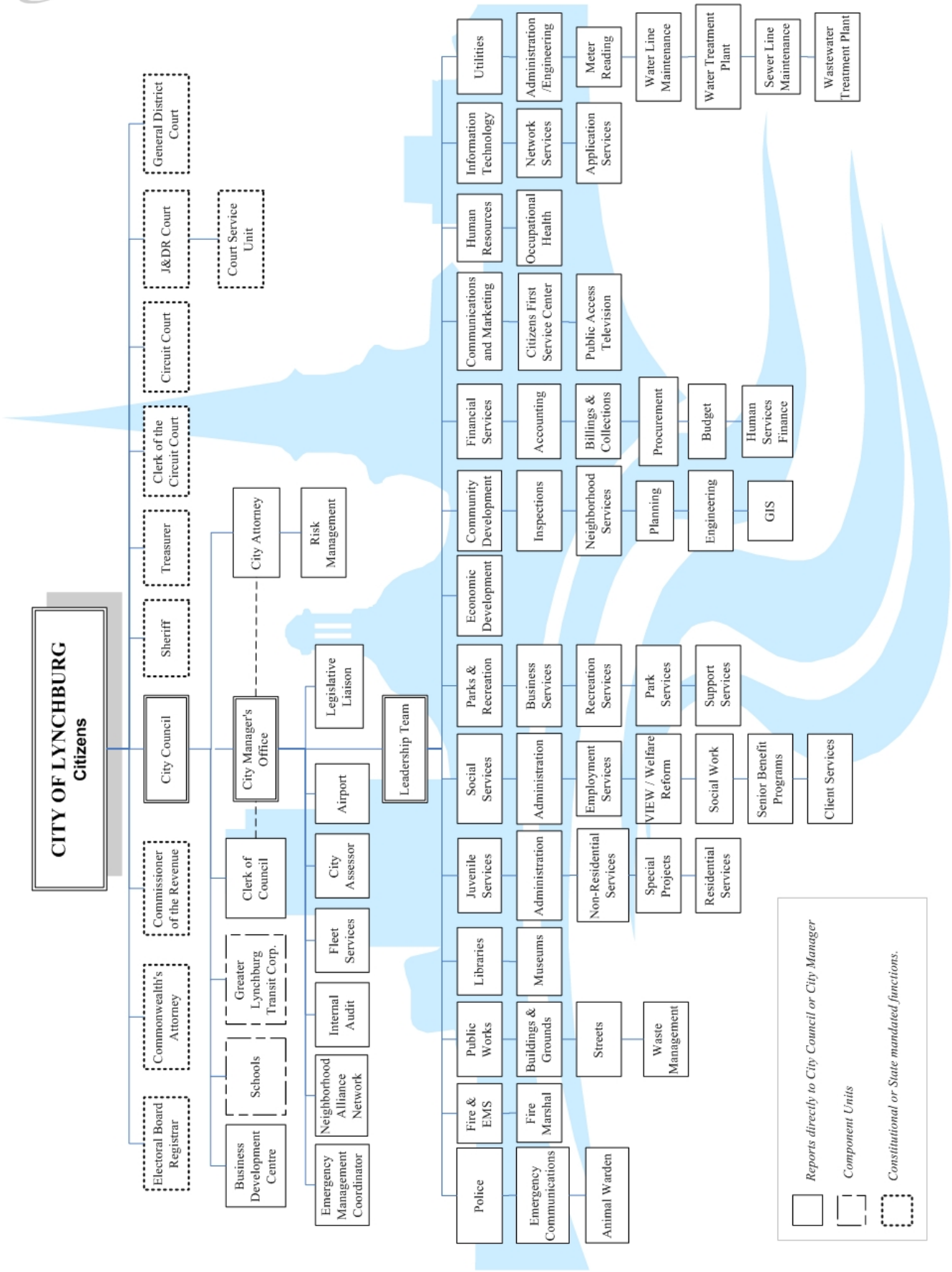
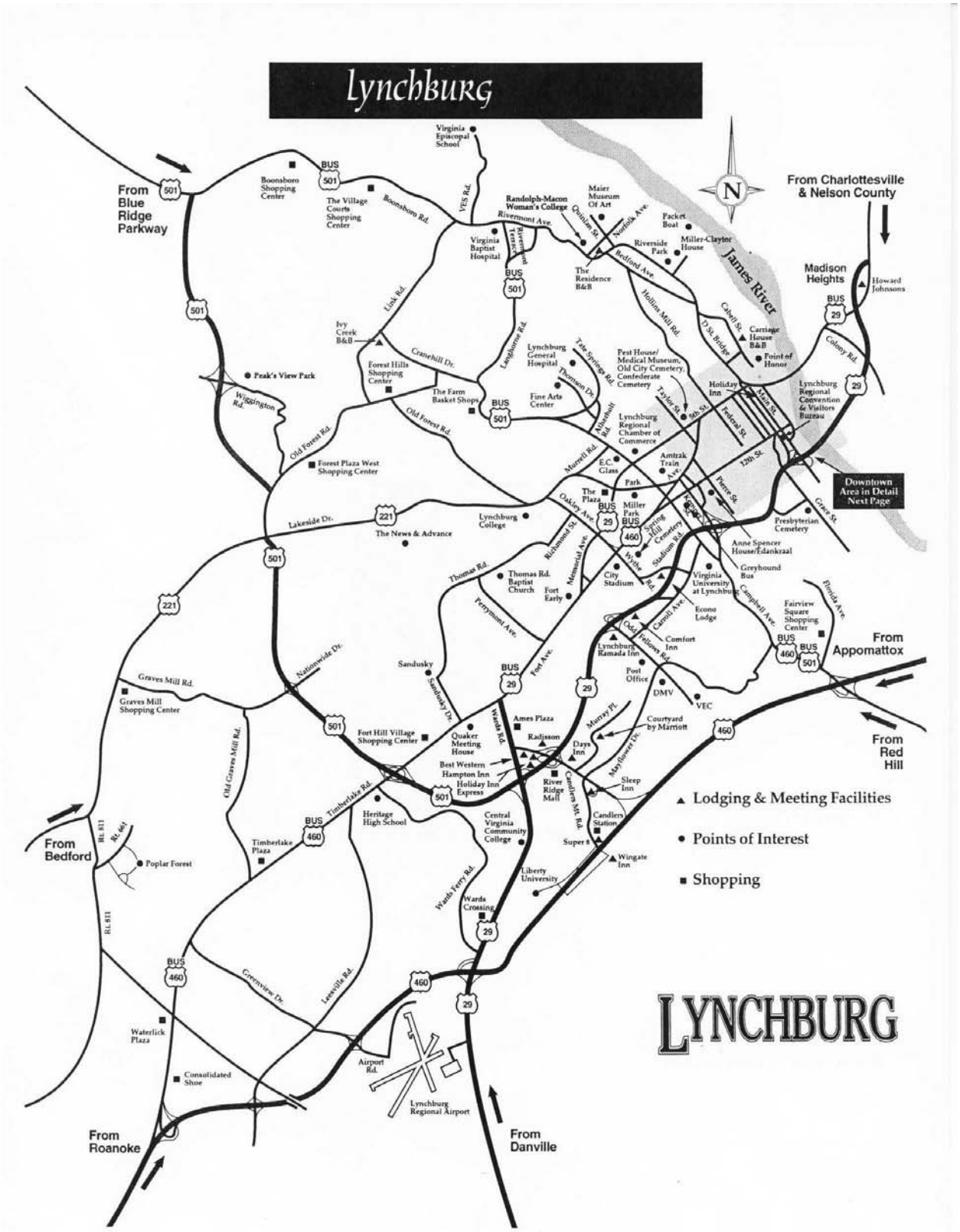
