618,019	-	-	832,000	-	
Revenue bonds payable	-	-	1,349,926	-	1,349,926	-	
Installment purchases payable	6,562,656	757,992	1,029,368	243,152	8,593,168	2,346,400	
Total noncurrent liabilities	7,370,808	2,340,972	2,851,596	404,962	12,968,338	3,094,753	
Total liabilities	14,490,007	3,673,746	3,984,644	604,790	22,753,187	4,380,936	
Deferred inflows of resources	50,012	86,590	36,785	12,930	186,317	58,878	
Net position							
Net investment in capital assets	28,740,033	37,229,953	18,703,607	781,983	85,455,576	4,994,095	
Unrestricted	8,936,802	4,358,829	5,961,075	(46,909)	19,209,797	12,169,802	
Total net position	\$ 37,676,835	\$ 41,588,782	\$ 24,664,682	\$ 735,074	104,665,373	\$ 17,163,897	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					11,709,851		
Adjustment to reflect the profit/(loss) distribution of internal service fund activities related to governmental funds					1,146,327		
Net position of business-type activities					\$ 117,521,551		

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

City of Lexington, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the fiscal year ended June 30, 2016

Exhibit 7

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf		
Operating revenues						
Charges for sales and services	\$ 50,384,682	\$ 8,407,873	\$ 9,725,193	\$ 637,146	\$ 69,154,894	\$ 11,292,652
Restricted intergovernmental	619,872	-	203,471	-	823,343	-
Other operating	295,995	188,028	42,676	9,985	536,684	891,584
Total operating revenues	<u>51,300,549</u>	<u>8,595,901</u>	<u>9,971,340</u>	<u>647,131</u>	<u>70,514,921</u>	<u>12,184,236</u>
Operating expenses						
Cost of sales and services	5,872,564	263,074	2,819,915	722,899	9,678,452	1,197,510
Purchases for resale	40,618,065	-	4,004,732	-	44,622,797	-
Water treatment	-	1,516,198	-	-	1,516,198	-
Waste collection and treatment	-	2,232,117	-	-	2,232,117	-
Water and wastewater construction	-	1,420,976	-	-	1,420,976	-
Administration	1,841,386	1,229,426	1,373,487	20,784	4,465,083	3,092,086
Premiums	-	-	-	-	-	1,055,206
Claims	-	-	-	-	-	6,270,077
Bad debt expense	299,974	57,947	22,373	-	380,294	44,485
Depreciation	998,503	1,270,280	561,600	105,890	2,936,273	681,082
Overhead capitalized	(286,211)	(63,821)	(835,659)	-	(1,185,691)	-
Total operating expenses	<u>49,344,281</u>	<u>7,926,197</u>	<u>7,946,448</u>	<u>849,573</u>	<u>66,066,499</u>	<u>12,340,446</u>
Operating income (loss)	1,956,268	669,704	2,024,892	(202,442)	4,448,422	(156,210)
Nonoperating revenues (expenses)						
Federal Build America Bond interest credit	-	8,492	24,061	-	32,553	-
Investment earnings	37,028	25,440	25,085	104	87,657	26,265
Gain (loss) on sale of property	(5,698)	-	(12,944)	1,318	(17,324)	12,533
Interest and other charges	(141,749)	(68,954)	(145,453)	(19,693)	(375,849)	(18,478)
Total nonoperating revenues (expenses)	<u>(110,419)</u>	<u>(35,022)</u>	<u>(109,251)</u>	<u>(18,271)</u>	<u>(272,963)</u>	<u>20,320</u>

Continued on next page.

City of Lexington, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the fiscal year ended June 30, 2016

Exhibit 7
continued

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf		
Income (loss) before contributions and transfers	\$ 1,845,849	\$ 634,682	\$ 1,915,641	\$ (220,713)	\$ 4,175,459	\$ (135,890)
Capital contributions	-	-	-	554	554	-
Transfers from other funds	-	260,090	191,694	319,484	771,268	1,585,455
Transfers to other funds	<u>(2,171,161)</u>	<u>(465,020)</u>	<u>(1,073,506)</u>	<u>-</u>	<u>(3,709,687)</u>	<u>(1,127,239)</u>
Change in net position	(325,312)	429,752	1,033,829	99,325	1,237,594	322,326
Net position - beginning	<u>38,002,147</u>	<u>41,159,030</u>	<u>23,630,853</u>	<u>635,749</u>		<u>16,841,571</u>
Net position - ending	<u>\$ 37,676,835</u>	<u>\$ 41,588,782</u>	<u>\$ 24,664,682</u>	<u>\$ 735,074</u>		<u>\$ 17,163,897</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					214,835	
Adjustment to reflect the profit/(loss) distribution of internal service fund activities related to governmental funds					<u>33,330</u>	
Change in net position - business-type activities					<u>\$ 1,485,759</u>	

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

City of Lexington, North Carolina
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2016

Exhibit 8

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf		
Cash flows from operating activities						
Cash received from customers	\$ 51,262,252	\$ 8,469,499	\$ 9,902,975	\$ 637,146	\$ 70,271,872	\$ -
Cash received (paid) for interfund services provided (used)	(1,841,386)	(1,229,426)	(1,373,487)	(20,784)	(4,465,083)	11,296,799
Cash paid for goods and services	(44,767,934)	(2,523,724)	(5,771,756)	(288,172)	(53,351,586)	(9,410,423)
Cash paid to employees	(1,619,269)	(2,901,370)	(1,274,175)	(451,533)	(6,246,347)	(2,216,916)
Other operating income	295,995	188,028	42,676	9,985	536,684	891,584
Net cash provided (used) by operating activities	<u>3,329,658</u>	<u>2,003,007</u>	<u>1,526,233</u>	<u>(113,358)</u>	<u>6,745,540</u>	<u>561,044</u>
Cash flows from noncapital financing activities						
Operating grants	310,055	-	203,471	-	513,526	3,158
Advances from (to) other funds	-	-	(425,406)	(25,965)	(451,371)	-
Transfers from other funds	-	260,090	191,694	319,484	771,268	1,585,455
Transfers to other funds	(2,171,161)	(465,020)	(1,073,506)	-	(3,709,687)	(1,127,239)
Net cash provided (used) by noncapital financing activities	<u>(1,861,106)</u>	<u>(204,930)</u>	<u>(1,103,747)</u>	<u>293,519</u>	<u>(2,876,264)</u>	<u>461,374</u>
Cash flows from capital and related financing activities						
Installment purchase debt issued	3,306,000	-	-	-	3,306,000	2,514,000
Acquisition and construction of capital assets	(942,289)	(125,124)	(92,648)	(37,737)	(1,197,798)	(664,472)
Federal Build America Bond interest credit	-	8,492	24,061	-	32,553	-
Principal paid on bonds	(151,867)	(407,358)	(272,750)	-	(831,975)	-
Principal paid on installment purchase debt	(543,599)	(422,580)	(103,300)	(148,559)	(1,218,038)	-

Continued on next page.

City of Lexington, North Carolina
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2016

Exhibit 8
continued

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf		
Interest and other charges paid on debt	\$ (118,925)	\$ (70,552)	\$ (149,620)	\$ (20,172)	\$ (359,269)	\$ -
Proceeds from the sale of assets	<u>9,722</u>	<u>-</u>	<u>5,355</u>	<u>6,060</u>	<u>21,137</u>	<u>43,470</u>
Net cash provided (used) by capital and related financing activities	<u>1,559,042</u>	<u>(1,017,122)</u>	<u>(588,902)</u>	<u>(200,408)</u>	<u>(247,390)</u>	<u>1,892,998</u>
Cash flows from investing activities						
Receipts of investment earnings	<u>35,780</u>	<u>24,719</u>	<u>24,542</u>	<u>104</u>	<u>85,145</u>	<u>25,563</u>
Net cash provided by investing activities	<u>35,780</u>	<u>24,719</u>	<u>24,542</u>	<u>104</u>	<u>85,145</u>	<u>25,563</u>
Net increase in cash and cash equivalents	3,063,374	805,674	(141,874)	(20,143)	3,707,031	2,940,979
Cash and cash equivalents - beginning	<u>7,579,963</u>	<u>2,968,543</u>	<u>5,119,108</u>	<u>159,439</u>	<u>15,827,053</u>	<u>13,002,070</u>
Cash and cash equivalents - ending	<u>\$ 10,643,337</u>	<u>\$ 3,774,217</u>	<u>\$ 4,977,234</u>	<u>\$ 139,296</u>	<u>\$ 19,534,084</u>	<u>\$ 15,943,049</u>
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating income (loss)	<u>\$ 1,956,268</u>	<u>\$ 669,704</u>	<u>\$ 2,024,892</u>	<u>\$ (202,442)</u>	<u>\$ 4,448,422</u>	<u>\$ (156,210)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Restricted intergovernmental revenues	(619,872)	-	(203,471)	-	(823,343)	-
Depreciation	998,503	1,270,280	561,600	105,890	2,936,273	681,082
Overhead capitalized	(286,211)	(63,821)	(835,659)	-	(1,185,691)	-

Continued on next page.

City of Lexington, North Carolina
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2016

Exhibit 8
continued

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Electric	Water and Wastewater	Natural Gas	Golf	Total Enterprise Funds	
Changes in assets and liabilities						
(Increase) decrease in accounts receivable	\$ 877,570	\$ 61,626	\$ 177,782	\$ -	\$ 1,116,978	\$ 4,147
(Increase) decrease in intergovernmental receivable	(369,498)	29,735	(204,245)	(2,824)	(546,832)	(216)
Increase (decrease) in amounts receivable related to restricted intergovernmental revenues	309,817	-	-	-	309,817	(3,158)
(Increase) decrease in inventory	(25,386)	20,469	(43,547)	-	(48,464)	4,660
(Increase) decrease in equity interest in joint venture	-	7,800	-	-	7,800	-
(Increase) decrease in net pension asset	114,464	192,224	88,207	29,353	424,248	141,253
(Increase) decrease in deferred outflows of resources - pensions	593	(3,059)	3,192	(12)	714	5,155
Increase (decrease) in accounts payable and accrued liabilities	493,693	8,044	32,791	(10,400)	524,128	99,155
(Increase) decrease in amounts accrued related to interest on capital debt	(22,824)	1,598	4,167	479	(16,580)	(18,478)
Increase (decrease) in customer deposits	29,269	4,820	14,625	(550)	48,164	-
Increase (decrease) in unpaid claims cost	-	-	-	-	-	6,044
Increase (decrease) in compensated absences	1,361	10,712	9,649	(292)	21,430	(36,810)
Increase (decrease) in other postemployment benefits	10,698	18,653	8,123	2,736	40,210	13,646
Increase (decrease) in net pension liability	90,177	156,130	66,326	23,315	335,948	106,162
Increase (decrease) in deferred inflows of resources - pensions	(228,964)	(381,908)	(178,199)	(58,611)	(847,682)	(285,388)
Total adjustments	<u>1,373,390</u>	<u>1,333,303</u>	<u>(498,659)</u>	<u>89,084</u>	<u>2,297,118</u>	<u>717,254</u>
Net cash provided (used) by operating activities	<u>\$ 3,329,658</u>	<u>\$ 2,003,007</u>	<u>\$ 1,526,233</u>	<u>\$ (113,358)</u>	<u>\$ 6,745,540</u>	<u>\$ 561,044</u>
Schedule of non-cash investing, capital and financing activities						
Contributions of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 554</u>	<u>\$ 554</u>	<u>\$ -</u>

**City of Lexington, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2016**

1. Summary Of Significant Accounting Policies

The accounting policies of the City of Lexington and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Lexington is a municipal corporation that is governed by an elected mayor and eight-member council. As required by generally accepted accounting principles, these financial statements present the City and its component units, legally separate entities for which the City is financially accountable. The three discretely presented component units described below are reported in separate columns in the City's financial statements in order to emphasize that they are legally separate from the City.

City of Lexington Board of Alcoholic Control

The three board members of the City of Lexington Board of Alcoholic Control (ABC Board) are appointed by the City of Lexington. In addition, the ABC Board is required by State statute to distribute its surpluses to the City of Lexington's General Fund. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Lexington Board of Alcoholic Control, 419 North Main Street, Lexington, NC 27292.

Lexington Tourism Authority

The eight members of the Lexington Tourism Authority's board are appointed by the City of Lexington. Creation of the Lexington Tourism Authority was authorized by the North Carolina General Assembly with Session Law 1993-602. The City is authorized by State statute to collect an occupancy tax of 6% on gross revenues from hotel/motel room occupancy within the corporate limits. Collections are remitted to the Lexington Tourism Authority (Tourism Authority), less a 3% administration charge, on a quarterly basis. The Tourism Authority, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). Complete financial statements may be obtained from the entity's administrative offices at Lexington Tourism Authority, 28 West Center Street, Lexington, NC 27292.

Uptown Lexington, Inc.

The fourteen member board of Uptown Lexington, Inc., a 501(c)(3) corporation, (Uptown Lexington) is made up of twelve board elected members and two board appointed members. The economic resources received or held by Uptown Lexington are held almost entirely for the direct benefit of constituents of the City of Lexington located within a special municipal service district. Uptown Lexington receives a substantial portion of its economic resources from the City. The City is authorized by State statute to levy and collect a special municipal service district property tax to provide revitalization and other enhanced service levels within this uptown area. The City has chosen to partner with Uptown Lexington for the provision of these services and remits these tax collections, along with other resources, to Uptown Lexington for its use in providing these services. The economic resources held by Uptown Lexington are significant to the City because of the nature of the underlying source of funds remitted by the City to Uptown Lexington. Uptown Lexington, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation) and includes the consolidated accounts of Uptown Lexington, Inc. and Grimes Mill, LLC, its wholly-owned subsidiary. Uptown Lexington did not issue separate financial statements.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges and transfers between the government's business type functions and various other functions of the government. Elimination of these charges and transfers would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. All revenues not meeting this definition are reported as non-operating revenues. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, intergovernmental revenues and transfers from Enterprise Funds. The primary expenditures are for public safety, highways and streets, sanitation, culture and recreation, and general governmental services.

The City reports the following non-major governmental funds:

Special Revenue Funds – Special Revenue Funds account for specific revenue sources that are legally restricted or committed to expenditures for specified purposes. The City's special revenue funds are as follows:

Community Development Grants Fund – Revenues for the Community Development Grants Fund are monies received from Federal and State sources and are restricted for community and economic development purposes.

Controlled Substance Fund – Revenues for the Controlled Substance Fund are monies received from Federal, State, and County sources, and are restricted for public safety purposes.

Public Safety Grants Fund – Revenues for the Public Safety Grants Fund are monies and equipment received from Federal, State, and County sources, and are restricted for public safety purposes.

Special Tax District Fund – Revenues for the Special Tax District are a special additional ad valorem property tax levied by the City, collected and contributed to Uptown Lexington, Inc. for the revitalization of the uptown area.

Economic Stimulus Grants Fund – Revenues for the Economic Stimulus Grants Fund are monies and equipment received from Federal sources authorized under the Housing and Economic Recovery Act of 2008 and the American Recovery and Reinvestment Act of 2009 (ARRA), and are restricted for use in the revitalization and stimulus of the local economy.

General Capital Projects Fund – The City’s General Capital Projects Fund represents various aspects of construction or acquisition related to its five-year business and capital improvements model.

The City reports the following major enterprise funds:

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The City’s enterprise funds are as follows:

Electric Fund – The Electric Fund includes the accounts of the electric operation fund and one capital project fund. Financing of the operation fund comes principally from charges to the users. The capital project fund is primarily financed by debt issuance and transfers from the Capital Reserve Fund.

Water and Wastewater Fund – The Water and Wastewater Fund includes the accounts of the water and wastewater operation fund and one capital project fund. Financing of the operation fund comes principally from charges to the users. The capital project fund is primarily financed by debt issuance and transfers from the Capital Reserve Fund.

Natural Gas Fund – The Natural Gas Fund includes the accounts of the natural gas operation fund and one capital project fund. Financing of the operation fund comes principally from charges to the users. The capital project fund is primarily financed by debt issuance and transfers from the Capital Reserve Fund.

Golf Fund – The Golf Fund includes the accounts of the golf course operation fund and one capital project fund. Financing of the operation fund comes principally from charges to the users and transfers from the General Fund. The capital project fund is primarily financed by debt issuance.

The City reports the following fund type:

Internal Service Funds – Internal Service Funds account for the financing of goods or services provided by one department to other departments on a cost reimbursement basis. The City’s internal service funds are as follows:

Fleet Management Fund – The Fleet Management Fund is used to account for the accumulation and allocation of costs associated with the City’s garage and motor pool fleet. This fund is reported in the basic financial statements as a governmental activity.

Group Insurance Fund – The Group Insurance Fund is used to account for the self-insurance for health and dental benefits provided to the City’s employees and retirees as well as their respective dependents. This fund is reported in the basic financial statements as a governmental activity.

Risk Management Fund – The Risk Management Fund is used to account for the City’s self-retention cost and for the premiums on the City’s reinsurance program pertaining to workers compensation, property, and liability exposures. This fund is reported in the basic financial statements as a governmental activity.

Utility Administration Fund – The Utility Administration Fund is used to account for administrative overhead costs, which are shared by all of the utility enterprise funds and the General Fund. This fund is reported in the basic financial statements as a business-type activity.

Capital Reserve Fund – The Capital Reserve Fund is used to account for the accumulation of resources for future capital needs of the Electric, Water and Wastewater, Natural Gas and Fleet Management Funds. This fund is reported in the basic financial statements as a business-type activity.

Rate Stabilization Fund – The Rate Stabilization Fund is used to account for the accumulation of resources for rate stabilization in the electric and natural gas utilities. This fund is reported in the basic financial statements as a business-type activity.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements – The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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 enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the natural gas and water and wastewater systems. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and other postemployment benefits, which are recognized as expenditures to the extent that they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under installment purchases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the State, including the City of Lexington. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 are shown as a receivable in these financial statements and are offset by deferred inflows of resources. The City has a contractual arrangement with Davidson County for the billing and collection of its other ad valorem taxes.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Lexington because the tax is levied by Davidson County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Controlled Substance Special Revenue Fund, Special Tax District Special Revenue Fund, and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Community Development Grants Fund, the Public Safety Grants Fund, the Economic Stimulus Grants Fund, the General Capital Projects Fund, and the Enterprise Capital Project Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. The City's Internal Service Funds operate under a financial plan that was adopted by City Council at the time the City's budget ordinance was approved, as required by the General Statutes.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The City Manager as Budget Officer (or his/her designee) is authorized by the budget ordinance to transfer amounts between appropriations at these levels within a fund up to \$20,000. Any revisions that alter total appropriations of any fund or that change appropriations by more than \$20,000 at these levels must be authorized by a budget ordinance amendment approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the City are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The City's investments are reported at fair value. Non-participating interest earnings contracts are accounted for at cost. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

Assets (cash) restricted for other purposes appear in the General Fund for unspent Powell Bill funds from the current year's allocation and an economic development grant contract; in the General Capital Projects Fund for construction in progress – unexpended debt proceeds; in the Electric Fund for construction in progress – unexpended debt proceeds; and in the Natural Gas Fund for debt service escrow.

In the Internal Service Funds, cash is restricted in the Utility Administration Fund for construction in progress – unexpended debt proceeds.

City of Lexington Restricted Cash

<u>Governmental Activities</u>	
General Fund	
Customer deposits	\$ 80,925
Streets	219,026
Economic development deposit	25,000
General Capital Projects Fund	
Construction in progress - unexpended debt proceeds	<u>1,461,134</u>
Total Governmental Activities	<u>\$ 1,786,085</u>

Business-type Activities	
Electric Fund	
Customer deposits	\$ 686,211
Construction in progress - unexpended	
debt proceeds	3,270,613
Water and Wastewater Fund	
Customer deposits	60,375
Natural Gas Fund	
Customer deposits	163,185
Debt service escrow	87,101
Golf Fund	
Customer deposits	1,000
Utility Administration Fund	
Construction in progress - unexpended	
debt proceeds	2,327,028
Total Business-type Activities	<u>\$ 6,595,513</u>
Total Restricted Cash	<u>\$ 8,381,598</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2015. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

Property tax receivable accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of collections in prior years.

In lieu of reporting allowances for all other receivables, the City analyzes accounts that have been outstanding for 180 days and writes them off on a monthly basis.