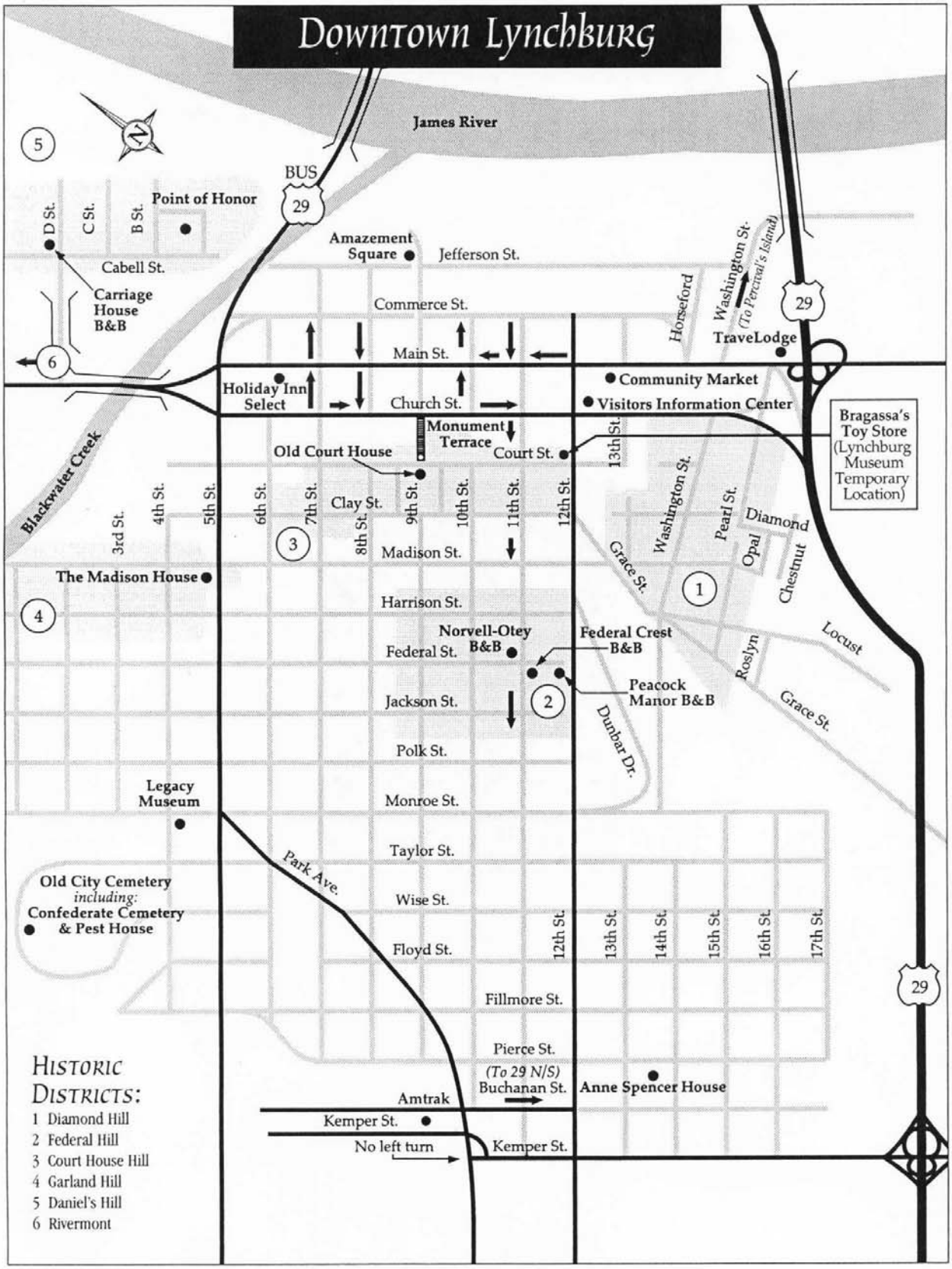