6. Inventories and Prepaid Items

The inventories of the City are valued using the weighted average cost method. The City's General Fund inventory consists of expendable supplies that are recorded as expenditures when purchased. The inventory of the City's enterprise funds consist of materials and supplies held for consumption. The cost of the inventory carried in the City's enterprise funds is recorded as an expense as it is consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$0; buildings, \$5,000; other improvements, \$5,000; substations, lines, and other plant and distribution systems, \$0; infrastructure, \$50,000; furniture and equipment, \$5,000; vehicles, \$5,000; computer equipment, \$5,000; and computer software, \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network that was acquired or that received substantial

improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Primary government capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	50 years
Plant facilities and systems	20 to 50 years
Buildings	50 years
Furniture and office equipment	10 years
Maintenance and construction equipment	7 years
Motor vehicles	5 to 7 years
Intangible assets (including computer software)	5 years
Computer equipment	5 years

The City of Lexington owns a statue, which was donated by the citizens to the Lexington Police Department. As a policy, the City does not capitalize works of art. In addition, this asset is not held for financial gain and is protected and cared for by the City.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has two items that meet this criterion – pension related deferrals, and contributions made to the pension plan in the current fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has three items that meet this criterion, unavailable property taxes receivable, unavailable miscellaneous revenue receivable, and other pension related deferrals.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The annual leave policy of the City provides for the accumulation of twenty-four (24) days earned annual leave with up to ten years of service, thirty-six (36) days earned annual leave with over ten years of service, and forty-eight (48) days earned annual leave with over twenty years of service. Annual leave is fully vested when earned up to the accumulation limits. Annual leave earned in excess of the accumulation limits is converted to sick leave at the beginning of each calendar year.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Any unused sick leave accumulated at the time of retirement is vested at a rate of 25% of two hundred sixty (260) days. An employee qualifying for retirement may elect to be paid 25% of up to two hundred sixty (260) days and/or may use the balance in the determination of length of service for retirement benefit purposes.

For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and salary related payments for annual leave are recorded as the leave is earned. An expense and a liability for compensated absences and salary related payments for sick leave are recorded as a fraction of the leave earned based on historical average amounts paid out at retirement. The City has assumed a first-in first-out (FIFO) method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

11. Net Position/Fund Balances

Net Position – Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances – In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form, (b) will not convert to cash soon enough to affect the current period, or (c) legally or contractually required to be maintained intact.

Prepaid Items – portion of fund balance that is not an available resource because it represents prepaid items, such as a security deposit, which are not spendable resources.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by unavailable revenues.

Restricted for Council Chamber Improvements – portion of fund balance that is restricted by external donors for a specific project to improve City Council chambers.

Restricted for Law Enforcement – portion of fund balance that is restricted by revenue source for law enforcement expenditures. This amount represents the balance of unexpended Controlled Substance funds.

Restricted for Streets – portion of fund balance that is restricted by revenue source for street expenditures. This amount represents the balance of unexpended Powell bill funds.

Restricted for Urban Redevelopment – portion of fund balance that is restricted by revenue source for urban redevelopment expenditures. This amount is restricted for the Urban Redevelopment revolving loan grant project for Uptown Lexington, Inc.

Restricted for Capital Projects – portion of fund balance that is restricted by revenue source for various capital projects. These amounts include unexpended debt proceeds for Recreation Improvements as well as other amounts restricted for the redevelopment of the Lexington Business Center Industrial Park.

Committed Fund Balance – This classification of fund balance can only be used for specific purposes imposed by majority vote by quorum of the City of Lexington’s City Council (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Public Buildings Improvements – portion of fund balance that is committed for the 2014 Public Buildings Improvement Project, including City Hall and Commons on the Green.

Committed for Recreation Improvements – portion of fund balance that is committed for the 2016 Recreation Improvements Project, including improvements to Washington Park and Holt-Moffitt Baseball Park.

Committed for Other – portion of fund balance that is committed for other purposes, including \$15,329 for City Council improvements to their neighborhoods (neighborhood revitalization program) and \$11,369 for the redevelopment of the Lexington Furniture Industries Inc. Plant #1 property acquired by the City.

Assigned Fund Balance – This classification of fund balance denotes amounts that the City of Lexington intends to use for specific purposes. The City of Lexington City Council authorizes assignments via the annual budget ordinance.

Assigned for Subsequent Year’s Expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The City of Lexington City Council approves the appropriation.

Unassigned Fund Balance – This classification of fund balance has not been restricted, committed or assigned to specific purposes or other funds.

The City of Lexington is in the process of formalizing a revenue spending policy that provides guidance for programs with multiple revenue sources. Currently, the Finance Director will use resources in the following hierarchy: bond proceeds, Federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first; followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Director has the authority to deviate from this policy if it is in the best interest of the City.

The City of Lexington is in the process of formalizing a minimum fund balance policy for the General Fund. Currently, the Finance Director instructs management to conduct the financial operations of the City in such a manner that available fund balance is at least equal to or greater than 25% of the most recent audited expenditures.

12. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees’ Retirement System (LGERS) and additions to/deductions from LGERS’

fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Lexington's employer contributions are recognized when due and the City of Lexington has a legal requirement to provide the contributions. Benefit and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Detailed Notes On All Funds

A. Assets

1. Deposits

All the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in the City's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agent in the City's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has a formal investment policy regarding custodial credit risk for deposits and also relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the City's deposits had a carrying amount of \$19,553,104 and a bank balance of \$19,852,823. Of the City's actual bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2016, the City's petty cash fund totaled \$7,100.

2. Investments

At June 30, 2016, the City had the following investments and maturities:

Investment Type	Valuation Measurement Method	Fair Value	Less Than 6		
			Months	6-12 Months	1-3 Years
US Government Agencies	Fair Value-Level 1	\$ 5,504,261	\$ 500,100	\$ 999,984	\$ 4,004,177
Commercial Paper	Fair Value-Level 2	5,990,501	5,990,501	-	-
NC Capital Management Trust - Cash Portfolio	Amortized Cost	7,730,425	N/A	N/A	N/A
NC Capital Management Trust - Term Portfolio*	Fair Value-Level 1	7,805,269	7,805,269	-	-
Total		<u>\$ 27,030,456</u>	<u>\$ 14,295,870</u>	<u>\$ 999,984</u>	<u>\$ 4,004,177</u>

*Because the NC Capital Management Trust Term Portfolio had a duration of 0.14 years, it was presented as an investment with a maturity of less than 6 months.

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level Two debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits 20% of the City's investment portfolio to maturities of one to three years. Also, the City's investment policy allows 100% of the portfolio to be invested in investments of less than one year.

Credit Risk. The City's investment policy limits the City's investments to the provisions of G.S. 159-30 and State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the City's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The City's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2016. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The NC Capital Management Trust is a SEC registered money market mutual fund operating in accordance with Rule 2a-7 of the Investment Act of 1940. The City's investments in US Agencies (Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank) are rated AAA by Standard and Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk. The City's investment policy places the following limits on each of the respective types of issuers:

<u>Maturity</u>	<u>Maximum Investment</u>
US Agencies	25%
Commercial Paper	20%

US Agencies in total are limited to 50% of the portfolio and commercial paper in total is limited to 30% of the portfolio. More than 5 percent of the City's investments are in Federal Farm Credit Bank securities at 5.08% and Credit Suisse New York commercial paper at 5.06%

3. Receivables

The General Fund taxes receivable amounts presented in the Balance Sheet and the Statement of Net Position are net of an allowance for doubtful accounts in the amount of \$911,450.

The amounts presented in the Balance Sheet and Statement of Net Position for all other receivables are not adjusted for an allowance for doubtful accounts due to the fact that the City analyzes accounts that have been outstanding for 180 days and writes them off on a monthly basis.

Due from other governments at the government-wide level that is owed to the City consists of the following:

	Governmental Activities	Business-Type Activities	Total
Local option sales tax	\$ 1,000,454	\$ -	\$ 1,000,454
Utilities sales tax	430,485	-	430,485
Piped natural gas sales tax	35,870	-	35,870
Telecommunications tax	64,445	-	64,445
Local video programming revenue	34,157	-	34,157
Solid waste disposal tax	3,007	-	3,007
Sales and use tax refund	212,940	232,221	445,161
Disaster assistance funding	82,081	18,604	100,685
PARTF grant funding	164,107	-	164,107
Other federal and state grant funding	62,267	-	62,267
Unremitted property tax collections	188,456	-	188,456
Utility relocation agreements	-	675,418	675,418
	<u>\$ 2,278,269</u>	<u>\$ 926,243</u>	<u>\$ 3,204,512</u>

4. Capital Assets

a. Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,237,779	\$ -	\$ -	\$ 2,237,779
Construction in progress	7,761,904	2,170,011	-	9,931,915
Total capital assets not being depreciated	<u>9,999,683</u>	<u>2,170,011</u>	<u>-</u>	<u>12,169,694</u>
Capital assets being depreciated:				
Buildings	14,468,818	-	-	14,468,818
Other improvements	4,797,621	-	-	4,797,621
Machinery & equipment	10,223,364	1,770,495	(632,033)	11,361,826
Infrastructure	54,234,255	-	-	54,234,255
Intangibles	2,268,258	-	-	2,268,258
Total capital assets being depreciated	<u>85,992,316</u>	<u>1,770,495</u>	<u>(632,033)</u>	<u>87,130,778</u>
Less accumulated depreciation for:				
Buildings	8,200,084	176,395	-	8,376,479
Other improvements	2,319,895	224,210	-	2,544,105
Machinery & equipment	7,402,887	712,501	(568,830)	7,546,558
Infrastructure	34,005,606	1,015,765	-	35,021,371
Intangibles	1,293,739	155,981	-	1,449,720
Total accumulated depreciation	<u>53,222,211</u>	<u>2,284,852</u>	<u>(568,830)</u>	<u>54,938,233</u>

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Internal Service Funds				
Capital assets not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Total capital assets not being depreciated	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Capital assets being depreciated:				
Buildings	90,000	-	-	90,000
Other improvements	301,882	-	-	301,882
Machinery & equipment	4,305,552	394,880	(309,374)	4,391,058
Intangibles	9,846	-	-	9,846
Total capital assets being depreciated	<u>4,707,280</u>	<u>394,880</u>	<u>(309,374)</u>	<u>4,792,786</u>
Less accumulated depreciation for:				
Buildings	81,000	-	-	81,000
Other improvements	235,262	4,602	-	239,864
Machinery & equipment	3,205,487	209,449	(278,437)	3,136,499
Intangibles	8,659	202	-	8,861
Subtotal	<u>3,530,408</u>	<u>214,253</u>	<u>(278,437)</u>	<u>3,466,224</u>
Total accumulated depreciation	<u>56,752,619</u>	<u>2,499,105</u>	<u>(847,267)</u>	<u>58,404,457</u>
Total capital assets being depreciated, net	<u>33,946,977</u>			<u>33,519,107</u>
Governmental activity capital assets, net	<u>\$ 43,961,660</u>			<u>\$ 45,703,801</u>

Depreciation expense was charged to functions/programs in the government-wide statement of activities as follows:

Governmental Activities

Depreciation Expense

General government	\$ 323,765
Public safety	456,056
Highways and streets	1,233,783
Sanitation	126,277
Cultural and recreation	141,140
Economic and physical development	3,831
Capital assets held by internal service funds	<u>174,549</u>
<i>Total depreciation expense</i>	<u>\$ 2,459,401</u>

There was an acquisition of assets by the Fleet Management Fund, an internal service fund reported as a governmental activity, from the Natural Gas Fund. The Fleet Management Fund paid \$4,411 for these assets, which had an original acquisition cost of \$44,115 and accumulated depreciation of \$39,704.

There was a transfer of assets from culture and recreation, a governmental activity, to the Golf Fund. These assets had a net book value of \$554, with an original acquisition cost of \$5,543 and accumulated depreciation of \$4,989.

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Business-type activities:				
Electric Fund				
Capital assets not being depreciated:				
Land	\$ 613,286	\$ -	\$ -	\$ 613,286
Construction in progress	<u>1,133,946</u>	<u>517,337</u>	<u>-</u>	<u>1,651,283</u>
Total capital assets not being depreciated	<u>1,747,232</u>	<u>517,337</u>	<u>-</u>	<u>2,264,569</u>
Capital assets being depreciated:				
Buildings	210,000	-	-	210,000
Plant and distribution systems	57,867,808	286,211	(37,112)	58,116,907
Machinery & equipment	<u>1,414,209</u>	<u>424,952</u>	<u>(117,081)</u>	<u>1,722,080</u>
Total capital assets being depreciated	<u>59,492,017</u>	<u>711,163</u>	<u>(154,193)</u>	<u>60,048,987</u>
Less accumulated depreciation for:				
Buildings	108,135	2,821	-	110,956
Plant and distribution systems	27,355,632	889,484	(33,401)	28,211,715
Machinery & equipment	<u>816,570</u>	<u>106,198</u>	<u>(105,372)</u>	<u>817,396</u>
Total accumulated depreciation	<u>28,280,337</u>	<u>998,503</u>	<u>(138,773)</u>	<u>29,140,067</u>
Total capital assets being depreciated, net	<u>31,211,680</u>			<u>30,908,920</u>
Electric Fund capital assets, net	<u>\$ 32,958,912</u>			<u>\$ 33,173,489</u>
Water and Wastewater Fund				
Capital assets not being depreciated:				
Land	\$ 849,390	\$ -	\$ -	\$ 849,390
Construction in progress	<u>126,962</u>	<u>42,920</u>	<u>-</u>	<u>169,882</u>
Total capital assets not being depreciated	<u>976,352</u>	<u>42,920</u>	<u>-</u>	<u>1,019,272</u>
Capital assets being depreciated:				
Buildings	851,923	-	-	851,923
Other improvements	-	21,000	-	21,000
Plant and distribution systems	71,893,406	80,839	-	71,974,245
Machinery & equipment	<u>1,551,493</u>	<u>44,186</u>	<u>-</u>	<u>1,595,679</u>
Total capital assets being depreciated	<u>74,296,822</u>	<u>146,025</u>	<u>-</u>	<u>74,442,847</u>
Less accumulated depreciation for:				
Buildings	258,350	10,817	-	269,167
Other improvements	-	1,575	-	1,575
Plant and distribution systems	33,696,572	1,141,543	-	34,838,115
Machinery & equipment	<u>809,641</u>	<u>116,345</u>	<u>-</u>	<u>925,986</u>
Total accumulated depreciation	<u>34,764,563</u>	<u>1,270,280</u>	<u>-</u>	<u>36,034,843</u>
Total capital assets being depreciated, net	<u>39,532,259</u>			<u>38,408,004</u>
Water and Wastewater Fund capital assets, net	<u>\$ 40,508,611</u>			<u>\$ 39,427,276</u>

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Natural Gas Fund				
Capital assets not being depreciated:				
Land	\$ 303,049	\$ -	\$ -	\$ 303,049
Construction in progress	74,439	20,875	-	95,314
Total capital assets not being depreciated	<u>377,488</u>	<u>20,875</u>	<u>-</u>	<u>398,363</u>
Capital assets being depreciated:				
Buildings	2,245,262	-	(12,703)	2,232,559
Plant and distribution systems	29,431,055	835,659	(126,157)	30,140,557
Machinery & equipment	347,838	71,773	(44,116)	375,495
Total capital assets being depreciated	<u>32,024,155</u>	<u>907,432</u>	<u>(182,976)</u>	<u>32,748,611</u>
Less accumulated depreciation for:				
Buildings	449,506	41,810	(11,432)	479,884
Plant and distribution systems	10,561,121	500,509	(113,541)	10,948,089
Machinery & equipment	264,736	19,281	(39,704)	244,313
Total accumulated depreciation	<u>11,275,363</u>	<u>561,600</u>	<u>(164,677)</u>	<u>11,672,286</u>
Total capital assets being depreciated, net	<u>20,748,792</u>			<u>21,076,325</u>
Natural Gas Fund capital assets, net	<u>\$ 21,126,280</u>			<u>\$ 21,474,688</u>
Golf Fund				
Capital assets not being depreciated:				
Land	\$ 40,728	\$ -	\$ -	\$ 40,728
Total capital assets not being depreciated	<u>40,728</u>	<u>-</u>	<u>-</u>	<u>40,728</u>
Capital assets being depreciated:				
Buildings	61,500	-	-	61,500
Other improvements	2,128,719	-	-	2,128,719
Machinery & equipment	175,450	43,280	(47,426)	171,304
Total capital assets being depreciated	<u>2,365,669</u>	<u>43,280</u>	<u>(47,426)</u>	<u>2,361,523</u>
Less accumulated depreciation for:				
Buildings	39,285	810	-	40,095
Other improvements	960,774	95,591	-	1,056,365
Machinery & equipment	154,371	14,478	(42,684)	126,165
Total accumulated depreciation	<u>1,154,430</u>	<u>110,879</u>	<u>(42,684)</u>	<u>1,222,625</u>
Total capital assets being depreciated, net	<u>1,211,239</u>			<u>1,138,898</u>
Golf Fund capital assets, net	<u>\$ 1,251,967</u>			<u>\$ 1,179,626</u>

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Internal Service Funds				
Capital assets not being depreciated:				
Land	\$ 245,430	\$ -	\$ -	\$ 245,430
Construction in progress	<u>3,163,255</u>	<u>236,443</u>	<u>(3,163,255)</u>	<u>236,443</u>
Total capital assets not being depreciated	<u>3,408,685</u>	<u>236,443</u>	<u>(3,163,255)</u>	<u>481,873</u>
Capital assets being depreciated:				
Buildings	1,083,423	-	-	1,083,423
Other improvements	-	3,163,255	-	3,163,255
Machinery & equipment	373,920	72,853	-	446,773
Intangibles	<u>1,448,763</u>	<u>-</u>	<u>-</u>	<u>1,448,763</u>
Total capital assets being depreciated	<u>2,906,106</u>	<u>3,236,108</u>	<u>-</u>	<u>6,142,214</u>
Less accumulated depreciation for:				
Buildings	668,778	36,300	-	705,078
Other improvements	-	451,894	-	451,894
Machinery & equipment	324,230	9,508	-	333,738
Intangibles	<u>1,285,041</u>	<u>8,831</u>	<u>-</u>	<u>1,293,872</u>
Total accumulated depreciation	<u>2,278,049</u>	<u>506,533</u>	<u>-</u>	<u>2,784,582</u>
Total capital assets being depreciated, net	<u>628,057</u>			<u>3,357,632</u>
Internal Service Funds capital assets, net	<u>\$ 4,036,742</u>			<u>\$ 3,839,505</u>
Business-type activities capital assets, net				<u>\$ 99,094,584</u>

There was a sale of assets by the Natural Gas Fund to the Fleet Management Fund, an internal service fund reported as a governmental activity. The Fleet Management Fund paid \$4,411 for these assets, which had an original acquisition cost of \$44,115 and accumulated depreciation of \$39,704.

There was a transfer of assets to the Golf fund from culture and recreation, a governmental activity. These assets had a net book value of \$554, with an original acquisition cost of \$5,543 and accumulated depreciation of \$4,989.

b. Construction Commitments

The government has active construction projects as of June 30, 2016. At year-end, the government's construction in progress was comprised of the following:

	Spent To Date	Remaining Commitments
Community Development Grants Fund		
Economic Development Building Reuse	<u>\$ 253,597</u>	<u>\$ 496,403</u>
Total Community Development Grants Fund	<u>\$ 253,597</u>	<u>\$ 496,403</u>
Public Safety Grants Fund		
Body-Worn Camera	<u>\$ 36,800</u>	<u>\$ 18,185</u>
Total Public Safety Grants Fund	<u>\$ 36,800</u>	<u>\$ 18,185</u>

	<u>Spent To Date</u>	<u>Remaining Commitments</u>
General Capital Projects Fund		
Public Buildings Improvements	\$ 2,087,952	\$ 138,048
Recreation Improvements	1,111,104	1,738,396
Economic Development	<u>7,372,770</u>	<u>176,763</u>
Total General Capital Projects Fund	<u>\$ 10,571,826</u>	<u>\$ 2,053,207</u>
Electric Fund		
System improvements	\$ 3,200,139	\$ 530,050
Electric Operations Center	<u>516,654</u>	<u>2,789,346</u>
Total Electric Fund	<u>\$ 3,716,793</u>	<u>\$ 3,319,396</u>
Water and Wastewater Fund		
System improvements	\$ 39,873	\$ 160,127
Plant improvements	<u>130,009</u>	<u>15,991</u>
Total Water and Wastewater Fund	<u>\$ 169,882</u>	<u>\$ 176,118</u>
Natural Gas Fund		
Training Qualification Center	<u>\$ 95,314</u>	<u>\$ 64,686</u>
Total Natural Gas Fund	<u>\$ 95,314</u>	<u>\$ 64,686</u>
Utility Administration Fund		
Work Order System	\$ -	\$ 375,000
Warehouse Center	<u>236,443</u>	<u>2,277,557</u>
Total Utility Administration Fund	<u>\$ 236,443</u>	<u>\$ 2,652,557</u>

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at the government-wide level at June 30, 2016 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total</u>
Governmental Activities					
General	\$ 366,600	\$ 426,238	\$ 39,696	\$ 63,685	\$ 896,219
Other Governmental	364,238	-	-	-	364,238
Governmental Internal Service	<u>70,716</u>	<u>20,640</u>	<u>-</u>	<u>682,401</u>	<u>773,757</u>
Total - governmental activities	<u>\$ 801,554</u>	<u>\$ 446,878</u>	<u>\$ 39,696</u>	<u>\$ 746,086</u>	<u>\$ 2,034,214</u>

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Business-type Activities					
Electric	\$ 5,015,357	\$ 57,527	\$ 32,998	\$ 6,514	\$ 5,112,396
Water and Wastewater	224,191	92,892	7,748	256	325,087
Natural Gas	451,980	38,290	31,543	4,263	526,076
Golf	9,571	18,485	1,281	-	29,337
Business-type Internal Service	52,320	86,145	18,478	56,448	213,391
Total - business-type activities	<u>\$ 5,753,419</u>	<u>\$ 293,339</u>	<u>\$ 92,048</u>	<u>\$ 67,481</u>	<u>\$ 6,206,287</u>

2. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Lexington is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty.

Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Lexington employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Lexington's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.76% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Lexington were \$964,133 for the year ended June 30, 2016.

Refunds of Contributions - City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2016, the City reported a liability of \$1,142,764 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015 the City's proportion was 0.255%, which was a decrease of 0.001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$619,186. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 268,617
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	325,343
Changes in proportion and differences between City contributions and proportionate share of contributions	23,319	39,818
City contributions subsequent to the measurement date	964,133	-
Total	<u>\$ 987,452</u>	<u>\$ 633,778</u>

\$964,133 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of

resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$	(381,706)
2018		(381,706)
2019		(381,371)
2020		534,324
2021		-
Thereafter		-

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
City's proportionate share of the net pension liability (asset)	\$ 7,968,653	\$ 1,142,764	\$ (4,607,896)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

Plan Description

The City of Lexington administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	12
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>59</u>
Total	<u><u>71</u></u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, non-employer contributing entities, the plan administrator, and plan members.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions do not include post-employment benefit increases. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 188,871
Interest on net pension obligation	25,649
Adjustment to annual required contribution	<u>(45,079)</u>
Annual pension cost	169,441
Employer contributions made for fiscal year ended 6/30/2016	<u>191,228</u>
Increase (decrease) in net pension obligation	(21,787)
Net pension obligation beginning of fiscal year	<u>512,989</u>
Net pension obligation end of fiscal year	<u>\$ 491,202</u>

The City's APC, percentage of APC contributed, and NPO for the plan for 2014, 2015, and 2016 were as follows:

3-Year Trend Information

<u>Year Ended</u> <u>June 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation (NPO)</u>
2014	\$ 136,697	116.65%	\$ 492,648
2015	169,241	87.98%	512,989
2016	169,441	112.86%	491,202

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$2,329,866. The covered payroll (annual payroll of active employees covered by the plan) was \$2,783,911 and the ratio of the UAAL to the covered payroll was 83.69%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for

the year ended June 30, 2016 were \$161,878 which consisted of \$128,563 from the City and \$33,315 from the law enforcement officers.

d. Supplemental Retirement Income Plan for General Employees

Plan Description. The City participates in the Supplemental Retirement Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to general employees employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for General Employees is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplemental Retirement Income Plan for General Employees. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454.

Funding Policy. The City temporarily suspended contributions to the Plan for general employees for the year ended June 30, 2016. General employees may continue to make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 consisted of \$202,587 from the general employees.

e. Firefighters' and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the City of Lexington, to the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighters' and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighters' and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454 or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2015, the State contributed \$13,900,000 to the plan. The City of Lexington's proportionate share of the State's contribution is \$17,305.

Refunds of Contributions - Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2016, the City reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the City through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the City and supported by the State was \$42,989. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the City is not projected to make any future contributions to the plan, its proportionate share at June 30, 2015 and at June 30, 2014 was 0%.

For the year ended June 30, 2016, the City recognized pension expense of \$3,440 and revenue of \$3,440 for support provided by the State. At June 30, 2016, the City reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

f. Other Postemployment Benefits

1. Postemployment Healthcare Benefits

Plan Description. Under the terms of a City adopted policy, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The City provides continuation of group insurance coverage to employees who retire under the North Carolina Local Governmental Employees' Retirement System and have twenty years of consecutive service with the City, or five years consecutive service with the City in the case of disability retirement. The retiree and his or her dependents may elect to receive this coverage until the participant becomes Medicare or Medicaid eligible or is no longer eligible under the plan provisions. The City is self-insured and pays 100% of health claims (after out-of-pocket limits are met) up to an individual stop loss of \$100,000, and an aggregate stop loss of 125% of expected net claims. The retiree may purchase dependent healthcare coverage at the City's group rates which are adjusted periodically. The City Council may amend the benefit provisions. A separate report was not issued for the HCB Plan.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers	Firefighters	Total
Active Plan Members	210	53	48	311
Retired Plan Members	<u>52</u>	<u>30</u>	<u>19</u>	<u>101</u>
Total	<u><u>262</u></u>	<u><u>83</u></u>	<u><u>67</u></u>	<u><u>412</u></u>

Funding Policy. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. Retirees contribute the premium of the healthcare coverage plan to the City at the group rates, which are adjusted periodically. Although the City is evaluating the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability and designated \$2,666,241 for this purpose in the Group Insurance Fund for fiscal year ended June 30, 2016, these financial statements assume the pay-as-you-go method will continue in the near term.

The current annual required contribution (ARC) rate is 10.86% of annual covered payroll. For the current year, the City contributed \$1,433,381 or 11.10% of annual covered payroll. In addition, stop loss reimbursements contributed \$135,484 towards the cost of claims. The City is self-insured as described in more detail on pages 67-68 of the notes to the financial statements. Retirees contributed \$199,451 during the fiscal year for retiree and dependent coverage. The City's obligation to contribute to the HCB Plan is established annually and may be amended by the City Council.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the Group Insurance Fund which is funded by charges to the General Fund and the proprietary funds, treated as interfund services provided/used. The Group Insurance Fund is maintained in conformity with generally accepted accounting principles. The vast majority of expenditures are paid as they come due. However as discussed in the Funding Policy section above, \$2,666,241 is designated in the Group Insurance Fund to begin accumulating assets necessary to pay for the accrued liability of postemployment healthcare coverage.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the 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 cost 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 for the postemployment healthcare benefits:

Annual required contribution (ARC)	\$ 1,562,068
Interest on net OPEB obligation	243,790
Adjustment to ARC	<u>(232,895)</u>
Annual OPEB cost (pay-as-you-go expense)	1,572,963
Contributions made	<u>(1,433,381)</u>
Increase/(decrease) in net OPEB obligation	139,582
Net OPEB obligation, beginning of year	<u>6,094,752</u>
Net OPEB obligation, end of year	<u><u>\$ 6,234,334</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2015 and 2016 were as follows:

3-Year Trend Information

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 1,851,070	55.5%	\$ 5,661,949
2015	1,526,692	71.7%	6,094,752
2016	1,572,963	91.1%	6,234,334

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$15,704,566. The covered payroll (annual payroll of active employees covered by the plan) was \$12,908,335, and the ratio of the UAAL to the covered payroll was 121.7%. 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 healthcare trends. 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 as accumulated annually about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) 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 assets, consistent with the long-term perspective of the calculations.

In the December 31, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.75 to 5.00 percent pre-Medicare annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015, was 30 years.

2. Postemployment Life Insurance Benefits

On December 14, 1981, the City Council adopted a local policy to provide the following post-employment life insurance coverage program to be effective January 1, 1982. Active employees, who were retired prior to the effective date and employees hired prior to the effective date and subsequently retired, would be provided \$2,500 life insurance coverage by the City. Anyone hired after December 31, 1981 would be eligible for City-paid life insurance coverage only while actively employed. Currently, there are 97 retirees who are eligible for this benefit at the time of their deaths. All benefits are paid from the Life Insurance Plan. The City has no liability beyond payment of monthly premiums. Employees not eligible for City-paid benefits may elect coverage through a City-selected carrier, Standard Insurance Company of Portland, Oregon. All costs are born by the retirees, and life insurance coverage is provided up to a maximum of \$10,000, with a 35% reduction at age 65 through 69, a 60% reduction at age 70 through 74, and a 75% reduction at age 75 or over.

g. Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. For the fiscal year ended June 30, 2016, the City made contributions to the State for death benefits of \$13,981. The City's required contributions for employee not engaged in law enforcement and for law enforcement represented 0.09% and 0.14% of covered payroll, respectively.

The City also provides a fully paid life insurance coverage to all full-time employees. The benefit is 1 ½ times the employee's salary with a maximum of \$200,000 subject to reductions. The benefit will reduce 35% at age 65, an additional 25% at age 70, and further reduce 15% at age 75. Benefits

will terminate at retirement regardless of age. The cost of benefits in excess of \$50,000 are considered taxable to the employee as a fringe benefit.

3. Unearned Revenue

Unearned revenue represents exchange transactions for which the City has received resources but has not yet earned. Unearned revenue on the fund statements and on the government-wide statements at year-end is composed of the following:

Unearned rent (Nonmajor General Capital Projects Fund)	<u>\$ 9,780</u>
--	-----------------

4. Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources at year end are comprised of the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pensions - difference between expected and actual experience	\$ -	\$ 268,617
Pensions - net difference between projected and actual investment earnings	-	325,343
Pensions - change in proportion and difference between employer contributions and proportionate share of contributions	23,319	39,818
Contributions to pension plan in current fiscal year	964,133	-
Unavailable revenue		
Property taxes receivable		
Taxes receivable, net (General Fund)	-	701,249
Taxes receivable, net (Special Revenue Fund)	-	4,381
Miscellaneous receivables (General Fund)	-	38,015
Due from other governments (Capital Projects Fund)	-	14,591
Total	<u>\$ 987,452</u>	<u>\$ 1,392,014</u>

5. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Effective July 1, 1992, the City Council established a risk management self-insurance fund as an internal service fund type. The purpose of this fund is to pay various general liability, property, and workers' compensation claims, and to minimize the total annual cost of insurance to the City. As of January 1, 1999, the City adopted a disability insurance policy. Under this policy, employees are eligible to receive short-term disability benefits after 29 days for up to 26 weeks. After 26 weeks, eligible employees may receive long-term disability payments.

The City's insurance deductible for property is \$50,000 per occurrence. The property insurance limit is \$89,835,500. The self-insurance retention for general liability, employee benefit liability, police professional, public officials and auto is \$300,000 per occurrence. The general liability, public official's liability and police liability insurance limits are \$1,000,000 per occurrence; \$2,000,000 aggregate. The employee benefit liability limits are \$1,000,000 per occurrence; \$2,000,000 aggregate. The auto liability has a combined single limit of \$1,000,000. The auto physical damage coverage is a catastrophic only limit of \$1,000,000 and a \$50,000 per occurrence deductible. The City also purchased excess liability coverage of \$10,000,000 per occurrence. This applies to all liabilities except workers'

compensation. Workers' Compensation has a self-insured retention of \$600,000 per occurrence with excess coverage up to the statutory limit. Crime has a \$2,500 deductible and a \$200,000 limit. All claims under \$5,000 can be settled by the City Manager. Claims up to \$25,000 can be settled by the City's Claims Committee, which includes the Risk Safety Director, Management, Mayor and the City Attorney. Claims \$25,000 and over are reviewed by the City's third party administrator and must be approved by the City Council. Workers' Compensation claims up to \$25,000 can be settled by the City's Claims Committee, which includes the Workers' Compensation Specialist.

The Risk Management Fund pays for all costs associated with claims, cost of the excess policies, and third party administrative charges. These expenses are funded by charges allocated to the General, Electric, Water and Wastewater, Natural Gas and Golf Funds. The City carries flood insurance through Firemen's Insurance Company of Washington, D.C. with \$5,000,000 of coverage per occurrence. This coverage only applies to buildings designated in flood zones other than A, D, & V by the National Flood Insurance Program. The City is not in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency and therefore is not eligible to purchase additional coverage through the National Flood Insurance Plan.

The City carries commercial insurance for all other risks of loss. There have been no significant reductions or increases in insurance coverage from the previous year, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more of the City's funds at any given time are performance bonded through a commercial surety bond. The City Manager, Assistant City Manager and Director of Finance are each individually bonded for \$100,000. The Customer Service Manager, Purchasing Officer and Accountant who manages cash and investments are each individually bonded for \$50,000. The Police Chief, Police Major and two Police Captains are each individually bonded for \$25,000. The Utilities Marketing Representatives for natural gas are individually bonded at \$5,000. The remaining employees that have access to funds are covered by a faithful performance of duty under a crime policy up to \$200,000 with a \$2,500 deductible.

In accordance with G.S. 159-29, the Director of Finance, who is responsible for accounting for Uptown Lexington, Inc., is individually bonded through a commercial surety bond in the amount of \$50,000.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's) and are reasonably expected to be paid within the following fiscal year.

Changes in the balance of claims liabilities during the year were as follows:

Unpaid claims, 7/1	\$ 293,223
Incurred claims	735,653
Claim payments	<u>(828,463)</u>
Unpaid claims, 6/30	<u>\$ 200,413</u>

6. Group Health Insurance

The City is also self-insured for group health insurance. The Group Insurance Fund, an internal service fund type, pays health and dental claims for City employees and their covered dependents, for retirees and their covered dependents (that is, those 105 retirees who fall under the City's post-employment benefits), and for terminated employees and/or dependents who fall under the COBRA regulations. The City pays the majority of stop-loss coverage and administrative costs for its active employees, and the retirees covered under the City's post-employment benefits. All premiums for active employees are collected

through payroll deduction; retirees are billed by the administrator and COBRA participant's premiums are billed by the administrator. COBRA participants are billed at 102% of the City's actual costs to cover the associated administrative costs. Self-insurance is in effect for \$100,000 per covered employee/retiree/dependent. Aggregate stop-loss is 125% of expected net claims. The third party administrator performs such claims studies needed to determine expected net claims costs. Losses greater than \$100,000 per covered employee and/or dependent, as well as those in excess of the aggregate stop-loss, are insured by a private insurance carrier.

The Group Insurance Fund pays for all costs associated with claims, cost of the insurance coverage, and third party administrative charges. These costs are funded by premium charges to other funds, treated as interfund services provided/used, and premium contributions from employees and retirees. Employees and retirees contribute toward the cost of coverage for themselves and their dependents based on premium rates established for the various types of coverage, which may change over time. The remaining costs are funded through premium charges to the operating funds based on an allocation of cost to participants of the plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's) and are reasonably expected to be paid within the following fiscal year.

Changes in the balance of claims liabilities during the year were as follows:

Unpaid claims, 7/1	\$ 383,134
Incurred claims	5,540,468
Claim payments	<u>(5,441,614)</u>
Unpaid claims, 6/30	<u>\$ 481,988</u>

7. Claims, Judgments and Contingent Liabilities

At June 30, 2016, the City of Lexington was a defendant in various lawsuits. In the opinion of the City's attorneys and management, the ultimate outcome of these legal matters will not have a material adverse effect on the City's financial position.

8. Long-Term Obligations

a. Installment Purchases

\$4,000,000 installment purchase contract with Wells Fargo dated December 8, 2003 for electric system improvements and golf course renovations due in semi-annual installments of \$177,456 including interest beginning on June 1, 2004 with a final payment of \$177,195 on December 1, 2018; interest at 3.92% \$ 837,142

\$907,970 installment purchase contract with BB&T dated October 28, 2008 (as modified January 28, 2015) for aerial fire truck due in semi-annual installments of \$54,967 including interest beginning April 28, 2009 through October 28, 2014 and then \$52,994 including interest beginning April 28, 2015 through October 28, 2018; interest at 3.79% through January 28, 2015, then at 1.89% 257,622

\$4,200,000 installment purchase Build America Bond with Bank of America dated April 15, 2010 for a utilities operations center for Natural Gas and Public Works, the relocation of Fire Station #2, and equipment sheds for the Street and Recycling & Waste Collection departments due in semi-annual installments ranging from \$231,757 to \$188,949 including interest beginning on October 15, 2010 through April 15, 2025; interest at 6.09% (3.959%, net of 35% federal credit)	2,808,557
\$460,202 installment purchase contract with BB&T dated October 10, 2011 for fire pumper truck due in semi-annual installments of \$35,264 including interest beginning on August 10, 2011 through February 10, 2018; interest at 2.19%	137,278
\$582,807 installment purchase contract with BB&T dated August 15, 2013 for a 75' aerial ladder fire apparatus due in semi-annual installments of \$44,263 including interest beginning on August 15, 2013 through February 15, 2020; interest at 1.92%	339,287
\$220,000 installment purchase contract with Tri-Distributors, LLC dated August 22, 2014 for acquisition of facility for Recreation Center due in annual payments of \$55,000 beginning on August 29, 2015 through August 29, 2018; no interest	165,000
\$4,223,000 installment purchase contract with First Tennessee Bank dated January 15, 2015 for Public Building Improvements, Recreation Improvements and Electric System Improvements due in semi-annual payments of \$169,893 including interest beginning on June 1, 2015 through December 1, 2029; interest at 2.56%	3,857,771
\$1,364,449 refinancing installment purchase contract with First Tennessee Bank dated January 15, 2015 for state-mandated nutrient removal improvements at the City's wastewater treatment plant due in semi-annual payments of \$198,973 including interest beginning on June 1, 2015 through June 1, 2018; interest at 1.10%	785,067
\$2,359,548 refinancing installment purchase contract with First Tennessee Bank dated January 15, 2015 for the Arcadia electric substation and various electric system reliability improvements due in semi-annual payments of \$159,239 including interest beginning on June 1, 2015 through December 1, 2022; interest at 1.89%	1,939,402
\$377,980 installment purchase contract with BB&T dated September 30, 2015 for a police animal control vehicle and a refuse truck due in semi-annual payments of \$37,798 plus interest beginning on March 1, 2016 through September 1, 2020; interest at 1.66%	340,182

\$7,527,000 installment purchase contract with BB&T dated March 15, 2016 for recreation improvements, construction of an Electric Operations Center, and construction of a Warehouse Center due in semi-annual payments of \$250,900 plus interest beginning on September 1, 2016 through March 1, 2031; interest at 2.52%

7,527,000
\$ 18,994,308

Annual debt service payments of installment purchase contracts as of June 30, 2016, including \$2,982,920 of interest, net of 35% federal credit, are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 754,790	\$ 190,632	\$ 1,636,264	\$ 345,913
2018	768,170	171,739	1,667,315	306,030
2019	658,026	151,550	1,122,564	262,087
2020	561,124	133,540	963,474	230,820
2021	445,306	116,004	978,595	202,402
2022-2026	2,016,829	340,020	3,782,224	599,799
2027-2031	<u>1,214,231</u>	<u>72,888</u>	<u>2,425,396</u>	<u>159,610</u>
Total Principal & Interest	<u>\$ 6,418,476</u>	1,176,373	<u>\$ 12,575,832</u>	2,106,661
35% Federal Credit		(135,766)		(164,348)
Interest, Net of Credit		<u>\$ 1,040,607</u>		<u>\$ 1,942,313</u>

b. General Obligation Indebtedness

The City issues general obligation bonds to finance the purchase of major capital items and the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities and are being repaid from the applicable resources. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

In January 2011, the City issued \$6,054,000 Series 2011 General Obligation Refunding Bonds consisting of \$1,184,031 Recreation, \$1,312,729 Electric, and \$3,557,240 Sewer bonds. The proceeds from the \$6 million refunding bonds were used to refund Series 1998 General Obligation Bonds originally issued in December 1998 to pay for recreation park improvements, electric system reliability improvements and extend sewer lines to a newly annexed area in the corporate limits. The interest rate on the Series 2011 bonds is 2.30% with scheduled maturities in varying amounts through 2019.