CITY OF LYNCHBURG
Citizens
Electoral Board Registrar
Commonwealth's Attorney
Commissioner of the Revenue
City Council
Sheriff
Treasurer
Clerk of the Circuit Court
Circuit Court
J&DR Court
General District Court
Court Service Unit
Business Development Centre
Schools
Greater Lynchburg Transit Corp.
Clerk of Council
City Manager's Office
City Attorney
Risk Management
Emergency Management Coordinator
Neighborhood Alliance Network
Internal Audit
Fleet Services
City Assessor
Airport
Legislative Liaison
Leadership Team
Police
Fire & EMS
Public Works
Libraries
Juvenile Services
Social Services
Parks & Recreation
Economic Development
Community Development
Financial Services
Communications and Marketing
Human Resources
Information Technology
Utilities
Emergency Communications
Fire Marshal
Buildings & Grounds
Museums
Administration
Business Services
Inspections
Accounting
Occupational Health
Network Services
Administration /Engineering
Animal Warden
Streets
Waste Management
Non-Residential Services
Employment Services
Recreation Services
Neighborhood Services
Billings & Collections
Citizens First Service Center
Application Services
Meter Reading
Special Projects
VIEW / Welfare Reform
Park Services
Planning
Procurement
Public Access Television
Residential Services
Social Work
Support Services
Engineering
Budget
Water Line Maintenance
Water Treatment Plant
Senior Benefit Programs
Client Services
GIS
Human Services Finance
Sewer Line Maintenance
Wastewater Treatment Plant
Reports directly to City Council or City Manager
Component Units
Constitutional or State mandated functions.