Bonds payable at June 30, 2016 are comprised of the following individual issues:

<u>General Obligation Bonds</u>	<u>Outstanding</u>
Serviced by the Electric Fund:	
\$1,312,729 Series 2011 Electric Refunding bonds dated January 19, 2011 due in annual payments of \$162,883 to \$67,945 through 06/01/19; interest at 2.30%	\$ 362,966
Serviced by the Water and Wastewater Fund:	
\$3,557,240 Series 2011 Sanitary Sewer Refunding bonds dated January 19, 2011 due in annual payments of \$429,700 to \$232,055 through 06/01/19; interest at 2.30%	<u>1,011,034</u>
	<u>\$ 1,374,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending <u>June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 542,000	\$ 31,602
2018	532,000	19,136
2019	<u>300,000</u>	<u>6,900</u>
Total	<u>\$ 1,374,000</u>	<u>\$ 57,638</u>

At June 30, 2016, the City of Lexington had no bonds authorized but unissued and a legal debt margin of \$101,475,652.

c. **Revenue Bonds**

The City issues revenue bonds to finance the purchase of major capital items and the acquisition and construction of major capital facilities. Combined Enterprise System Revenue Bonds in the amount of \$3,900,000, Series 2006, issued for Natural Gas system expansion to the Southmont and Tyro regions on September 18, 2006; issue placed with Wells Fargo. The Natural Gas Fund services this debt; with quarterly principal and interest payments due July 1, October 1, January 1, and April 1, at an annual interest rate of 4.19%. The principal amount outstanding on the bonds as of June 30, 2016 is \$1,634,284.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 284,358	\$ 64,047
2018	296,462	51,944
2019	309,080	39,326
2020	322,235	26,171
2021	335,951	12,455
2022	<u>86,198</u>	<u>903</u>
Total	<u>\$ 1,634,284</u>	<u>\$ 194,846</u>

The City has been in compliance with the covenants as to rates, fees, rentals and charges in Section 704 of the Bond Order, authorizing the issuance of the Combined Enterprise System Revenue Bonds, Series 2006, since adoption in 2006. Section 704(a) of the Bond Order requires the debt service coverage ratio to be no less than 120%. The debt service coverage ratio calculation for the year ended June 30, 2016 is as follows:

Operating revenues	\$ 9,971,340
Operating expenses*	<u>7,384,848</u>
Operating income	2,586,492
Nonoperating revenues (expenses)**	<u>(36,452)</u>
Income available for debt service	2,550,040
Debt service, principal and interest paid (Revenue bond only)	\$ 348,406
Debt service coverage ratio	732%

*Per rate covenants, this does not include the depreciation expense of \$561,600.

**Per rate covenants, this does not include revenue bond interest expense of \$72,799 (\$75,656 interest paid and \$2,857 decrease in accrued interest)

The City has pledged future natural gas customer revenues, net of specified operating expenses, to repay a total of \$3,900,000 in natural gas system revenue bonds issued in September 2006. Proceeds from the bonds provided financing for expansion of the Natural Gas system to various areas in Davidson County, NC. The bonds are payable solely from natural gas customer net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require less than 13% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,829,130. Principal and interest paid for the current year and total customer net revenues were \$348,406 and \$2,550,040, respectively.

d. **Solid Waste Landfill Post-closure Care Costs**

The City of Lexington closed its landfill during the fiscal year ended June 30, 1990. As of the current period, an administrative agreement on consent has been entered into, and an assessment plan is now complete. The \$80,000 liability recorded in the statement of net position is based on the estimated annual cost to complete periodic monitoring required by N.C. Department of Environment, Health and Natural Resources Division of Solid Waste Management, Solid Waste Section, for the next 4 years. The estimates are updated annually based on current technology and regulatory requirements. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

e. **Economic Development Grants**

The City of Lexington enters into formal economic development incentive agreements with companies to stimulate economic development in the local economy. These contracts stipulate the company's required investment in real and personal property, the number of jobs that must be created and the wage requirements. Due to the uncertainty of contractual obligations being met by grant recipients, the City's incentive commitments are not recorded as obligations in the statement of net position until the company meets its contractual obligations to qualify for the grant.

Commitments under economic development incentive agreements for which an obligation has been recorded include:

- Save-A-Lot, Ltd. – As part of an economic development grant, land co-owned with Davidson County in the Lexington Business Center is being leased to Save-A-Lot, Ltd. and will be conveyed to the company when the 12-year lease agreement is fulfilled in December 2022. Save-A-Lot is meeting the terms of both the lease and economic development incentive agreements and remitting

\$72,916.67 annually in a lease payment. Under the terms of the economic development incentive agreement when the company submits timely documentation evidencing fulfillment of its obligations under the contract, the lease amount is returned to the company in the form of an economic development incentive grant with the final payment anticipated in 2023. As of June 30, 2016, the City's remaining obligation under this contract totals \$510,417.

Other commitments under economic development incentive agreements for which no obligation has been recorded include:

- United Furniture Industries – The City partnered with Davidson County to purchase land, resulting in a \$68,300 transaction in fiscal year 2009-10 and a \$100,500 transaction in fiscal year 2013-14. As part of an economic development incentive grant, this land is being leased to United Furniture Industries and will be conveyed to the company when the 12-year lease agreement is fulfilled in December 2022. United Furniture is meeting the terms of the lease agreement remitting \$16,858.35 annually in a lease payment. Under the terms of the economic development incentive agreement when the company submits timely documentation evidencing fulfillment of its obligations under the contract, the lease amount is returned to the company in the form of an economic development incentive grant with final payment anticipated in 2023. No payment was made to the company during the 2015-16 fiscal year due to the failure of the company to submit timely documentation. As of June 30, 2016, the City's remaining commitment under this contract totals \$118,008.

9. Changes in Long-Term Liabilities

The majority of compensated absences and other post-employment benefits for governmental activities have typically been liquidated in the General Fund. Governmental activities also include Fleet Management, Group Insurance and Risk Management internal service funds. Business-type activities also include Utility Administration internal service fund.

	Balance			Balance	Current
	July 1, 2015	Increases	Decreases	June 30, 2016	Portion of
					Balance
<u>Governmental activities:</u>					
Installment purchases	\$ 4,923,681	\$ 2,084,980	\$ 590,185	\$ 6,418,476	\$ 754,790
General obligation bonds	146,775	-	146,775	-	-
Other postemployment benefits	3,992,666	90,719	-	4,083,385	-
Compensated absences	985,072	715,262	709,584	990,750	511,000
Net pension liability (LGERS)	-	739,111	-	739,111	-
Net pension obligation (LEO)	512,989	-	21,787	491,202	-
Solid waste landfill	100,000	-	20,000	80,000	20,000
Economic development grants	583,333	-	72,916	510,417	72,917
Governmental activity long-term liabilities	<u>\$ 11,244,516</u>	<u>\$ 3,630,072</u>	<u>\$ 1,561,247</u>	<u>\$ 13,313,341</u>	<u>\$ 1,358,707</u>
<u>Electric Fund</u>					
Installment purchases	\$ 4,578,702	\$ 3,306,000	\$ 543,599	\$ 7,341,103	\$ 778,447
General obligation bonds	514,833	-	151,867	362,966	148,985
Other postemployment benefits	489,863	10,698	-	500,561	-
Compensated absences	80,072	83,554	82,193	81,433	78,000
Net pension liability (LGERS)	-	90,177	-	90,177	-
Electric Fund long-term liabilities	<u>5,663,470</u>	<u>3,490,429</u>	<u>777,659</u>	<u>8,376,240</u>	<u>1,005,432</u>

	Balance			Current	
	July 1, 2015	Increases	Decreases	Balance	Portion of
				June 30, 2016	Balance
<u>Water and Wastewater Fund</u>					
Installment purchases	\$ 1,608,869	\$ -	\$ 422,580	\$ 1,186,289	\$ 428,297
General obligation bonds	1,418,392	-	407,358	1,011,034	393,015
Other postemployment benefits	732,793	18,653	-	751,446	-
Compensated absences	172,673	170,399	159,687	183,385	126,000
Net pension liability (LGERS)	-	156,130	-	156,130	-
Water and Wastewater Fund long-term liabilities	<u>3,932,727</u>	<u>345,182</u>	<u>989,625</u>	<u>3,288,284</u>	<u>947,312</u>
<u>Natural Gas Fund</u>					
Installment purchases	1,240,097	-	103,300	1,136,797	107,429
Revenue bonds	1,907,034	-	272,750	1,634,284	284,358
Other postemployment benefits	349,545	8,123	-	357,668	-
Compensated absences	90,659	62,048	52,399	100,308	52,000
Net pension liability (LGERS)	-	66,326	-	66,326	-
Natural Gas Fund long-term liabilities	<u>3,587,335</u>	<u>136,497</u>	<u>428,449</u>	<u>3,295,383</u>	<u>443,787</u>
<u>Golf Fund</u>					
Installment purchases	546,202	-	148,559	397,643	154,491
Other postemployment benefits	120,733	2,736	-	123,469	-
Compensated absences	30,318	25,943	26,235	30,026	15,000
Net pension liability (LGERS)	-	23,315	-	23,315	-
Golf Fund long-term liabilities	<u>697,253</u>	<u>51,994</u>	<u>174,794</u>	<u>574,453</u>	<u>169,491</u>
<u>Utility Administration Fund</u>					
Installment purchases	-	2,514,000	-	2,514,000	167,600
Other postemployment benefits	409,152	8,653	-	417,805	-
Compensated absences	92,732	85,323	101,195	76,860	48,000
Net pension liability (LGERS)	-	67,705	-	67,705	-
Utility Administration Fund long-term liabilities	<u>501,884</u>	<u>2,675,681</u>	<u>101,195</u>	<u>3,076,370</u>	<u>215,600</u>
Business activity long-term liabilities	<u>\$ 14,382,669</u>	<u>\$ 6,699,783</u>	<u>\$ 2,471,722</u>	<u>\$ 18,610,730</u>	<u>\$ 2,781,622</u>

C. **Interfund Balances and Activity**

1. **Interfund Balances**

Balances due to/from other funds at June 30, 2016 consist of the following:

Receivable Fund	Payable Fund	Current	Noncurrent	Total
General Fund	Public Safety Grants Fund	\$ 1,805	\$ -	\$ 1,805
General Fund	Capital Projects Fund	75,000	45,000	120,000
Natural Gas Fund	General Fund	112,613	451,117	563,730
Total		<u>\$ 189,418</u>	<u>\$ 496,117</u>	<u>\$ 685,535</u>

Interfund balances owed to the General Fund by the Public Safety Grants Fund and the Capital Projects Fund represent temporary advances and will be repaid upon receipt of other permanent funding.

On February 1, 2015, the General Fund borrowed \$150,000 from the Natural Gas Fund to fund the purchase of storage area network equipment. The terms of the arrangement require the General Fund to repay the Natural Gas Fund in four annual installments, including interest at 0.75%, beginning on June 1, 2015. The outstanding balance of this arrangement at June 30, 2016 was \$75,185

On December 7, 2015, the General Fund borrowed \$526,125 from the Natural Gas Fund to fund the purchase of two (2) hybrid refuse vehicles. The terms of the arrangement require the General Fund to repay the Natural Gas Fund in fourteen semi-annual installments, plus interest at 1.40%, beginning on April 1, 2016. The outstanding balance of this arrangement at June 30, 2016 was \$488,545.

2. Interfund Transfers

The composition of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 1,275,000
General Fund (payment in lieu of taxes)	Electric Fund (payment in lieu of taxes)	181,161
General Fund (payment in lieu of taxes)	Water and Wastewater Fund (payment in lieu of taxes)	332,020
General Fund	Natural Gas Fund	939,882
General Fund (payment in lieu of taxes)	Natural Gas Fund (payment in lieu of taxes)	71,624
Public Safety Grants Fund	General Fund	5,000
Public Safety Grants Fund	Controlled Substance Tax Distribution Fund	31,290
General Capital Projects Fund	General Fund	446,400
Water and Wastewater Fund	Capital Reserve Fund	260,090
Natural Gas Fund	Capital Reserve Fund	191,694
Golf Fund	General Fund	319,484
Garage Fund	Capital Reserve Fund	355,176
Utility Administration Fund	Electric Fund	130,000
Utility Administration Fund	Water and Wastewater Fund	58,000
Utility Administration Fund	Natural Gas Fund	62,000
Capital Reserve Fund	Electric Fund	585,000
Capital Reserve Fund	Water and Wastewater Fund	75,000
Capital Reserve Fund	Garage Fund	320,279
Total		<u>\$ 5,639,100</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

The Electric, Water and Wastewater, and Natural Gas Funds made transfers to the General Fund, which consisted of transfers related to payments in lieu of taxes in the amounts of \$181,161, \$332,020, and \$71,624, respectively. The Electric and Natural Gas Funds also made transfers in the amounts of \$1,275,000 and \$939,882 as profit distributions to support General Fund services.

The Public Safety Grants Fund received transfers from the General Fund and the Controlled Substance Fund in the amounts of \$5,000 and \$31,290, respectively. These transfers served as matching funds for grants.

The General Capital Projects Fund received a transfer from the General Fund in the amount of \$105,000 to fund year 3 of 5 of the Recreation Center Acquisition and Development capital project. The General Fund also made a transfer of \$266,400 to cover the cost of additional funds needed for the 2014 Public Buildings Improvement capital project and a transfer of \$75,000 to establish the Amphitheater capital project.

The Water & Wastewater Fund received a transfer from the Capital Reserve Fund in the amount of \$260,090 to cover cost for the Winston Road Bridge Line Relocation.

The Natural Gas Fund received a transfer from the Capital Reserve Fund in the amount of \$191,694 to cover cost for the New Bowers Road Loop Expansion.

The Golf Fund received a transfer from the General Fund in the amount of \$168,584 for principal and interest debt payments on the course renovations and \$150,000 to offset lost revenues due to the impact of negative weather conditions. The Golf Fund also received a \$900 transfer from the General Fund for the Junior Golf Program.

The Fleet Management Fund received a transfer from the Capital Reserve Fund in the amount of \$355,176 to purchase vehicles and equipment for the City's motor pool fleet.

The Utility Administration Fund received a transfer from the Electric, Water and Wastewater, and Natural Gas Funds for the Work Order capital project in the amount of \$130,000, \$58,000, and \$62,000, respectively.

The Capital Reserve Fund received a transfers from the Electric, Water and Wastewater and Fleet Management Funds for future capital needs in the amounts of \$585,000 \$75,000 and \$320,279, respectively for future capital needs.

D. On-Behalf Payments for Fringe Benefits and Salaries

The City has recognized as a revenue and an expenditure, on-behalf payments for pension contributions of \$16,435 made by the State for the fifty-one employed firefighters' who perform firefighting duties for the City's fire department. The employees elected to be members of the Firefighters' and Rescue Squad Workers' Pension Fund, a cost sharing multiple employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

E. Net Investment in Capital Assets

Net investment in capital assets at the government-wide level consists of the following:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 45,703,801	\$ 99,094,584
Less: long-term debt on capital assets	(6,418,476)	(15,584,116)
Unexpended debt proceeds	1,461,134	5,597,641
Net investment in capital assets	<u>\$ 40,746,459</u>	<u>\$ 89,108,109</u>

F. **Fund Balance**

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 9,657,721
Less:	
Prepaid Items	(3,329)
Stabilization by State Statute	<u>(3,064,348)</u>
Fund balance available for appropriation	6,590,044
Less: Restrictions, commitments, and assignments of fund balance available for appropriation	
Restricted for general government	(10,000)
Restricted for streets	(219,026)
Committed for general government	(15,329)
Appropriated fund balance in 2016-17 budget	<u>(772,298)</u>
Unassigned fund balance	<u>\$ 5,573,391</u>

City Council must authorize the use of Neighborhood Revitalization Funds and any unspent funds at the end of the fiscal year are classified as Committed Fund Balance for future year neighborhood revitalization initiatives.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

	<u>General Fund</u>	<u>Non-Major Funds</u>
Encumbrances	\$ 707,783	\$ 6,723

3. Jointly Governed Organization

North Carolina Municipal Power Agency Number 1

The City of Lexington, in conjunction with eighteen other local governments, is a member of the North Carolina Municipal Power Agency Number 1. The agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one Council member (or Commissioner) to the agency's governing board. The nineteen members, who receive power from the agency, have signed power sales agreements to purchase a specified share of the power generated by the agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2016 were \$40,618,065. These expenses are reflected in the Electric Fund's operations. Complete financial statements for the Power Agency can be obtained from the Agency's administrative offices at P.O. Box 29513, Raleigh, NC 27626-0513.

4. Joint Venture

Lake Thom-A-Lex

The municipalities of Lexington and Thomasville, North Carolina jointly own and operate a waterworks reservoir system. Both cities' governing bodies have authority, under resolutions adopted individually, to acquire, construct, improve, maintain, and jointly operate this system. Both cities have authority to issue bonds or other means of financing as necessary to acquire, construct, and/or improve the system. There are no bonds outstanding for the

joint venture at June 30, 2016, and there are no bonds authorized but unissued. The cities' governing boards also have joint control over budgeting the operation.

As of May 1, 2000, the two cities and their county of location, Davidson County, entered into an agreement to form the Lake Thom-A-Lex Recreation Authority. This Authority, consisting of five members appointed by the governmental parties, is responsible for the oversight and promotion of operations related to recreation at Lake Thom-A-Lex.

Costs of operations are shared equally between the City of Lexington, the City of Thomasville, and Davidson County. The City of Thomasville maintains control over the financial records for assets and liabilities of the lake. Effective July 1, 2009 Davidson County began maintaining control over the financial records of the operation of the lake and bills the City of Lexington for its share of the costs. These costs are included as an operating expenditure in the Water Plant Department in the City's Water and Wastewater Fund. The City spent \$28,071 for the fiscal year ended June 30, 2016.

The City of Lexington has a 50% interest in the joint venture and an ongoing financial responsibility for Lake Thom-A-Lex. The City's original investment of \$180,000 was recorded in 1957, the year the joint venture began. Assets consist of 1,034 acres of land, an earthen dam constructed in 1957, a boathouse, piers, restroom building, playground, picnic shelters, boats, and a vehicle, which are jointly owned. The City's equity interest as of June 30, 2016 was \$420,633, which is shown in the government-wide financial statements. There is no distribution of net income. Net position remains in the joint venture for future operational needs of the system. Lake Thom-A-Lex has the same fiscal year-end as the City of Lexington, which is June 30, 2016. Lake Thom-A-Lex did not issue separate financial statements. The following condensed financial information as of and for the year ended June 30, 2016 has been provided by the City of Thomasville.

Assets	
Cash	\$ 327,346
Accounts receivable	20,747
Land	223,395
Buildings	15,000
Other improvements	1,190,537
Equipment	<u>92,039</u>
	1,869,064
Less: accumulated depreciation	<u>(1,027,798)</u>
Total assets	<u>\$ 841,266</u>
Net Position	<u>\$ 841,266</u>

Revenues		
Permits, rentals, concessions, etc.	\$	57,775
Contributions		
City of Thomasville		28,071
City of Lexington		28,071
Davidson County		<u>28,071</u>
Total revenues		141,988
Expenditures		
Salaries and employee benefits		83,397
Operating expenditures		37,844
Capital outlay		<u>55,891</u>
Total expenditures		<u>177,132</u>
Revenues over (under) expenditures		(35,144)
Reconciliation from budgetary basis (modified accrual) to full accrual:		
Reconciling items:		
Capital outlay		55,891
Depreciation expense		<u>(36,347)</u>
Change in net position		(15,600)
Net position		
Beginning of year, July 1		<u>856,866</u>
End of year, June 30	\$	<u><u>841,266</u></u>

5. Related Organizations

A. Lexington Housing Authority

This unit operates under the "Housing Authorities Law" of the State of North Carolina for the benefit of the City's residents. The five-member board of the Lexington Housing Authority is appointed by the mayor of the City of Lexington. The City is accountable because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City does not approve or modify the Authority's budget and does not select its management. The City does not finance any of the Authority's deficits and is not entitled to any surpluses. The City is not obligated in any manner for the Authority's debt. Complete financial statements for the Lexington Housing Authority can be obtained from the Authority's offices at 1 Jamaica Drive, Lexington, North Carolina 27292.

B. Lexington Board of Education

The City of Lexington appoints 8 of the members of a 9-member board. Davidson County appoints the remaining member. Taxing authority falls under the Davidson County Commissioners. The City is accountable because it appoints the majority of the governing board; however, the City is not financially accountable for the Board of Education. The City does not approve or modify the Board's budget and does not select its management. The City does not finance any of the Board's deficits and is not entitled to any surpluses. The City is not obligated in any manner for the Board's debt. Complete financial statements for the Lexington Board of Education can be obtained from the Board's offices at 1010 Fair Street, Lexington, North Carolina 27292.

6. Summary Disclosure Of Significant Contingencies

Federal and State Assisted Programs

The City has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the City's financial statements for the refund of grant monies.

7. Significant Effects of Subsequent Events

On October 1, 2016, the City redeemed all outstanding principal installments of the City of Lexington, North Carolina Combined Enterprise System Revenue Bond, Series 2006, dated September 18, 2006 at a redemption price equal to 100% of the principal amount, plus accrued interest at 4.19% to the redemption date. These revenue bonds were issued for Natural Gas system expansions to the Southmont and Tyro regions. The total amount of principal redeemed was \$1,564,302, which included a scheduled principal maturity of \$70,715.