Lynchburg
From Blue Ridge Parkway
From Charlottesville & Nelson County
From Appomattox
From Red Hill
From Bedford
From Roanoke
From Danville
James River
Madison Heights
Downtown Area in Detail Next Page
Lodging & Meeting Facilities
Points of Interest
Shopping
LYNCHBURG


Downtown Lynchburg
James River
BUS 29
Point of Honor
D St.
C St.
B St.
Cabell St.
Carriage House B&B
Amazement Square
Jefferson St.
Commerce St.
Main St.
Church St.
Holiday Inn Select
Monument Terrace
Old Court House
Court St.
Community Market
Visitors Information Center
Bragassa's Toy Store (Lynchburg Museum Temporary Location)
TraveLodge
Washington St. (To Percival's Island)
Horseford
Blackwater Creek
3rd St.
4th St.
5th St.
6th St.
7th St.
8th St.
9th St.
10th St.
11th St.
12th St.
13th St.
Clay St.
Madison St.
The Madison House
Harrison St.
Norvell-Otey B&B
Federal St.
Federal Crest B&B
Peacock Manor B&B
Jackson St.
Polk St.
Monroe St.
Taylor St.
Wise St.
Floyd St.
Fillmore St.
Pierce St.
(To 29 N/S)
Buchanan St.
Anne Spencer House
Amtrak
Kemper St.
No left turn
Legacy Museum
Old City Cemetery including: Confederate Cemetery & Pest House
Park Ave.
Grace St.
Pearl St.
Diamond
Opal
Chestnut
Roslyn
Locust
Dunbar Dr.
14th St.
15th St.
16th St.
17th St.
Historic Districts:
1 Diamond Hill
2 Federal Hill
3 Court House Hill
4 Garland Hill
5 Daniel's Hill
6 Rivermont

Statistical Data
June 30, 2006

Date of Incorporation

Lynchburg was founded by John Lynch in 1757, established as a town in October 1786; incorporated as a town on January 10, 1805; and received independent city status in 1852.

Area of City

The area of the City consists of 50.107 square miles.

Population

United States Census 1990 (1)……..	66,743
United States Census 2000 (1)……..	65,269
United States Census 2005 (1)…….....	68,000

(1) Source: Weldon Cooper Center for Public Service, www.coopercenter.org

Form of Government

Lynchburg is organized under the Council – Manager form of government. The City Council, comprised of seven members, is elected on either an at-large (3 members) or ward (4 members) representative basis for four-year staggered terms of office. From among the elected City Council members, they choose on or near July 1 of each election year by simple majority vote a Mayor, who serves a two-year term.

Appointed by the City Council, the City Manager serves as the chief administrative officer of the municipal corporation. The City Manager performs the City's administrative and policy-related duties, directs business procedures and has the power of appointment and removal of the heads of all administrative departments as well as other employees of the City. The City Manager's primary focus is on helping Council set priorities, interpreting City Council's actions to the appropriate department, outside organizations and citizens, and providing professional leadership in executing the adopted policies of City Council.

Segregation of Taxable Subjects for Local Taxation Only

By an Act of the General Assembly of Virginia, approved March 31, 1926, all real estate, tangible personal property, and machinery used for manufacturing purposes, were segregated to the City, and those subjects are not liable to any general tax except the City tax.

Assessments

The City Assessor of Real Estate appraises the market value of real estate on a biannual assessment cycle. The entire City is reviewed every other year (with values effective the first day of July of the odd years) and adjustments are made where necessary based upon market evidence indicating a change in the value.

The Commissioner of Revenue is required by law to assess vehicles and motorcycles by means of a recognized pricing guide. For most other personal property, the assessed value is based on a percentage of original cost.

The Commissioner of Revenue as required by the *Code of Virginia* assesses tangible personal property and machinery and tools. The City prorates personal property on a monthly basis.

Lynchburg, Virginia is a city which remembers its past while focusing on the future - a vibrant central city fostering a strong sense of community, economic opportunity for all our citizens and responsive, results-oriented local government.

Lynchburg is a city of 50 square miles located near the geographic center of the state, bordered by the eastern edge of the beautiful Blue Ridge Mountains. It is located approximately 180 miles southwest of the nation's capital, Washington, D.C.

An active community boasting friendly residential neighborhoods, Lynchburg has a tradition of outstanding public education. Lynchburg operates one of the top school systems in the state and is recognized for its unique Partners in Education program that partners the business and government sector with the schools. The City is also home to five public/private colleges and universities.

A city with outstanding cultural, educational, and recreation opportunities, Lynchburg operates 17 parks, 24 playgrounds, seven community centers and one senior center, an Olympic-size pool, 40 tennis courts, and 26 baseball diamonds. Other opportunities include hiking in the Blue Ridge Mountains or on the Appalachian Trail; swimming and boating on Smith Mountain Lake, one of the country's largest man-made bodies of water; skiing at nearby Wintergreen Resort; or taking in a minor-league baseball game at the City-owned stadium.

Lynchburg has operated under a Council/Manager form of government since 1920. The City Council, comprised of seven members, is elected for four-year staggered terms of office. The Mayor and Vice Mayor are elected by the City Council. In November 2006, City Council adopted a vision statement that focuses on community character, economic prosperity, good government, multicultural vibrancy, and making Lynchburg a compelling destination.

The City Manager is responsible to the City Council for the effective operation of all government functions. In 2005, the City began a basic performance measurement program whereby each City Department identified at least three measures of the work it delivered. Subsequently, the measures were reviewed and adjusted by City Council. In December 2005, the City, along with 27 other Virginia localities, joined the International City-County Management Association Center for Performance Measurement. By focusing on performance measurement, the City hopes to better determine the efficiency and effectiveness of service delivery and program objectives.

From left to right, downtown Lynchburg is featured with the James River in the foreground; Hollins Mill Dam with a bike rider is in the middle of the collage; and at the end is a young lady in period costume writing in calligraphy at the James River Batteau Festival. Photographs courtesy of Nancy Blackwell-Marion

LYNCHBURG CITY COUNCIL VISION

We will work to ensure an environment in which all of the residents of Lynchburg are free to pursue their dreams, hopes, and aspirations through our understanding and commitment to meet the public's needs in the areas of:

Community Character

The character of our City is defined by the values and behaviors of its residents and its natural and built environments. We are a beautiful, safe and comfortable community with hospitable, friendly, and caring citizens who are free to pursue their values of faith and family according to their individual preferences.

Economic Prosperity

Our City will maintain a vibrant, industrious community that will expand economic opportunities for our citizens. We embrace policies that will enhance economic prosperity with the support of a strong Industrial Development Authority, emphasis on education, workforce development, and a continued commitment to business-friendly initiatives.

Good Government

City government will deliver, in an equitable manner, public services through the effective and efficient stewardship of resources.

Multicultural Vibrancy

Lynchburg acknowledges and values its rich cultural, ethnic, racial, and religious diversity while promoting a respectful and cohesive community.

A Compelling Destination

The City is a regional draw for entertainment, shopping and business. Our unique historic heritage and tourism attractions draw a national audience. With its breadth of recreational experiences, centers of interactive living history, and opportunities for educational excellence, our City appeals to all generations.