**REQUIRED
SUPPLEMENTARY INFORMATION**

(This Page Is Intentionally Blank)

City of Lexington, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Exhibit A-1

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/10	\$ -	\$ 1,467,937	\$ 1,496,023	\$ -	\$ 2,813,742	52.17%
12/31/11	-	1,544,339	1,544,339	-	2,770,689	55.74%
12/31/12	-	1,454,977	1,454,977	-	2,554,558	56.96%
12/31/13	-	1,480,572	1,480,572	-	2,776,644	53.32%
12/31/14	-	1,496,023	1,496,023	-	2,626,322	56.96%
12/31/15	-	2,329,866	2,329,866	-	2,783,911	83.69%

City of Lexington, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

Exhibit A-2

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 158,370	79.06%
2012	145,403	91.81%
2013	156,736	97.59%
2014	152,919	104.27%
2015	186,226	79.96%
2016	188,871	101.25%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	3.57%
Projected salary increases	3.50% to 7.35%
Includes inflation at	3.00%
Cost-of-living adjustments	N/A

City of Lexington, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress

Exhibit A-3

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	\$ -	\$ 23,888,055	\$ 23,888,055	0.00%	\$ 12,754,864	187.29%
12/31/09	-	20,239,058	20,239,058	0.00%	13,795,609	146.71%
12/31/11	-	21,579,793	21,579,793	0.00%	13,830,782	156.03%
12/31/13	-	17,928,725	17,928,725	0.00%	13,965,567	128.38%
12/31/15	-	15,704,566	15,704,566	0.00%	12,908,335	121.66%

City of Lexington, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

Exhibit A-4

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	\$ 1,918,372	42.9%
2010	1,688,792	51.4%
2011	1,688,792	47.0%
2012	1,752,122	41.2%
2013	1,788,759	47.0%
2014	1,842,422	55.7%
2015	1,516,571	72.1%
2016	1,562,068	91.8%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.00%
Medical trend assumptions	
Pre-Medicare trend rate	7.75% to 5.00%
Medicare trend rate	5.75% to 5.00%
Year of Ultimate trend rate	2022
Includes inflation at	3.00%

City of Lexington, North Carolina
City of Lexington's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Three Fiscal Years *

Exhibit A-5

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City of Lexington's proportion of the net pension liability (asset) (%)	0.25463%	0.25594%	0.25270%
City of Lexington's proportion of the net pension liability (asset) (\$)	\$ 1,142,764	\$ (1,509,396)	\$ 3,046,005
City of Lexington's covered-employee payroll	\$ 14,050,453	\$ 14,213,987	\$ 14,008,463
City of Lexington's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.13%	(10.62%)	21.74%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**This will be the same percentage for all participant employers in the LGERS plan.

**City of Lexington, North Carolina
City of Lexington's Contributions
Required Supplementary Information
Last Three Fiscal Years**

Exhibit A-6

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 964,133	\$ 1,002,285	\$ 1,010,494
Contributions in relation to the contractually required contribution	<u>964,133</u>	<u>1,002,285</u>	<u>1,010,494</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Lexington's covered-employee payroll	\$ 14,114,948	\$ 14,050,453	\$ 14,213,987
Contributions as a percentage of covered-employee payroll	6.83%	7.13%	7.11%

City of Lexington, North Carolina
City of Lexington's Proportionate Share of Net Pension Liability
Required Supplementary Information
Last Two Fiscal Years *

Exhibit A-7

Firefighters' and Rescue Squad Workers' Pension

	<u>2016</u>	<u>2015</u>
City of Lexington's proportionate share of the net pension liability (%)	0.0000%	0.0000%
City of Lexington's proportionate share of the net pension liability (\$)	\$ -	\$ -
State's proportionate share of the net pension liability associated with City of Lexington	<u>42,989</u>	<u>32,450</u>
Total	<u>\$ 42,989</u>	<u>\$ 32,450</u>
City of Lexington's covered-employee payroll	\$ 2,000,993	\$ 1,965,433
City of Lexington's proportionate share of the net pension liability as a percentage of its covered-employee payroll	2.15%	1.65%
Plan fiduciary net position as a percentage of the total pension liability	91.40%	93.42%

*The amounts presented are for the prior year

(This Page Is Intentionally Blank)



**COMBINING AND INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

(This Page Is Intentionally Blank)



MAJOR GOVERNMENTAL FUNDS

(This Page Is Intentionally Blank)

Major Governmental Funds

General Fund

The General Fund is the principal fund of the City from which the major portion of the City's operations are financed. This fund finances the regular operation of all departments and accounts for all activities that are not legally or by sound financial management to be accounted for in other funds.

A summary of revenues and expenditures is presented below:

<u>REVENUES BY SOURCE</u>	<u>Amount</u>	<u>Percent of Total</u>
Ad valorem taxes	\$ 8,989,843	41%
Other taxes and licenses	318,347	1%
Unrestricted intergovernmental	6,487,277	29%
Restricted intergovernmental	1,109,653	5%
Permits and fees	212,467	1%
Sales and services	1,445,567	7%
Investment earnings	34,511	0%
Miscellaneous	156,253	1%
Other financing sources	<u>3,239,242</u>	<u>15%</u>
Total revenues	<u>\$ 21,993,160</u>	<u>100%</u>

EXPENDITURES BY FUNCTION

General government	\$ 4,280,230	20%
Public safety	10,079,358	46%
Highways and streets	1,318,940	6%
Sanitation	2,676,662	12%
Culture and recreation	1,598,038	7%
Economic and physical development	129,710	1%
Debt service	850,905	4%
Other financing uses	<u>770,884</u>	<u>4%</u>
Total expenditures	<u>\$ 21,704,727</u>	<u>100%</u>



**City of Lexington, North Carolina
General Fund**

Exhibit B-1

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes	\$	\$ 8,904,141	\$
Interest		85,702	
Total	8,723,700	8,989,843	266,143
Other taxes and licenses			
Occupancy tax		318,347	
Total	333,800	318,347	(15,453)
Unrestricted intergovernmental			
Federal Build America Bond interest credit		26,892	
Utilities sales tax		1,962,379	
Piped natural gas sales tax		127,759	
Telecommunications tax		202,077	
Video franchise tax		131,744	
Payments in lieu of taxes		1,348	
Beer and wine tax		82,393	
Local option sales tax		3,646,785	
ABC revenues		305,900	
Total	5,978,320	6,487,277	508,957
Restricted intergovernmental			
ABC recreation		65,550	
ABC law enforcement		18,594	
Solid waste disposal tax		12,140	
Powell Bill allocation		586,982	
On-behalf of payments - fire		16,435	
Public safety		8,937	
Disaster assistance		82,081	
NCDOT CMAQ grant		289,449	
NCDOT reimbursement		29,485	
Total	1,002,475	1,109,653	107,178
Permits and fees			
Inspection fees and permits		212,467	
Total	206,900	212,467	5,567

Continued on next page.

**City of Lexington, North Carolina
General Fund**

**Exhibit B-1
*continued***

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Sales and services			
Property rental	\$	\$ 6,150	\$
Court cost and parking fees		10,364	
Public safety charges		106,534	
Cemetery fees		74,500	
Mowing and towing fees		50,221	
Demolition fees		15,777	
Recreation fees		16,058	
Waste collection fees		1,165,963	
Total	1,294,800	1,445,567	150,767
Investment earnings	20,090	34,511	14,421
Miscellaneous			
Reimbursement of costs		118,547	
Sale of materials		1,520	
Donations		36,186	
Total	169,326	156,253	(13,073)
Total revenues	17,729,411	18,753,918	1,024,507
Expenditures			
General government			
Governing board			
Salaries and employee benefits		169,370	
Operating expenses		38,132	
Cost redistribution		(182,729)	
Total governing board	35,731	24,773	10,958
Administrative - city manager			
Salaries and employee benefits		521,734	
Operating expenses		67,926	
Cost redistribution		(311,571)	
Total administrative - city manager	335,473	278,089	57,384

Continued on next page.

**City of Lexington, North Carolina
General Fund**

**Exhibit B-1
*continued***

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Administrative - other			
Retiree benefits	\$	\$ 538,699	\$
Operating expenses		645,455	
Administrative charges risk management fund		792,897	
Administrative charges utility administration fund		260,389	
Grants to other agencies		180,934	
Payment to Lexington Tourism Authority		346,298	
Cost redistribution		(137,101)	
Total administrative - other	2,744,894	2,627,571	117,323
Finance			
Salaries and employee benefits		715,654	
Operating expenses		27,375	
Cost redistribution		(391,884)	
Total finance	368,231	351,145	17,086
Legal			
Operating expenses		36,819	
Cost redistribution		(13,463)	
Total legal	27,037	23,356	3,681
Human resources			
Salaries and employee benefits		286,898	
Operating expenses		76,260	
Cost redistribution		(146,787)	
Total human resources	248,723	216,371	32,352
Information technologies			
Salaries and employee benefits		358,819	
Operating expenses		422,071	
Capital outlay		65,532	
Cost redistribution		(315,498)	
Total information technologies	568,972	530,924	38,048

Continued on next page.

**City of Lexington, North Carolina
General Fund**

**Exhibit B-1
*continued***

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Public buildings			
Salaries and employee benefits	\$	\$ 255,871	\$
Operating expenses		84,045	
Cost redistribution		(111,915)	
Total public buildings	243,935	228,001	15,934
Total general government	4,572,996	4,280,230	292,766
Public safety			
Police			
Salaries and employee benefits		4,685,709	
Operating expenses		774,725	
Capital outlay		201,521	
Cost redistribution		(51,651)	
Total police	5,807,463	5,610,304	197,159
Fire			
Salaries and employee benefits		3,124,487	
Operating expenses		404,205	
Capital outlay		86,080	
Total fire	3,832,654	3,614,772	217,882
Business and community development			
Salaries and employee benefits		697,666	
Operating expenses		156,616	
Total business and community development	905,253	854,282	50,971
Total public safety	10,545,370	10,079,358	466,012
Highways and streets			
Public services administration			
Salaries and employee benefits		221,199	
Operating expenses		18,974	
Cost redistribution		(116,839)	
Total public services administration	173,304	123,334	49,970

Continued on next page.

**City of Lexington, North Carolina
General Fund**

**Exhibit B-1
*continued***

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Street			
Salaries and employee benefits	\$	\$ 679,390	\$
Operating expenses		510,467	
Capital outlay		244,886	
Cost redistribution		(239,137)	
Total street	1,716,079	1,195,606	520,473
Total highways and streets	1,889,383	1,318,940	570,443
Sanitation			
Recycling and waste collection services			
Salaries and employee benefits		642,489	
Operating expenses		630,061	
Tipping fees - landfill		268,635	
Capital outlay		1,135,477	
Total sanitation	2,777,072	2,676,662	100,410
Culture and recreation			
Parks and Recreation			
Salaries and employee benefits		477,205	
Operating expenses		329,066	
Capital outlay		30,000	
Total parks and recreation	1,144,623	836,271	308,352
Public grounds			
Salaries and employee benefits		615,692	
Operating expenses		180,036	
Capital outlay		6,999	
Cost redistribution		(40,960)	
Total public grounds	814,615	761,767	52,848
Total culture and recreation	1,959,238	1,598,038	361,200
Economic and physical development			
Operating expenses		129,710	
Total economic and physical development	174,018	129,710	44,308

Continued on next page.

**City of Lexington, North Carolina
General Fund**

**Exhibit B-1
*continued***

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the fiscal year ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Debt service			
Principal retirement	\$	\$ 681,960	\$
Interest and other charges		168,945	
Total debt service	965,354	850,905	114,449
Total expenditures	22,883,431	20,933,843	1,949,588
Revenue over (under) expenditures	(5,154,020)	(2,179,925)	2,974,095
Other financing sources (uses)			
Installment purchase debt issued	904,905	377,980	(526,925)
Transfers from other funds			
Electric Fund	1,275,000	1,275,000	-
Electric Fund (payment in lieu of taxes)	181,161	181,161	-
Water and Wastewater Fund (payment in lieu of taxes)	332,020	332,020	-
Natural Gas Fund	939,882	939,882	-
Natural Gas Fund (payment in lieu of taxes)	71,624	71,624	-
Transfers to other funds			
Public Safety Grants Fund	(5,000)	(5,000)	-
General Capital Projects Fund	(446,400)	(446,400)	-
Golf Fund	(319,484)	(319,484)	-
Sale of capital assets	59,000	61,575	2,575
Total other financing sources (uses)	2,992,708	2,468,358	(524,350)
Revenues and other financing sources over (under) expenditures and other financing uses	(2,161,312)	288,433	2,449,745
Fund balance appropriated	2,161,312	-	(2,161,312)
Net change in fund balance	\$ -	288,433	\$ 288,433
Fund balance - beginning		9,369,879	
Increase (decrease) in central purchasing inventory		(591)	
Fund balance - ending		\$ 9,657,721	



NONMAJOR GOVERNMENTAL FUNDS

(This Page Is Intentionally Blank)

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Community Development Grants Fund – accounts for the community and economic development grants. Proceeds from these grants are restricted for community and economic development purposes.

Controlled Substance Fund – accounts for the collected controlled substance revenues received from Federal, State, and County sources, which are restricted for public safety use.

Public Safety Grants Fund – accounts for monetary and equipment grants received from various agencies. Proceeds and equipment received from these grants are restricted for public safety use.

Special Tax District Fund – accounts for the special additional ad valorem property tax levied by the City, collected and contributed to Uptown Lexington, Inc. for the revitalization of the uptown area.

Economic Stimulus Grants Fund – accounts for federal stimulus grants authorized under the Housing and Economic Recovery Act of 2008 and the American Recovery and Reinvestment Act of 2009. Proceeds from these grants are restricted for the revitalization and stimulus of the local economy.

Capital Projects Fund

General Capital Projects Fund is used to account for multi-year capital improvement projects associated with the City's governmental funds and in conformity with the City's five-year business and capital improvement model. Improvements associated with proprietary operations are reported in the proprietary funds section. Projects currently accounted for in this fund are as follows:

- *2014 Public Buildings Improvements Project* – authorizes the renovation of the Municipal Club, now called “*Commons on the Green*” and City Hall.
- *Recreation Center Acquisition and Development Project* – authorizes the purchase of the Recreation Center facility and land and future renovations.
- *2014 Recreation Improvements Project* – authorizes the restoration of donated pool property, formally known as Hillside Pool, now called Lexington Aquatic Park.
- *2016 Recreation Improvements Project* – authorizes improvements to recreational facilities, including Washington Park and Holt-Moffitt Baseball Park.
- *Amphitheater Project* – authorizes construction of an outdoor amphitheater in the Depot District.
- *Lexington Business Center Project* – authorizes the development of the Lexington Business Park.
- *Multi-Modal Transportation Station Area Plan Project* – authorizes the preparation of construction and operational plans for the train station, platform and surrounding area of the Lexington Multi-Modal Transportation Station Area using TIGER II grant funding.
- *Lexington Furniture Industries, Inc. Plant #1 Project* – authorizes the development and maintenance of the Plant #1 property, funded by rental property revenues.



City of Lexington, North Carolina
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

Exhibit C-1

	Special Revenue Funds					Capital Projects	Total Nonmajor Governmental Funds
	Community Development Grants	Controlled Substance	Public Safety Grants	Special Tax District	Economic Stimulus Grants		
Assets							
Cash and cash equivalents	\$ -	\$ 183,372	\$ -	\$ 48,000	\$ -	\$ 567,809	\$ 799,181
Receivables (net)							
Taxes	-	-	-	4,381	-	-	4,381
Interest	-	46	-	-	-	46	92
Due from other governments	35,166	1,461	12,510	316	-	213,080	262,533
Restricted cash and cash equivalents							
Construction in progress - unexpended debt proceeds	-	-	-	-	-	1,461,134	1,461,134
Total assets	<u>\$ 35,166</u>	<u>\$ 184,879</u>	<u>\$ 12,510</u>	<u>\$ 52,697</u>	<u>\$ -</u>	<u>\$ 2,242,069</u>	<u>\$ 2,527,321</u>
Liabilities							
Accounts payable and accrued liabilities	\$ 35,166	\$ 1,976	\$ -	\$ -	\$ -	\$ 327,096	\$ 364,238
Due to other funds	-	-	1,805	-	-	75,000	76,805
Unearned revenue	-	-	-	-	-	9,780	9,780
Liabilities payable from restricted assets							
Accounts payable	-	-	-	-	-	160,852	160,852
Advance from other funds	-	-	-	-	-	45,000	45,000
Total liabilities	<u>35,166</u>	<u>1,976</u>	<u>1,805</u>	<u>-</u>	<u>-</u>	<u>617,728</u>	<u>656,675</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,381</u>	<u>-</u>	<u>14,591</u>	<u>18,972</u>

Continued on next page.

City of Lexington, North Carolina
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

Exhibit C-1
Continued

	Special Revenue Funds					Capital Projects	Total Nonmajor Governmental Funds
	Community Development Grants	Controlled Substance	Public Safety Grants	Special Tax District	Economic Stimulus Grants		
Fund balances							
Restricted							
Stabilization by state statute	\$ -	\$ 8,230	\$ -	\$ 316	\$ -	\$ -	\$ 8,546
Law enforcement	-	174,673	10,705	-	-	-	185,378
Urban redevelopment	-	-	-	48,000	-	-	48,000
Capital projects							
Recreation improvements	-	-	-	-	-	1,461,134	1,461,134
Business park development	-	-	-	-	-	171,963	171,963
Committed							
Public buildings improvements	-	-	-	-	-	138,456	138,456
Recreation improvements	-	-	-	-	-	119,771	119,771
Depot District Improvements	-	-	-	-	-	11,369	11,369
Unassigned	-	-	-	-	-	(292,943)	(292,943)
Total fund balances	<u>-</u>	<u>182,903</u>	<u>10,705</u>	<u>48,316</u>	<u>-</u>	<u>1,609,750</u>	<u>1,851,674</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 35,166</u>	<u>\$ 184,879</u>	<u>\$ 12,510</u>	<u>\$ 52,697</u>	<u>\$ -</u>	<u>\$ 2,242,069</u>	<u>\$ 2,527,321</u>

City of Lexington, North Carolina
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the fiscal year ended June 30, 2016

Exhibit C-2

	Special Revenue Funds					Capital Projects	Total Nonmajor Governmental Funds
	Community Development Grants	Controlled Substance	Public Safety Grants	Special Tax District	Economic Stimulus Grants		
Revenues							
Ad valorem taxes	\$ -	\$ -	\$ -	\$ 105,524	\$ -	\$ -	\$ 105,524
Restricted intergovernmental	1,207,997	24,309	24,616	-	-	164,107	1,421,029
Sales and services	-	-	-	-	-	112,689	112,689
Investment earnings	-	756	-	-	-	1,509	2,265
Miscellaneous	-	-	-	-	-	125,150	125,150
Total revenues	<u>1,207,997</u>	<u>25,065</u>	<u>24,616</u>	<u>105,524</u>	<u>-</u>	<u>403,455</u>	<u>1,766,657</u>
Expenditures							
General government	-	-	-	-	-	1,219,400	1,219,400
Public safety	-	42,182	50,201	-	-	-	92,383
Culture and recreation	-	-	-	-	-	685,990	685,990
Economic and physical development	1,207,997	-	-	106,509	-	324,983	1,639,489
Total expenditures	<u>1,207,997</u>	<u>42,182</u>	<u>50,201</u>	<u>106,509</u>	<u>-</u>	<u>2,230,373</u>	<u>3,637,262</u>
Revenues over (under) expenditures	<u>-</u>	<u>(17,117)</u>	<u>(25,585)</u>	<u>(985)</u>	<u>-</u>	<u>(1,826,918)</u>	<u>(1,870,605)</u>
Other financing sources (uses)							
Installment purchase obligations issued	-	-	-	-	-	1,707,000	1,707,000
Transfers from other funds							
General Fund	-	-	5,000	-	-	446,400	451,400
Controlled Substance Fund	-	-	31,290	-	-	-	31,290
Transfers to other funds							
Public Safety Grants Fund	-	(31,290)	-	-	-	-	(31,290)
Total other financing sources (uses)	<u>-</u>	<u>(31,290)</u>	<u>36,290</u>	<u>-</u>	<u>-</u>	<u>2,153,400</u>	<u>2,158,400</u>
Net change in fund balances	-	(48,407)	10,705	(985)	-	326,482	287,795
Fund balances - beginning	-	231,310	-	49,301	-	1,283,268	1,563,879
Fund balances - ending	<u>\$ -</u>	<u>\$ 182,903</u>	<u>\$ 10,705</u>	<u>\$ 48,316</u>	<u>\$ -</u>	<u>\$ 1,609,750</u>	<u>\$ 1,851,674</u>

City of Lexington, North Carolina
Community Development Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From inception and for the fiscal year ended June 30, 2016