Adopted December 2006

OUR MISSION

To deliver services to City residents, workers, and visitors in an efficient, effective, and equitable manner and to build a stronger community.

OUR VALUES

Respect
Honesty
Customer Focus
Personal Responsibility
Integrity

2006 Accomplishments and Recognitions

CULTURAL AND LEISURE SERVICES

Lynchburg Public Library celebrated it 40th Anniversary and the Friends of the Library received the Virginia Library Association's Friends of the Library Award.

Parks and Recreation was chosen to participate in the Dasani© Blue Bike Program. The Blue Bikes program gives area residents the free use of 20 adult size new Trek Classic Cruiser bicycles to travel along over 9 miles of paved trails on the Blackwater Creek Bikeway and James River Heritage Trail System.

ECONOMIC DEVELOPMENT

Three Lynchburg businesses invested over $50 million dollars in expansions -- Central Virginia Industry, R. R. Donnelly, and News and Advance.

Over $23 million dollars were privately invested in downtown Lynchburg and the City invested over $1.4 million in improvements to the Depot Plaza.

PUBLIC SAFETY

Lynchburg Fire and EMS received accreditation from the Commission on Fire Accreditation International (CFAI). An accredited agency has achieved excellence through self assessment and accreditation in order to provide continuous quality improvement and the enhancement of service delivery to the community.

Lynchburg Police Department increased drug enforcement efforts by 33% and seized over one quarter of a million dollars in illegal drugs. Violent crime and property crime rates drop 6%.

LYNCHBURG CITY SCHOOLS

Lynchburg City Schools became a Fully Accredited School Division and made Adequate Yearly Progress as determined by the Federal No Child Left Behind Act of 2001.

The $28 million dollar renovation and restoration of E. C. Glass High School was completed.

E. C. Glass High School and Heritage High School were ranked for the second year among Newsweek's' List of Top 1000 U. S. High Schools.

Capital Projects include new turf fields at both Glass and Heritage High Schools, irrigation of fields at Dunbar, Sandusky and Linkhorne Middle Schools and the re-grading of the field at Linkhorne Middle.

NATIONAL RECOGNITION

Center for Digital Government awards Lynchburg a Digital Cities Award for utilizing digital technologies to better serve citizens and streamline operations.
National Trust for Historic Preservation awarded Lynchburg the prestigious 2006 Great American Main Street Award for its successful efforts in revitalizing its historic commercial district through historic preservation.
Meetings Focus recognized City for its tourism appeal and historical hotspots.
International City/County Management Association (ICMA) recognized City for its "smart growth."

LYNCHBURG NAMED:

- One of the top 50 Smart Places to Live – Kiplinger
- One of the top 200 best metro areas for business and careers – Forbes Magazine

UNDERSTANDING THE BUDGET

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, established as a town in 1786, and incorporated as a city in 1852. The City operates as a Council-Manager form of government and provides all municipal services to its residents.

Purpose of the Lynchburg Operating Budget and Capital Improvement Program

Lynchburg's operating budget provides information about the annual financial plan of the City. Included in this budget document is information on the General Fund, Enterprise Funds, and other funds. The document has program descriptions that explain the function of City departments, performance measures, and financial tables that show the revenues, expenses and other fiscal details of the City's programs and activities.

The five-year Capital Improvement Program is both a financial plan and planning document to guide new and ongoing building, transportation, parks and recreation, economic development, and school projects.

What is an Operating Budget and Capital Improvement Program?

An operating budget shows how much money the City will collect to pay for the normal costs of doing its work and how much it will spend. This proposed operating budget is the City Manager's recommendation to the City Council on how the City should collect and spend money during a fiscal year (July 1 through June 30).

The Capital Improvement Program includes the cost of investing in major capital assets, such as a new building, infrastructure and maintenance of existing assets. The first year of the five-year Capital Improvement Program appears in the appropriated budget. City Council only has the authority to appropriate funds on an annual basis. The costs of the normal work of using and maintaining capital assets appear in the operating budget.