Exhibit C-3

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
Restricted intergovernmental					
2012 Scattered Site Housing grant	\$ 225,000	\$ 15,845	\$ 204,400	\$ 220,245	\$ (4,755)
Masterbrand Cabinets Building Reuse Grant	750,000	-	750,000	750,000	-
Piedmont Candy Building Reuse Grant	750,000	-	253,597	253,597	(496,403)
Total revenues	<u>1,725,000</u>	<u>15,845</u>	<u>1,207,997</u>	<u>1,223,842</u>	<u>(501,158)</u>
Expenditures					
Economic and physical development					
2012 Scattered Site Housing grant	225,000	15,845	204,400	220,245	4,755
Masterbrand Cabinets Building Reuse Grant	750,000	-	750,000	750,000	-
Piedmont Candy Building Reuse Grant	750,000	-	253,597	253,597	496,403
Total expenditures	<u>1,725,000</u>	<u>15,845</u>	<u>1,207,997</u>	<u>1,223,842</u>	<u>501,158</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance - beginning			<u>-</u>		
Fund balance - ending			<u>\$ -</u>		

City of Lexington, North Carolina
Controlled Substance Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the fiscal year ended June 30, 2016

Exhibit C-4

	Budget	Actual	Variance Positive (Negative)
Revenues			
Restricted intergovernmental	\$	\$ 24,309	\$
Investment earnings	<u> </u>	<u> 756</u>	<u> </u>
Total revenues	<u> -</u>	<u> 25,065</u>	<u> 25,065</u>
 Expenditures			
Public safety			
Operations	<u> </u>	<u> 42,182</u>	<u> </u>
Total expenditures	<u> 59,152</u>	<u> 42,182</u>	<u> 16,970</u>
 Revenues over (under) expenditures	<u> (59,152)</u>	<u> (17,117)</u>	<u> 42,035</u>
 Other financing uses			
Transfers to other funds			
Public Safety Grants Fund	<u> (31,290)</u>	<u> (31,290)</u>	<u> -</u>
Total other financing uses	<u> (31,290)</u>	<u> (31,290)</u>	<u> -</u>
 Revenues over (under) expenditures and other financing uses	<u> (90,442)</u>	<u> (48,407)</u>	<u> 42,035</u>
 Fund balance appropriated	<u> 90,442</u>	<u> -</u>	<u> (90,442)</u>
 Net change in fund balance	<u> \$ -</u>	<u> (48,407)</u>	<u> \$ (48,407)</u>
 Fund balance - beginning		<u> 231,310</u>	
Fund balance - ending		<u> \$ 182,903</u>	

City of Lexington, North Carolina
Public Safety Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From inception and for the fiscal year ended June 30, 2016

Exhibit C-5

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
Restricted intergovernmental					
2015 Body-Worn Camera Grant Project	\$ 18,695	\$ -	\$ 11,215	\$ 11,215	\$ (7,480)
2015 Viper Radios Grant Project	13,401	-	13,401	13,401	-
Total revenues	<u>32,096</u>	<u>-</u>	<u>24,616</u>	<u>24,616</u>	<u>(7,480)</u>
Expenditures					
Public safety					
2015 Body-Worn Camera Grant Project	54,985	-	36,800	36,800	18,185
2015 Viper Radios Grant Project	13,401	-	13,401	13,401	-
Total expenditures	<u>68,386</u>	<u>-</u>	<u>50,201</u>	<u>50,201</u>	<u>18,185</u>
Revenues over (under) expenditures	<u>(36,290)</u>	<u>-</u>	<u>(25,585)</u>	<u>(25,585)</u>	<u>10,705</u>
Other financing sources					
2015 Body-Worn Camera Grant Project					
Transfers from other funds					
General Fund	5,000	-	5,000	5,000	-
Controlled Substance Fund	31,290	-	31,290	31,290	-
Total other financing sources	<u>36,290</u>	<u>-</u>	<u>36,290</u>	<u>36,290</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	10,705	<u>\$ 10,705</u>	<u>\$ 10,705</u>
Fund balance - beginning			-		
Fund balance - ending			<u>\$ 10,705</u>		

City of Lexington, North Carolina
Special Tax District Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the fiscal year ended June 30, 2016

Exhibit C-6

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Ad valorem taxes			
Current year	\$	\$ 100,240	\$
Prior year		5,425	
Discounts and refunds		(950)	
Penalties and interest		809	
Total revenues	<u>106,500</u>	<u>105,524</u>	<u>(976)</u>
Expenditures			
Economic and physical development			
Contribution to Uptown Lexington, Inc. - special district property tax		<u>106,509</u>	
Total expenditures	<u>106,500</u>	<u>106,509</u>	<u>(9)</u>
Revenues over (under) expenditures	<u>-</u>	<u>(985)</u>	<u>(985)</u>
Net change in fund balance	<u>\$ -</u>	<u>(985)</u>	<u>\$ (985)</u>
Fund balance - beginning		<u>49,301</u>	
Fund balance - ending		<u>\$ 48,316</u>	

City of Lexington, North Carolina
Economic Stimulus Grants Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From inception and for the fiscal year ended June 30, 2016

Exhibit C-7

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Restricted intergovernmental					
Neighborhood Stabilization Program grant	\$ 2,100,000	\$ 2,100,000	\$ -	\$ 2,100,000	\$ -
Program income	283,552	283,551	-	283,551	(1)
Total revenues	<u>2,383,552</u>	<u>2,383,551</u>	<u>-</u>	<u>2,383,551</u>	<u>(1)</u>
Expenditures					
Economic and physical development					
Neighborhood Stabilization Program grant	2,541,152	2,541,151	-	2,541,151	1
Total expenditures	<u>2,541,152</u>	<u>2,541,151</u>	<u>-</u>	<u>2,541,151</u>	<u>1</u>
Revenues over (under) expenditures	<u>(157,600)</u>	<u>(157,600)</u>	<u>-</u>	<u>(157,600)</u>	<u>-</u>
Other financing sources					
Transfers from other funds					
General Fund	157,600	157,600	-	157,600	-
Total other financing sources	<u>157,600</u>	<u>157,600</u>	<u>-</u>	<u>157,600</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance - beginning			-		
Fund balance - ending			<u>\$ -</u>		

City of Lexington, North Carolina
Nonmajor General Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From inception and for the fiscal year ended June 30, 2016

Exhibit C-8

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
2014 Public Buildings Improvements Project					
Investment earnings	\$ -	\$ 272	\$ 136	\$ 408	\$ 408
Total	<u>-</u>	<u>272</u>	<u>136</u>	<u>408</u>	<u>408</u>
Recreation Center Acquisition and Development Project					
Sales and services					
Property rental	-	-	2,500	2,500	2,500
Miscellaneous					
Donations	125,000	25,000	25,000	50,000	(75,000)
Total	<u>125,000</u>	<u>25,000</u>	<u>27,500</u>	<u>52,500</u>	<u>(72,500)</u>
2014 Recreation Improvements Project					
Investment earnings	66	61	5	66	-
Total	<u>66</u>	<u>61</u>	<u>5</u>	<u>66</u>	<u>-</u>
2016 Recreation Improvements Project					
Restricted intergovernmental	217,500	-	164,107	164,107	(53,393)
Investment earnings	-	-	50	50	50
Total	<u>217,500</u>	<u>-</u>	<u>164,157</u>	<u>164,157</u>	<u>(53,343)</u>
Amphitheater Project					
Miscellaneous					
Donations	200,000	-	100,000	100,000	(100,000)
Total	<u>200,000</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>(100,000)</u>
Lexington Business Center Project					
Restricted intergovernmental	1,817,500	1,817,500	-	1,817,500	-
Investment earnings	150,896	155,131	1,318	156,449	5,553
Miscellaneous					
Reimbursement of costs	211,261	211,261	-	211,261	-
Sale of property	2,119,788	2,119,788	-	2,119,788	-
Donations	107,500	107,500	-	107,500	-
Total	<u>4,406,945</u>	<u>4,411,180</u>	<u>1,318</u>	<u>4,412,498</u>	<u>5,553</u>
Multi-Modal Transportation Station Area Plan Project					
Restricted intergovernmental					
Tiger II Planning grant	700,000	685,409	-	685,409	(14,591)
Total	<u>700,000</u>	<u>685,409</u>	<u>-</u>	<u>685,409</u>	<u>(14,591)</u>

Continued on next page.

City of Lexington, North Carolina
Nonmajor General Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From inception and for the fiscal year ended June 30, 2016

Exhibit C-8
continued

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Lexington Furniture Industries, Inc. Plant #1 Project					
Sales and services					
Property rental	\$ 652,791	\$ 543,467	\$ 110,189	\$ 653,656	\$ 865
Miscellaneous					
Sale of materials	67,272	67,273	150	67,423	151
Total	<u>720,063</u>	<u>610,740</u>	<u>110,339</u>	<u>721,079</u>	<u>1,016</u>
Total revenues	<u>6,369,574</u>	<u>5,732,662</u>	<u>403,455</u>	<u>6,136,117</u>	<u>(233,457)</u>
Expenditures					
General government					
2014 Public Buildings Improvements Project	<u>2,226,000</u>	<u>868,552</u>	<u>1,219,400</u>	<u>2,087,952</u>	<u>138,048</u>
Total general government	<u>2,226,000</u>	<u>868,552</u>	<u>1,219,400</u>	<u>2,087,952</u>	<u>138,048</u>
Culture and recreation					
Recreation Center Acquisition and Development Project	650,000	430,000	55,000	485,000	165,000
2014 Recreation Improvements Project	670,466	665,580	4,886	670,466	-
2016 Recreation Improvements Project	1,924,500	-	570,875	570,875	1,353,625
Amphitheater Project	<u>275,000</u>	<u>-</u>	<u>55,229</u>	<u>55,229</u>	<u>219,771</u>
Total culture and recreation	<u>3,519,966</u>	<u>1,095,580</u>	<u>685,990</u>	<u>1,781,570</u>	<u>1,738,396</u>
Economic and physical development					
Lexington Business Center Project	5,679,470	5,513,060	-	5,513,060	166,410
Multi-Modal Transportation Station Area Plan Project	700,000	685,409	14,591	700,000	-
Lexington Furniture Industries, Inc. Plant #1 Project	<u>1,870,063</u>	<u>1,549,318</u>	<u>310,392</u>	<u>1,859,710</u>	<u>10,353</u>
Total economic and physical development	<u>8,249,533</u>	<u>7,747,787</u>	<u>324,983</u>	<u>8,072,770</u>	<u>176,763</u>
Total expenditures	<u>13,995,499</u>	<u>9,711,919</u>	<u>2,230,373</u>	<u>11,942,292</u>	<u>2,053,207</u>
Revenues over (under) expenditures	<u>(7,625,925)</u>	<u>(3,979,257)</u>	<u>(1,826,918)</u>	<u>(5,806,175)</u>	<u>1,819,750</u>
Other financing sources (uses)					
2014 Public Buildings Improvements Project					
Installment purchase obligations issued	1,739,600	1,706,000	33,600	1,739,600	-
Transfers from other funds					
General Fund	<u>486,400</u>	<u>220,000</u>	<u>266,400</u>	<u>486,400</u>	<u>-</u>
Total	<u>2,226,000</u>	<u>1,926,000</u>	<u>300,000</u>	<u>2,226,000</u>	<u>-</u>

Continued on next page.

City of Lexington, North Carolina
Nonmajor General Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From inception and for the fiscal year ended June 30, 2016

Exhibit C-8
continued

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Recreation Center Acquisition and Development Project					
Transfers from other funds					
General Fund	\$ 525,000	\$ 210,000	\$ 105,000	\$ 315,000	\$ (210,000)
Total	<u>525,000</u>	<u>210,000</u>	<u>105,000</u>	<u>315,000</u>	<u>(210,000)</u>
2014 Recreation Improvements Project					
Installment purchase obligations issued	670,400	704,000	(33,600)	670,400	-
Total	<u>670,400</u>	<u>704,000</u>	<u>(33,600)</u>	<u>670,400</u>	<u>-</u>
2016 Recreation Improvements Project					
Installment purchase obligations issued	1,707,000	-	1,707,000	1,707,000	-
Total	<u>1,707,000</u>	<u>-</u>	<u>1,707,000</u>	<u>1,707,000</u>	<u>-</u>
Amphitheater Project					
Transfers from other funds					
General Fund	75,000	-	75,000	75,000	-
Total	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Lexington Business Center Project					
Transfers from other funds					
General Fund	1,411,825	1,411,825	-	1,411,825	-
Natural Gas Fund	79,700	79,700	-	79,700	-
Transfers to other funds					
General Fund	(219,000)	(219,000)	-	(219,000)	-
Total	<u>1,272,525</u>	<u>1,272,525</u>	<u>-</u>	<u>1,272,525</u>	<u>-</u>
Lexington Furniture Industries, Inc. Plant #1 Project					
Transfers from other funds					
General Fund	1,150,000	1,150,000	-	1,150,000	-
Total	<u>1,150,000</u>	<u>1,150,000</u>	<u>-</u>	<u>1,150,000</u>	<u>-</u>
Total other financing sources (uses)	<u>7,625,925</u>	<u>5,262,525</u>	<u>2,153,400</u>	<u>7,415,925</u>	<u>(210,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,283,268</u>	326,482	<u>\$ 1,609,750</u>	<u>\$ 1,609,750</u>
Fund balance - beginning			1,283,268		
Fund balance - ending			<u>\$ 1,609,750</u>		

(This page is intentionally blank.)



ENTERPRISE FUNDS

(This Page Is Intentionally Blank)

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises.

Electric Fund – This fund provides electric distribution service to residential, commercial and industrial customers, both inside and outside the city limits. This self-supporting fund has revenues sufficient to meet the operating expenses and provide funds for electric line construction. These revenues are also used to provide for principal and interest on Electric Fund debt.

Water and Wastewater Fund – This fund accounts for water treatment and distribution as well as wastewater treatment and collection for users primarily within the city limits. This self-supporting fund has revenues sufficient to meet the operating expenses and provide funds for water and wastewater line construction. These revenues are also used to provide for principal and interest on Water and Wastewater Fund debt.

Natural Gas Fund – This fund provides natural gas distribution services to residential, commercial and industrial customers, both inside and outside the city limits. This self-supporting fund has revenues sufficient to meet the operating expenses and provide funds for natural gas line construction. These revenues are also used to provide for principal and interest on Natural Gas Fund debt.

Golf Fund – This fund accounts for the activities at the Lexington Municipal Golf Course. This fund has revenues that primarily sustain the operating expenses for the course. These revenues along with a transfer from the General Fund are also used to provide for principal and interest on Golf Fund debt.



City of Lexington, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-1

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Charges for sales and services			
Residential	\$	\$ 28,240,931	\$
Commercial		17,647,803	
Industrial		2,913,663	
Area lights		852,821	
Street lighting		341,955	
Traffic lights		22,675	
Cable amplifiers		167,900	
Renewable Energy Portfolio Standards		196,934	
Other operating		295,132	
Total operating revenues	51,947,036	50,679,814	(1,267,222)
Nonoperating revenues			
Investment earnings		36,788	
Sale of property		9,722	
Total nonoperating revenues	20,100	46,510	26,410
Total revenues	51,967,136	50,726,324	(1,240,812)

Continued on next page.

City of Lexington, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-1
continued

	Budget	Actual	Variance Positive (Negative)
Expenditures			
Electric operations			
Salaries and employee benefits	\$	\$ 1,602,659	\$
Maintenance		638,366	
Cost of sales and services		1,688,583	
Purchases for resale		40,618,065	
Administrative charges general fund		755,961	
Administrative charges risk management fund		111,063	
Administrative charges utility administration fund		974,362	
Capital outlay		424,952	
Total electric operations	48,246,291	46,814,011	1,432,280
Debt service			
Principal retirement		695,466	
Interest and other charges		118,925	
Total debt service	944,684	814,391	130,293
Total expenditures	49,190,975	47,628,402	1,562,573
Revenues over expenditures	2,776,161	3,097,922	321,761
Other financing sources (uses)			
Transfers to other funds			
General Fund	(1,275,000)	(1,275,000)	-
General Fund (payment in lieu of taxes)	(181,161)	(181,161)	-
Electric Fund construction in progress	(640,000)	(640,000)	-
Utility Administration Fund	(130,000)	(130,000)	-
Capital Reserve Fund	(585,000)	(585,000)	-
Total other financing sources (uses)	(2,811,161)	(2,811,161)	-
Revenues and other financing sources over (under) expenditures and other financing uses	(35,000)	286,761	321,761
Appropriated net position	35,000	-	(35,000)
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses	\$ -	286,761	\$ 286,761

Continued on next page.

City of Lexington, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-1
continued

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual basis			
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses		\$ 286,761	
Reconciling items			
Principal retirement		695,466	
Capital outlay		424,952	
Depreciation		(998,503)	
Wages and overhead charged to construction		184,745	
Materials charged to construction		101,466	
Gain (loss) on sale of property		(15,420)	
Increase (decrease) in inventory		25,386	
Bad debt expense		(299,974)	
Change in accrued interest		(22,824)	
(Increase) decrease in compensated absences payable		(1,361)	
(Increase) decrease in other postemployment benefits		(10,698)	
Increase (decrease) in net pension asset		(114,464)	
Increase (decrease) in deferred outflow of resources - pensions		(593)	
(Increase) decrease in net pension liability		(90,177)	
(Increase) decrease in deferred inflows of resources - pensions		228,964	
Items related to subfund - electric construction in progress fund			
Investment earnings		240	
CIP grants for non-capital items		620,735	
CIP expense not capitalized		(1,980,013)	
Transfer from Electric Fund		640,000	
Total reconciling items		(612,073)	
Change in net position		\$ (325,312)	

City of Lexington, North Carolina
Electric Construction in Progress Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)

Exhibit D-2

From inception and for the fiscal year ended June 30, 2016

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
Restricted intergovernmental	\$ 1,277,189	\$ 46,368	\$ 619,872	\$ 666,240	\$ (610,949)
Investment earnings	-	139	240	379	379
Miscellaneous	-	-	863	863	863
Total revenues	<u>1,277,189</u>	<u>46,507</u>	<u>620,975</u>	<u>667,482</u>	<u>(609,707)</u>
Expenditures					
2014 Electric system improvements	1,813,000	1,161,803	485,469	1,647,272	165,728
Winston Road bridge relocation	1,037,780	13,532	763,369	776,901	260,879
East Center Street bridge	239,409	44,108	137,515	181,623	57,786
Abbotts Creek 44kV line	640,000	-	594,343	594,343	45,657
Electric Operations Center	3,306,000	-	516,654	516,654	2,789,346
Total expenditures	<u>7,036,189</u>	<u>1,219,443</u>	<u>2,497,350</u>	<u>3,716,793</u>	<u>3,319,396</u>
Revenues over (under) expenditures	<u>(5,759,000)</u>	<u>(1,172,936)</u>	<u>(1,876,375)</u>	<u>(3,049,311)</u>	<u>2,709,689</u>
Other financing sources (uses)					
Installment purchase debt issued	5,119,000	1,813,000	3,306,000	5,119,000	-
Transfers from other funds					
Operating fund	1,872,000	1,232,000	640,000	1,872,000	-
Transfers to other funds					
Operating fund	<u>(1,232,000)</u>	<u>(1,232,000)</u>	<u>-</u>	<u>(1,232,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>5,759,000</u>	<u>1,813,000</u>	<u>3,946,000</u>	<u>5,759,000</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 640,064</u>	<u>\$ 2,069,625</u>	<u>\$ 2,709,689</u>	<u>\$ 2,709,689</u>

City of Lexington, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-3

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Charges for sales and services - Water			
Residential	\$	\$ 1,816,567	\$
Commercial		875,633	
Industrial		1,066,092	
Other water charges		23,114	
Charges for sales and services - Wastewater			
Residential		2,565,577	
Commercial		1,706,524	
Industrial		323,939	
Other wastewater charges		30,427	
Other operating		188,028	
Total operating revenues	8,677,554	8,595,901	(81,653)
Nonoperating revenues			
Federal Build America Bond interest credit		8,492	
Investment earnings		25,440	
Total nonoperating revenues	22,968	33,932	10,964
Total revenues	8,700,522	8,629,833	(70,689)

Continued on next page.

City of Lexington, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-3
continued

	Budget	Actual	Variance Positive (Negative)
Expenditures			
Water and wastewater operations			
Water and wastewater administration			
Salaries and employee benefits	\$	\$ 226,471	\$
Cost of sales and services		40,244	
Administrative charges general fund		664,421	
Administrative charges risk management fund		154,948	
Administrative charges utility administration fund		410,057	
Total water and wastewater administration	1,528,614	1,496,141	32,473
Water plant			
Salaries and employee benefits		707,316	
Maintenance		80,764	
Cost of sales and services		727,473	
Capital outlay		23,140	
Total water plant	1,749,066	1,538,693	210,373
Wastewater plant			
Salaries and employee benefits		1,125,158	
Maintenance		139,312	
Cost of sales and services		965,862	
Capital outlay		7,860	
Total wastewater plant	2,753,466	2,238,192	515,274
Public works, maintenance, and construction			
Salaries and employee benefits		810,332	
Maintenance		218,381	
Cost of sales and services		370,031	
Capital outlay		51,204	
Total public works, maintenance, and construction	1,764,703	1,449,948	314,755
Total water and wastewater operations	7,795,849	6,722,974	1,072,875

Continued on next page.

City of Lexington, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-3
continued

	Budget	Actual	Variance Positive (Negative)
Debt service			
Principal retirement	\$	\$ 829,938	\$
Interest and other charges		70,552	
Total debt service	900,495	900,490	5
Total expenditures	8,696,344	7,623,464	1,072,880
Revenue over expenditures	4,178	1,006,369	1,002,191
Other financing sources (uses)			
Transfers from other funds			
Capital Reserve Fund	260,090	260,090	-
Transfers to other funds			
General Fund (payment in lieu of taxes)	(332,020)	(332,020)	-
Utility Administration Fund	(58,000)	(58,000)	-
Capital Reserve Fund	(75,000)	(75,000)	-
Total other financing sources (uses)	(204,930)	(204,930)	-
Revenues and other financing sources over (under) expenditures and other financing uses	(200,752)	801,439	1,002,191
Appropriated net position	200,752	-	(200,752)
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses	\$ -	801,439	\$ 801,439

Continued on next page.

City of Lexington, North Carolina
Water and Wastewater Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-3
continued

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual basis			
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses		\$ 801,439	
Reconciling items			
Principal retirement		829,938	
Capital outlay		82,204	
Depreciation		(1,270,280)	
Wages and overhead charged to construction		34,929	
Material charged to construction		28,892	
Increase (decrease) in inventory		(20,469)	
Bad debt expense		(57,947)	
Change in accrued interest		1,598	
(Increase) decrease in compensated absences payable		(10,712)	
(Increase) decrease in other postemployment benefits		(18,653)	
Increase (decrease) in net pension asset		(192,224)	
Increase (decrease) in deferred outflow of resources - pensions		3,059	
(Increase) decrease in net pension liability		(156,130)	
(Increase) decrease in deferred inflows of resources - pensions		381,908	
Change in equity interest in joint venture		(7,800)	
Total reconciling items		(371,687)	
Change in net position		\$ 429,752	

City of Lexington, North Carolina
Water and Wastewater Construction in Progress Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From inception and for the fiscal year ended June 30, 2016

Exhibit D-4

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
None	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures					
Brown Street Force Main	200,000	5,000	34,873	39,873	160,127
Drying Beds	146,000	121,962	8,047	130,009	15,991
Total expenditures	<u>346,000</u>	<u>126,962</u>	<u>42,920</u>	<u>169,882</u>	<u>176,118</u>
Revenues over (under) expenditures	<u>(346,000)</u>	<u>(126,962)</u>	<u>(42,920)</u>	<u>(169,882)</u>	<u>176,118</u>
Other financing sources					
Transfers from other funds					
Operating fund	346,000	346,000	-	346,000	-
Total other financing sources	<u>346,000</u>	<u>346,000</u>	<u>-</u>	<u>346,000</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 219,038</u>	<u>\$ (42,920)</u>	<u>\$ 176,118</u>	<u>\$ 176,118</u>

City of Lexington, North Carolina
Natural Gas Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-5

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Charges for sales and services			
Residential	\$	\$ 3,782,526	\$
Commercial		3,393,786	
Industrial		2,548,881	
Other operating		246,147	
Total operating revenues	13,009,455	9,971,340	(3,038,115)
Nonoperating revenues			
Federal Build America Bond interest credit		24,061	
Investment earnings		25,085	
Sale of property		5,355	
Total nonoperating revenues	36,182	54,501	18,319
Total revenues	13,045,637	10,025,841	(3,019,796)

Continued on next page.

City of Lexington, North Carolina
Natural Gas Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-5
continued

	Budget	Actual	Variance Positive (Negative)
Expenditures			
Natural gas operations			
Salaries and employee benefits	\$	\$ 1,254,595	\$
Maintenance		320,022	
Cost of sales and services		1,413,793	
Purchases for resale		3,882,486	
Administrative charges general fund		639,153	
Administrative charges risk management fund		81,398	
Administrative charges utility administration fund		652,936	
Capital outlay		71,773	
Total natural gas operations	11,609,054	8,316,156	3,292,898
Debt service			
Principal retirement		376,050	
Interest and other charges		149,620	
Total debt service	528,530	525,670	2,860
Total expenditures	12,137,584	8,841,826	3,295,758
Revenues over expenditures	908,053	1,184,015	275,962
Other financing sources (uses)			
Transfers from other funds			
Capital Reserve Fund	191,694	191,694	-
Transfers to other funds			
General Fund	(939,882)	(939,882)	-
General Fund (payment in lieu of taxes)	(71,624)	(71,624)	-
Natural Gas Fund construction in progress	(40,000)	(40,000)	-
Utility Administration Fund	(62,000)	(62,000)	-
Total other financing uses	(921,812)	(921,812)	-
Revenues and other financing sources over (under) expenditures and other financing uses	(13,759)	262,203	275,962
Appropriated net position	13,759	-	(13,759)
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses	\$ -	262,203	\$ 262,203

Continued on next page.

City of Lexington, North Carolina
Natural Gas Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-5
continued

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual basis			
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses		\$ 262,203	
Reconciling items:			
Principal retirement		376,050	
Capital outlay		71,773	
Depreciation		(561,600)	
Wages and overhead charged to construction		664,403	
Materials charged to construction		171,256	
Gain (loss) on sale of property		(18,299)	
Increase (decrease) in inventory		43,547	
Bad debt expense		(22,373)	
Change in accrues interest		4,167	
(Increase) decrease in compensated absences payable		(9,649)	
(Increase) decrease in other postemployment benefits		(8,123)	
Increase (decrease) in net pension asset		(88,207)	
Increase (decrease) in deferred outflow of resources - pensions		(3,192)	
(Increase) decrease in net pension liability		(66,326)	
(Increase) decrease in deferred inflows of resources - pensions		178,199	
Items related to subfund - natural gas construction in progress fund			
Transfer from Natural Gas Fund		40,000	
Total reconciling items		771,626	
Change in net position		\$ 1,033,829	

City of Lexington, North Carolina
Natural Gas Construction in Progress Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From inception and for the fiscal year ended June 30, 2016

Exhibit D-6

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
None	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures					
Natural Gas Training Qualification Center	160,000	74,439	20,875	95,314	64,686
Total expenditures	<u>160,000</u>	<u>74,439</u>	<u>20,875</u>	<u>95,314</u>	<u>64,686</u>
Revenues over (under) expenditures	<u>(160,000)</u>	<u>(74,439)</u>	<u>(20,875)</u>	<u>(95,314)</u>	<u>64,686</u>
Other financing sources					
Transfers from other funds					
Operating fund	160,000	120,000	40,000	160,000	-
Total other financing sources	<u>160,000</u>	<u>120,000</u>	<u>40,000</u>	<u>160,000</u>	<u>-</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 45,561</u>	<u>\$ 19,125</u>	<u>\$ 64,686</u>	<u>\$ 64,686</u>

City of Lexington, North Carolina
Golf Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-7

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Charges for sales and services			
Golf course	\$	\$ 329,351	\$
Golf cart rentals		273,243	
Municipal club rental		34,552	
Other operating		9,985	
Total operating revenues	650,562	647,131	(3,431)
Nonoperating revenues			
Investment earnings		104	
Sale of property		6,060	
Total nonoperating revenues	382	6,164	5,782
Total revenues	650,944	653,295	2,351

Continued on next page.

City of Lexington, North Carolina
Golf Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-7
continued

	Budget	Actual	Variance Positive (Negative)
Expenditures			
Golf operations			
Salaries and employee benefits	\$	\$ 450,365	\$
Cost of sales and services		276,045	
Administrative charges risk management fund		20,784	
Capital outlay		37,737	
Total operating expenditures	814,033	784,931	29,102
Debt service			
Principal retirement		148,559	
Interest and other charges		20,172	
Total debt service	194,699	168,731	25,968
Total expenditures	1,008,732	953,662	55,070
Revenues over (under) expenditures	(357,788)	(300,367)	57,421
Other financing sources			
Transfers from other funds			
General Fund	319,484	319,484	-
Total other financing sources	319,484	319,484	-
Revenues and other financing sources over (under) expenditures	(38,304)	19,117	57,421
Appropriated net position	38,304	-	(38,304)
Revenues, other financing sources, and appropriated net position over (under) expenditures	\$ -	19,117	\$ 19,117

Continued on next page.

City of Lexington, North Carolina
Golf Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit D-7
continued

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual basis			
Revenues, other financing sources, and appropriated net position over (under) expenditures		\$ 19,117	
Reconciling items:			
Principal retirements		148,559	
Capital outlay		37,737	
Depreciation		(105,890)	
Gain (loss) on sale of property		(4,742)	
Contributions of capital assets		554	
Change in accrued interest		479	
(Increase) decrease in compensated absences payable		292	
(Increase) decrease in other postemployment benefits		(2,736)	
Increase (decrease) in net pension asset		(29,353)	
Increase (decrease) in deferred outflow of resources - pensions		12	
(Increase) decrease in net pension liability		(23,315)	
(Increase) decrease in deferred inflows of resources - pensions		58,611	
Total reconciling items		80,208	
Change in net position		\$ 99,325	



INTERNAL SERVICE FUNDS

(This Page Is Intentionally Blank)

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments on a cost reimbursement basis.

Fleet Management Fund – This fund accounts for the costs of required fuel and maintenance to the City's on-road and off-road vehicles and equipment. The costs of providing this service are billed to the user departments. Certain types of vehicles and equipment are acquired by the individual departments. This fund also maintains a motor pool fleet of cars, trucks (one ton or less), and general purpose equipment, which are rented out to the individual departments. Revenues earned from this activity are used to cover maintenance costs and to provide funding for replacement of such vehicles and equipment in the future. Monies received for vehicle and equipment replacement is held in the Capital Reserve Fund until needed.

Group Insurance Fund – This fund was established as a self-insurance fund for employee health and dental coverage. The City pays the majority of premium costs for its active employees. This fund accounts for City and employee premium contributions as well as payments to a third-party administrator for total claims, stop-loss premiums, and administrative charges.

Risk Management Fund – This fund accounts for the City's self-insured workers' compensation program, general and property liability and life and disability insurance. Claims review and handling is provided by a third-party administrator to whom premiums are paid for coverage after self-insured retentions are met as well as administrative charges. Costs of this fund are shared directly or indirectly by all participating funds that have employees, property, and various liability risks.

Utility Administration Fund – This fund provides management, billing/collections, warehousing, meter reading, and marketing services to the Electric, Water and Wastewater, and Natural Gas utilities. The fund also provides billing/collections for the General Fund for recycling and waste collection services. The four aforementioned funds are charged as user departments to recover the total cost of this fund. Charges to the user departments are prorated based on their operational budgets and number of customers.

Capital Reserve Fund – This fund provides for the accumulation of resources for future capital needs of the Electric, Water and Wastewater, and Natural Gas utilities as well as for future capital needs of the Internal Service Fleet Management Fund.

Rate Stabilization Fund – This fund provides for the accumulation of resources for rate stabilization for the Electric and Natural Gas utilities.



City of Lexington, North Carolina
Internal Service Funds
Combining Statement of Fund Net Position
June 30, 2016

Exhibit E-1

	Governmental-type Activities			Business-type Activities			Total Internal Service Funds
	Fleet Management	Group Insurance	Risk Management	Utility Administration	Capital Reserve	Rate Stabilization	
Assets							
Current assets							
Cash and cash equivalents	\$ 170,389	\$ 481,988	\$ 1,550,326	\$ 1,119,431	\$ -	\$ -	\$ 3,322,134
Receivables (net)							
Accounts - billed	604	58,906	-	87,612	-	-	147,122
Interest	170	679	373	258	-	283	1,763
Due from other governments	40,713	209	13,028	9,329	-	-	63,279
Restricted cash and cash equivalents							
Construction in progress - unexpended debt proceeds	-	-	-	2,327,028	-	-	2,327,028
Inventories	158,696	-	-	-	-	-	158,696
Prepaid items	-	-	-	17,000	-	-	17,000
Total current assets	<u>370,572</u>	<u>541,782</u>	<u>1,563,727</u>	<u>3,560,658</u>	<u>-</u>	<u>283</u>	<u>6,037,022</u>
Noncurrent assets							
Designated cash and cash equivalents							
Electric fund	-	-	-	-	1,851,873	605,255	2,457,128
Water and wastewater fund	-	-	-	-	1,342,527	-	1,342,527
Water and wastewater fund - capital recovery	-	-	-	-	1,836,382	-	1,836,382
Natural gas fund	-	-	-	-	1,008,224	496,063	1,504,287
Fleet management fund	-	-	-	-	487,322	-	487,322
Group insurance fund	-	2,666,241	-	-	-	-	2,666,241
Capital assets							
Land and other non-depreciable assets	15,000	-	-	481,873	-	-	496,873
Other capital assets, net of accumulated depreciation	1,315,129	-	11,433	3,357,632	-	-	4,684,194
Total capital assets	<u>1,330,129</u>	<u>-</u>	<u>11,433</u>	<u>3,839,505</u>	<u>-</u>	<u>-</u>	<u>5,181,067</u>
Total noncurrent assets	<u>1,330,129</u>	<u>2,666,241</u>	<u>11,433</u>	<u>3,839,505</u>	<u>6,526,328</u>	<u>1,101,318</u>	<u>15,474,954</u>
Total assets	<u>1,700,701</u>	<u>3,208,023</u>	<u>1,575,160</u>	<u>7,400,163</u>	<u>6,526,328</u>	<u>1,101,601</u>	<u>21,511,976</u>
Deferred outflows of resources	<u>21,138</u>	<u>2,899</u>	<u>9,194</u>	<u>58,504</u>	<u>-</u>	<u>-</u>	<u>91,735</u>

Continued on next page.

City of Lexington, North Carolina
Internal Service Funds
Combining Statement of Fund Net Position
June 30, 2016

Exhibit E-1
continued

	Governmental-type Activities			Business-type Activities			Total Internal Service Funds
	Fleet Management	Group Insurance	Risk Management	Utility Administration	Capital Reserve	Rate Stabilization	
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	\$ 44,990	\$ 6,989	\$ 39,377	\$ 213,391	\$ -	\$ -	\$ 304,747
Unpaid claims costs	-	481,988	200,413	-	-	-	682,401
Compensated absences	18,000	-	16,000	48,000	-	-	82,000
Installment purchases payable	-	-	-	167,600	-	-	167,600
Liabilities payable from restricted assets							
Accounts payable and accrued liabilities	-	-	-	49,435	-	-	49,435
Total current liabilities	<u>62,990</u>	<u>488,977</u>	<u>255,790</u>	<u>478,426</u>	<u>-</u>	<u>-</u>	<u>1,286,183</u>
Noncurrent liabilities							
Compensated absences	1,992	-	1,021	28,860	-	-	31,873
Other postemployment benefits	139,775	428	52,310	417,805	-	-	610,318
Net pension liability	24,462	3,355	10,640	67,705	-	-	106,162
Installment purchases payable	-	-	-	2,346,400	-	-	2,346,400
Total noncurrent liabilities	<u>166,229</u>	<u>3,783</u>	<u>63,971</u>	<u>2,860,770</u>	<u>-</u>	<u>-</u>	<u>3,094,753</u>
Total liabilities	<u>229,219</u>	<u>492,760</u>	<u>319,761</u>	<u>3,339,196</u>	<u>-</u>	<u>-</u>	<u>4,380,936</u>
Deferred inflows of resources	13,567	1,861	5,901	37,549	-	-	58,878
Net position							
Net investment in capital assets	1,330,129	-	11,433	3,652,533	-	-	4,994,095
Unrestricted	148,924	2,716,301	1,247,259	429,389	6,526,328	1,101,601	12,169,802
Total net position	<u>\$ 1,479,053</u>	<u>\$ 2,716,301</u>	<u>\$ 1,258,692</u>	<u>\$ 4,081,922</u>	<u>\$ 6,526,328</u>	<u>\$ 1,101,601</u>	<u>\$ 17,163,897</u>

City of Lexington, North Carolina

Exhibit E-2

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
For the fiscal year ended June 30, 2016

	Governmental-type Activities			Business-type Activities			Total Internal Service Funds
	Fleet Management	Group Insurance	Risk Management	Utility Administration	Capital Reserve	Rate Stabilization	
Operating revenues							
Charges for services	\$ 1,570,970	\$ 6,034,915	\$ 1,389,023	\$ 2,297,744	\$ -	\$ -	\$ 11,292,652
Other operating	8,961	92,039	223,450	485,089	82,045	-	891,584
Total operating revenues	<u>1,579,931</u>	<u>6,126,954</u>	<u>1,612,473</u>	<u>2,782,833</u>	<u>82,045</u>	<u>-</u>	<u>12,184,236</u>
Operating expenses							
Cost of sales and services	1,197,510	-	-	-	-	-	1,197,510
Administration	-	325,554	255,539	2,510,993	-	-	3,092,086
Premiums	-	523,460	531,746	-	-	-	1,055,206
Claims	-	5,441,614	828,463	-	-	-	6,270,077
Bad debt expense	-	-	-	44,485	-	-	44,485
Depreciation	173,000	-	1,549	506,533	-	-	681,082
Total operating expenses	<u>1,370,510</u>	<u>6,290,628</u>	<u>1,617,297</u>	<u>3,062,011</u>	<u>-</u>	<u>-</u>	<u>12,340,446</u>
Operating income (loss)	<u>209,421</u>	<u>(163,674)</u>	<u>(4,824)</u>	<u>(279,178)</u>	<u>82,045</u>	<u>-</u>	<u>(156,210)</u>
Nonoperating revenues (expenses)							
Investment earnings	3,265	10,561	5,312	3,120	-	4,007	26,265
Gain (loss) on sale of property	12,533	-	-	-	-	-	12,533
Interest and other charges	-	-	-	(18,478)	-	-	(18,478)
Total nonoperating revenues (expenses)	<u>15,798</u>	<u>10,561</u>	<u>5,312</u>	<u>(15,358)</u>	<u>-</u>	<u>4,007</u>	<u>20,320</u>
Income (loss) before transfers	225,219	(153,113)	488	(294,536)	82,045	4,007	(135,890)

Continued on next page.

**City of Lexington, North Carolina
Internal Service Funds**

**Exhibit E-2
*continued***

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
For the fiscal year ended June 30, 2016**

	Governmental-type Activities			Business-type Activities			Total Internal Service Funds
	Fleet Management	Group Insurance	Risk Management	Utility Administration	Capital Reserve	Rate Stabilization	
Transfers from other funds							
Electric Fund	\$ -	\$ -	\$ -	\$ 130,000	\$ 585,000	\$ -	\$ 715,000
Water and Wastewater Fund	-	-	-	58,000	75,000	-	133,000
Natural Gas Fund	-	-	-	62,000	-	-	62,000
Fleet Management Fund	-	-	-	-	320,279	-	320,279
Capital Reserve Fund	355,176	-	-	-	-	-	355,176
Transfers to other funds							
Water and Wastewater Fund	-	-	-	-	(260,090)	-	(260,090)
Natural Gas Fund	-	-	-	-	(191,694)	-	(191,694)
Fleet Management Fund	-	-	-	-	(355,176)	-	(355,176)
Capital Reserve Fund	(320,279)	-	-	-	-	-	(320,279)
Change in net position	260,116	(153,113)	488	(44,536)	255,364	4,007	322,326
Net position - beginning	<u>1,218,937</u>	<u>2,869,414</u>	<u>1,258,204</u>	<u>4,126,458</u>	<u>6,270,964</u>	<u>1,097,594</u>	<u>16,841,571</u>
Net position - ending	<u>\$ 1,479,053</u>	<u>\$ 2,716,301</u>	<u>\$ 1,258,692</u>	<u>\$ 4,081,922</u>	<u>\$ 6,526,328</u>	<u>\$ 1,101,601</u>	<u>\$ 17,163,897</u>

City of Lexington, North Carolina
Internal Service Funds
Combining Statement of Cash Flows
For the fiscal year ended June 30, 2016

Exhibit E-3

	Governmental-type Activities			Business-type Activities			Total Internal Service Funds
	Fleet Management	Group Insurance	Risk Management	Utility Administration	Capital Reserve	Rate Stabilization	
Cash flows from operating activities							
Cash received from services provided	\$ 1,571,186	\$ 6,012,376	\$ 1,389,023	\$ 2,324,214	\$ -	\$ -	\$ 11,296,799
Cash paid for goods and services	(814,820)	(6,129,658)	(1,530,266)	(935,679)	-	-	(9,410,423)
Cash paid to employees	(426,401)	(57,610)	(188,548)	(1,544,357)	-	-	(2,216,916)
Other operating income	8,961	92,039	223,450	485,089	82,045	-	891,584
Net cash provided (used) by operating activities	<u>338,926</u>	<u>(82,853)</u>	<u>(106,341)</u>	<u>329,267</u>	<u>82,045</u>	<u>-</u>	<u>561,044</u>
Cash flows from noncapital financing activities							
Operating grants	-	-	-	3,158	-	-	3,158
Transfers from other funds	355,176	-	-	250,000	980,279	-	1,585,455
Transfers to other funds	(320,279)	-	-	-	(806,960)	-	(1,127,239)
Net cash provided (used) by noncapital financing activities	<u>34,897</u>	<u>-</u>	<u>-</u>	<u>253,158</u>	<u>173,319</u>	<u>-</u>	<u>461,374</u>
Cash flows from capital and related financing activities							
Installment purchase debt issued	-	-	-	2,514,000	-	-	2,514,000
Acquisition and construction of capital assets	(355,176)	-	-	(309,296)	-	-	(664,472)
Proceeds from the sale of assets	43,470	-	-	-	-	-	43,470
Net cash provided (used) by capital and related financing activities	<u>(311,706)</u>	<u>-</u>	<u>-</u>	<u>2,204,704</u>	<u>-</u>	<u>-</u>	<u>1,892,998</u>
Cash flows from investing activities							
Receipts of investment earnings	3,184	10,348	5,181	2,955	-	3,895	25,563
Net cash provided by investing activities	<u>3,184</u>	<u>10,348</u>	<u>5,181</u>	<u>2,955</u>	<u>-</u>	<u>3,895</u>	<u>25,563</u>
Net increase (decrease) in cash and cash equivalents	65,301	(72,505)	(101,160)	2,790,084	255,364	3,895	2,940,979
Cash and cash equivalents - beginning	105,088	3,220,734	1,651,486	656,375	6,270,964	1,097,423	13,002,070
Cash and cash equivalents - ending	<u>\$ 170,389</u>	<u>\$ 3,148,229</u>	<u>\$ 1,550,326</u>	<u>\$ 3,446,459</u>	<u>\$ 6,526,328</u>	<u>\$ 1,101,318</u>	<u>\$ 15,943,049</u>

Continued on next page.

City of Lexington, North Carolina
Internal Service Funds
Combining Statement of Cash Flows
For the fiscal year ended June 30, 2016

Exhibit E-3
continued

	Governmental-type Activities			Business-type Activities			Total Internal Service Funds
	Fleet Management	Group Insurance	Risk Management	Utility Administration	Capital Reserve	Rate Stabilization	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities							
Operating income (loss)	\$ 209,421	\$ (163,674)	\$ (4,824)	\$ (279,178)	\$ 82,045	\$ -	\$ (156,210)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities							
Depreciation	173,000	-	1,549	506,533	-	-	681,082
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources							
(Increase) decrease in accounts receivable	216	(22,539)	-	26,470	-	-	4,147
(Increase) decrease in intergovernmental receivable	12,984	(87)	(11,494)	(1,619)	-	-	(216)
Increase (decrease) in amounts receivable related to restricted intergovernmental revenues	-	-	-	(3,158)	-	-	(3,158)
(Increase) decrease in inventory	4,660	-	-	-	-	-	4,660
(Increase) decrease in net pension asset	36,783	-	13,216	91,254	-	-	141,253
(Increase) decrease in deferred outflows of resources - pensions	4,093	(2,899)	(129)	4,090	-	-	5,155
Increase (decrease) in accounts payable and accrued liabilities	(44,011)	1,848	13,593	127,725	-	-	99,155
(Increase) decrease in amounts accrued related to interest on capital debt	-	-	-	(18,478)	-	-	(18,478)
Increase (decrease) in unpaid claims cost	-	98,854	(92,810)	-	-	-	6,044
Increase (decrease) in compensated absences	(9,638)	-	(11,300)	(15,872)	-	-	(36,810)
Increase (decrease) in other postemployment benefits	3,037	428	1,528	8,653	-	-	13,646
Increase (decrease) in net pension liability	24,462	3,355	10,640	67,705	-	-	106,162
Increase (decrease) in deferred inflows of resources - pensions	(76,081)	1,861	(26,310)	(184,858)	-	-	(285,388)
Total adjustments	129,505	80,821	(101,517)	608,445	-	-	717,254
Net cash provided (used) by operating activities	\$ 338,926	\$ (82,853)	\$ (106,341)	\$ 329,267	\$ 82,045	\$ -	\$ 561,044

City of Lexington, North Carolina
Fleet Management Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-4

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Charges for sales and services	\$	\$ 1,570,970	\$
Other operating		8,961	
Total operating revenues	<u>1,737,766</u>	<u>1,579,931</u>	<u>(157,835)</u>
Nonoperating revenues			
Investment earnings		3,265	
Sale of property		43,470	
Total nonoperating revenues	<u>38,692</u>	<u>46,735</u>	<u>8,043</u>
Total revenues	<u>1,776,458</u>	<u>1,626,666</u>	<u>(149,792)</u>
Expenditures			
Salaries and employee benefits		429,425	
Cost of sales and services		292,334	
Purchases for resale		488,435	
Capital outlay		355,176	
Total expenditures	<u>1,838,072</u>	<u>1,565,370</u>	<u>272,702</u>
Revenues over (under) expenditures	<u>(61,614)</u>	<u>61,296</u>	<u>122,910</u>
Other financing sources (uses)			
Transfers from other funds			
Capital Reserve Fund	381,893	355,176	(26,717)
Transfers to other funds			
Capital Reserve Fund	<u>(320,279)</u>	<u>(320,279)</u>	<u>-</u>
Total other financing sources (uses)	<u>61,614</u>	<u>34,897</u>	<u>(26,717)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	-	96,193	96,193
Appropriated net position	<u>-</u>	<u>-</u>	<u>-</u>
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses	<u>\$ -</u>	<u>96,193</u>	<u>\$ 96,193</u>

Continued on next page.

City of Lexington, North Carolina
Fleet Management Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-4
continued

	Financial Plan	Actual	Variance Positive (Negative)
Reconciliation from financial plan basis (modified accrual) to full accrual			
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses		\$ 96,193	
Reconciling items			
Capital Outlay		355,176	
Depreciation		(173,000)	
Gain (loss) on sale of property		(30,937)	
Increase (decrease) in inventory		(4,660)	
(Increase) decrease in compensated absences payable		9,638	
(Increase) decrease in other postemployment benefits		(3,037)	
Increase (decrease) in net pension asset		(36,783)	
Increase (decrease) in deferred outflow of resources - pensions		(4,093)	
(Increase) decrease in net pension liability		(24,462)	
(Increase) decrease in deferred inflows of resources - pensions		76,081	
Total reconciling items		163,923	
Change in net position		\$ 260,116	

City of Lexington, North Carolina
Group Insurance Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-5

	Financial Plan	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Premium charges to employees/retirees	\$	\$ 857,531	\$
Premium charges for COBRA		26,002	
Premium charges to departments		5,151,382	
Other operating		92,039	
Total operating revenues	6,122,914	6,126,954	4,040
Nonoperating revenues			
Investment earnings		10,561	
Total nonoperating revenues	7,330	10,561	3,231
Total revenues	6,130,244	6,137,515	7,271
Expenditures			
Salaries and employee benefits		58,901	
Administration		263,908	
Premiums		523,460	
Claims		5,441,614	
Total expenditures	6,630,244	6,287,883	342,361
Revenues over (under) expenditures	(500,000)	(150,368)	349,632
Appropriated net position	500,000	-	(500,000)
Revenues and appropriated net position over (under) expenditures and other financing uses	\$ -	(150,368)	\$ (150,368)
Reconciliation from financial plan basis (modified accrual) to full accrual			
Reconciling items			
(Increase) decrease in other postemployment benefits		(428)	
Increase (decrease) in deferred outflow of resources - pensions		2,899	
(Increase) decrease in net pension liability		(3,355)	
(Increase) decrease in deferred inflows of resources - pensions		(1,861)	
Total reconciling items		(2,745)	
Change in net position		\$ (153,113)	

City of Lexington, North Carolina
Risk Management Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-6

	Financial Plan	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Premium charges to employees	\$	\$ 4,131	\$
Premium charges to departments		1,384,892	
Other operating		223,450	
Total operating revenues	1,595,694	1,612,473	16,779
Nonoperating revenues			
Investment earnings		5,312	
Total nonoperating revenues	3,100	5,312	2,212
Total revenues	1,598,794	1,617,785	18,991
Expenditures			
Salaries and employee benefits		198,076	
Administration		69,818	
Premiums		531,746	
Claims		828,463	
Total expenditures	1,799,120	1,628,103	171,017
Revenues over (under) expenditures	(200,326)	(10,318)	190,008
Appropriated net position	200,326	-	(200,326)
Revenues and appropriated net position over (under) expenditures	\$ -	(10,318)	\$ (10,318)

Continued on next page.

City of Lexington, North Carolina
Risk Management Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-6
continued

	Financial Plan	Actual	Variance Positive (Negative)
Reconciliation from financial plan basis (modified accrual) to full accrual			
Revenues and appropriated net position over (under) expenditures		\$ (10,318)	
Reconciling items			
Depreciation		(1,549)	
(Increase) decrease in compensated absences payable		11,300	
(Increase) decrease in other postemployment benefits		(1,528)	
Increase (decrease) in net pension asset		(13,216)	
Increase (decrease) in deferred outflow of resources - pensions		129	
(Increase) decrease in net pension liability		(10,640)	
(Increase) decrease in deferred inflows of resources - pensions		26,310	
Total reconciling items		10,806	
Change in net position		\$ 488	

City of Lexington, North Carolina
Utility Administration Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-7

	Financial Plan	Actual	Variance Positive (Negative)
Revenues			
Operating revenues			
Administrative charges general fund	\$	\$ 260,389	\$
Administrative charges electric fund		974,362	
Administrative charges water/wastewater fund		410,057	
Administrative charges natural gas fund		652,936	
Other operating		485,089	
Total operating revenues	2,811,769	2,782,833	(28,936)
Nonoperating revenues			
Investment earnings		2,198	
Total nonoperating revenues	720	2,198	1,478
Total revenues	2,812,489	2,785,031	(27,458)
Expenditures			
Utility administration			
Salaries and employee benefits		554,865	
Administration		223,596	
Total utility administration	786,624	778,461	8,163
Customer service			
Salaries and employee benefits		663,899	
Administration		326,672	
Capital outlay		43,353	
Total customer service	1,068,444	1,033,924	34,520
Warehousing			
Salaries and employee benefits		127,129	
Administration		14,619	
Total warehousing	149,097	141,748	7,349
Meter reading			
Salaries and employee benefits		150,985	
Administration		31,931	
Capital outlay		29,500	
Total meter reading	238,061	212,416	25,645

Continued on next page.

City of Lexington, North Carolina
Utility Administration Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-7
continued

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Marketing			
Salaries and employee benefits	\$	\$ 99,997	\$
Administration		346,328	
Total marketing	<u>517,482</u>	<u>446,325</u>	<u>71,157</u>
Debt service			
Principal retirement		-	
Interest and other charges		-	
Total debt service	<u>125,634</u>	<u>-</u>	<u>125,634</u>
Total expenditures	<u>2,885,342</u>	<u>2,612,874</u>	<u>272,468</u>
Revenues over (under) expenditures	<u>(72,853)</u>	<u>172,157</u>	<u>245,010</u>
Other financing sources (uses)			
Transfers from other funds			
Electric Fund	130,000	130,000	-
Water and Wastewater Fund	58,000	58,000	-
Natural Gas Fund	62,000	62,000	-
Transfers to other funds			
Utility Administration Fund construction in progress	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(72,853)</u>	<u>172,157</u>	<u>245,010</u>
Appropriated net position	<u>72,853</u>	<u>-</u>	<u>(72,853)</u>
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses	<u>\$ -</u>	<u>172,157</u>	<u>\$ 172,157</u>

Continued on next page.

City of Lexington, North Carolina
Utility Administration Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-7
continued

	Financial Plan	Actual	Variance Positive (Negative)
Reconciliation from financial plan basis (modified accrual) to full accrual			
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses		\$ 172,157	
Reconciling items			
Capital outlay		72,853	
Depreciation		(506,533)	
Bad debt expense		(44,485)	
Change in accrued interest		(18,478)	
(Increase) decrease in compensated absences payable		15,872	
(Increase) decrease in other postemployment benefits		(8,653)	
Increase (decrease) in net pension asset		(91,254)	
Increase (decrease) in deferred outflow of resources - pensions		(4,090)	
(Increase) decrease in net pension liability		(67,705)	
(Increase) decrease in deferred inflows of resources - pensions		184,858	
Items related to subfund - utility administration construction in progress fund			
Investment earnings		922	
Transfer from Utility Administration Fund		250,000	
Total reconciling items		(216,693)	
Change in net position		\$ (44,536)	

City of Lexington, North Carolina
Utility Administration Construction in Progress Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From inception and for the fiscal year ended June 30, 2016

Exhibit E-8

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues					
Investment earnings	\$ -	\$ -	\$ 922	\$ 922	\$ 922
Total revenues	<u>-</u>	<u>-</u>	<u>922</u>	<u>922</u>	<u>922</u>
Expenditures					
Work Order System	375,000	-	-	-	375,000
Warehouse Center	<u>2,514,000</u>	<u>-</u>	<u>236,443</u>	<u>236,443</u>	<u>2,277,557</u>
Total expenditures	<u>2,889,000</u>	<u>-</u>	<u>236,443</u>	<u>236,443</u>	<u>2,652,557</u>
Revenues over (under) expenditures	<u>(2,889,000)</u>	<u>-</u>	<u>(235,521)</u>	<u>(235,521)</u>	<u>2,653,479</u>
Other financing sources (uses)					
Installment purchase debt issued	2,514,000	-	2,514,000	2,514,000	-
Transfers from other funds					
Operating fund	<u>375,000</u>	<u>125,000</u>	<u>250,000</u>	<u>375,000</u>	<u>-</u>
Total other financing sources (uses)	<u>2,889,000</u>	<u>125,000</u>	<u>2,764,000</u>	<u>2,889,000</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 2,528,479</u>	<u>\$ 2,653,479</u>	<u>\$ 2,653,479</u>

City of Lexington, North Carolina
Capital Reserve Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-9

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues			
Capital recovery - water/wastewater	\$ _____	\$ 82,045	\$ _____
Total revenues	<u> -</u>	<u>82,045</u>	<u>82,045</u>
Expenditures			
Capital reserve		-	
Total expenditures	<u>980,279</u>	<u> -</u>	<u>980,279</u>
Revenues over (under) expenditures	<u>(980,279)</u>	<u>82,045</u>	<u>1,062,324</u>
Other financing sources (uses)			
Transfers from other funds			
Electric Fund	585,000	585,000	-
Water and Wastewater Fund	75,000	75,000	-
Fleet Management Fund	320,279	320,279	-
Transfers to other funds			
Water and Wastewater Fund	(260,090)	(260,090)	-
Natural Gas Fund	(191,694)	(191,694)	-
Fleet Management Fund	<u>(381,893)</u>	<u>(355,176)</u>	<u>26,717</u>
Total other financing sources (uses)	<u>146,602</u>	<u>173,319</u>	<u>26,717</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(833,677)</u>	<u>255,364</u>	<u>1,089,041</u>
Appropriated net position	<u>833,677</u>	<u> -</u>	<u>(833,677)</u>
Revenues, other financing sources, and appropriated net position over (under) expenditures and other financing uses	<u>\$ _____</u>	<u>255,364</u>	<u>\$ 255,364</u>
Reconciliation from financial plan basis (modified accrual) to full accrual			
Reconciling items		<u> -</u>	
Change in net position		<u>\$ 255,364</u>	

City of Lexington, North Carolina
Rate Stabilization Fund
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Exhibit E-10

	Financial Plan	Actual	Variance Positive (Negative)
Revenues			
Investment earnings	\$ _____	\$ 4,007	\$ _____
Revenues over expenditures	<u>\$ -</u>	4,007	<u>\$ 4,007</u>
Reconciliation from financial plan basis (modified accrual) to full accrual			
Reconciling items		_____ -	
Change in net position		<u>\$ 4,007</u>	

(This page is intentionally blank.)



SUPPLEMENTAL FINANCIAL DATA

(This Page Is Intentionally Blank)

City of Lexington, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

Schedule F-1

Fiscal Year	Uncollected Balance June 30, 2015	Current Net Levy	Collections and Credits	Uncollected Balance June 30, 2016
2015-16	\$ -	\$ 9,128,784	\$ 8,811,858	\$ 316,926
2014-15	324,862	-	143,910	180,952
2013-14	250,727	-	91,835	158,892
2012-13	200,599	-	61,152	139,447
2011-12	170,372	-	42,768	127,604
2010-11	122,682	-	24,559	98,123
2009-10	104,170	-	16,788	87,382
2008-09	78,656	-	8,065	70,591
2007-08	65,331	-	6,184	59,147
2006-07	54,154	-	539	53,615
Prior	321,825	-	3,255	318,570
	<u>\$ 1,693,378</u>	<u>\$ 9,128,784</u>	<u>\$ 9,210,913</u>	<u>1,611,249</u>

Less: allowance for uncollectible accounts:

General Fund

910,000

Ad valorem taxes receivable - net

\$ 701,249

Reconciliation to revenues

Ad valorem taxes - General Fund

\$ 8,989,843

Reconciling items

Penalties collected on ad valorem taxes -
remitted to Davidson County School System(s)

17,423

Interest collected

(85,702)

Discounts allowed

73,037

Amounts refunded - prior years

181,383

Abatements and releases - prior years

34,929

Total reconciling items

221,070

Total collections and credits

\$ 9,210,913

City of Lexington, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
For the fiscal year ended June 30, 2016

Schedule F-2

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current year's rate	\$ 1,487,832,412	\$ 0.600	\$ 8,926,995	\$ 8,247,418	\$ 679,577
Penalties	-		19,714	19,714	-
Total	<u>1,487,832,412</u>		<u>8,946,709</u>	<u>8,267,132</u>	<u>679,577</u>
Discoveries - Current year taxes	<u>38,413,098</u>	0.600	<u>230,479</u>	<u>230,479</u>	<u>-</u>
Abatements	<u>(7,733,088)</u>		<u>(48,404)</u>	<u>(48,404)</u>	<u>-</u>
Total property valuation	<u>\$ 1,518,512,422</u>				
Net levy			9,128,784	8,449,207	679,577
Uncollected taxes at June 30			<u>(316,926)</u>	<u>(316,926)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 8,811,858</u>	<u>\$ 8,132,281</u>	<u>\$ 679,577</u>
Current levy collection percentage			<u>96.53%</u>	<u>96.25%</u>	<u>100.00%</u>

Continued on next page.

City of Lexington, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
For the fiscal year ended June 30, 2016

Schedule F-2
continued

Secondary Market Disclosures

Assessed Valuation	
Assessment Ratio ¹	100%
Real Property	\$ 1,159,194,650
Personal Property	215,037,820
Public Service Company Property ²	31,017,106
Registered Motor Vehicles	113,262,846
Total Assessed Valuation	1,518,512,422
City-wide Tax Rate	0.600
Levy (includes discoveries, releases and abatements) ³	\$ 9,128,784

In addition to the City-wide levy indicated above, the City levied the following special district tax

Municipal Service District	\$ 101,350
----------------------------	------------

¹Percentage of appraised value has been established by statute.

²Valuation of railroads, telephone companies and other utilities as determined by the North Carolina Property Tax Commission.

³The levy includes interest and penalties.

Uptown Lexington, Inc.
(A component unit of the City of Lexington, North Carolina)
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the fiscal year ended June 30, 2016

Schedule F-3

	Budget	Actual	Variance Positive (Negative)
Revenues			
Contribution from City of Lexington			
Special district property tax	\$ 103,000	\$ 106,509	\$ 3,509
Property rental	875	875	-
Investment earnings	30	159	129
Sale of property	14,699	14,699	-
Grant from City of Lexington	30,000	30,000	-
Grant from Davidson County	15,000	15,000	-
Donations/fund raisers	112,596	125,272	12,676
Miscellaneous	-	75	75
Total revenues	276,200	292,589	16,389
Expenditures			
Salaries and employee benefits	70,531	67,008	3,523
Operations	182,442	180,452	1,990
Debt service			
Principal retirement	38,983	37,542	1,441
Interest and other charges	1,886	1,864	22
Total expenditures	293,842	286,866	6,976
Revenues over (under) expenditures	(17,642)	5,723	23,365
Appropriated net position	17,642	-	(17,642)
Revenues and appropriated net position over (under) expenditures	\$ -	5,723	\$ 5,723
Reconciliation from budgetary basis (modified accrual) to full accrual			
Reconciling items			
Principal retirement		37,542	
Gain (loss) on disposal of real estate held for investment		(52,700)	
Change in net position		(9,435)	
Net position			
Beginning of year, July 1		124,159	
End of year, June 30		\$ 114,724	