Legal Requirements for the Operating Budget

Section 14 of the City Charter requires the City Manager to act as Budget Commissioner, and as such to prepare and submit an annual budget to the City Council. Further, Section 14 states that "At such time as the Council may direct, but not later than forty-five days before the end of each fiscal year, the City Manager shall prepare and submit to the Council for informative and fiscal planning purposes only, an annual budget for the ensuing year, based upon detailed estimates furnished by the several departments and other divisions in the City government according to a classification as nearly uniform as possible. The budget shall contain such other information as may be prescribed by Council." (Act 1960, Ch. 479, Sec. 1, p. 740)

Budget Process

The budget process should be responsive to the overall budget needs of the entire City government, including the fiscal policy concerns of the Council, the financial management responsibility of City staff, the day-to-day operating requirements of City agencies and the needs of citizens for information concerning the budget.

Budget Timetable

Typically, in early March, the City Manager submits to the City Council a proposed operating budget for the fiscal year starting July 1 and ending June 30 of the following year. The City Manager includes a budget message that explains budget issues and presents recommendations. The operating budget includes proposed expenditures and the means of financing them. Council studies the proposed budget at work sessions throughout the months of March and April and holds a public hearing to receive citizens' comments. The Council makes final budget decisions and adopts the budget through passage of an appropriations resolution during the month of May. By July 1st, the beginning of the fiscal year, the City Manager prepares and distributes the adopted budget.

DESCRIPTION OF CITY FUNDS

For accounting purposes, a local government is not treated as a single, integral entity. Rather, a government is viewed instead as a collection of smaller, separate entities known as "funds". The Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards (Codification)*, Section 1300, defines a fund as:

> "A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations."

All of the funds used by a government must be classified into one of eleven "fund types". Five of these fund types are used to account for a state or local government's "governmental-type" activities and are known as "governmental funds." Two of these fund types are used to account for a government's "business-type" activities and are known as "proprietary funds." Finally, the remaining four fund types are reserved for a government's "fiduciary activities."

Governmental Funds

Three fund types are used to account for City governmental-type activities: General Fund, Special Revenue Funds and Capital Funds.

General Fund
The General Fund is used to account for most of the day-to-day operations of the City, which are financed from taxes and other general revenues. Activities financed by the General Fund include those of line and staff departments within the City except for activities of the Enterprise Funds.

Special Revenue Funds
Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources which are designated to finance particular functions or activities of government. These revenues are either legally restricted by outside parties such as Federal and State governments for grants or the local governing body imposes restrictions. The City has the following Special Revenue Funds:

- Asset Forfeiture Fund - Accounts for revenues received from the sale of confiscated assets, which are related to illegal drug sales and are used for law enforcement activities.
- Central Virginia Communications Radio Board Fund - Accounts for revenues received to support the operations and capital expenditures of the Central Virginia Regional Radio Board.
- Community Development Block Grant Fund - Accounts for revenues received from the Department of Housing and Urban Development, which are used for various development projects to accomplish the goals of the block grant program.
- Comprehensive Services Act Fund - Accounts for revenues received under the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- Housing, Opportunities, Medical Care, and Education (HOME) Ownership Program Fund - Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Law Library Fund - Accounts for fees received to support the operation of the Law Library.
- Lynchburg Business Development Center Fund - Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other economic development assistance.
- Lynchburg Expressway Appearance Fund (LEAF) - Accounts for the revenues associated with beautification of the Lynchburg Expressway.
- Museum System Special Revenue Fund - Accounts for revenues received in support of the City's museums.
- Regional Juvenile Detention Home Fund - Accounts for revenues received to support the operations of the City's Juvenile Detention Home.
- Schools Operating Fund – Accounts for the primary operating activities of the Lynchburg City Schools.
- Stadium Fund – Accounts for revenues and expenditures to support the operations and debt service of the baseball stadium.
- Technology Fund - Accounts for revenues from the City's strategic partner to support the upgrade and replacement of technology equipment.

- City/Federal/State Aid Projects Fund - Accounts for the City's various federal and state grants for such purposes as building projects, certain social service and community development programs and public safety.

Capital Funds
The Capital Fund accounts for all resources used for the acquisition and/or construction of capital equipment and facilities by the City except those financed by the Proprietary Funds and Trust Funds. These funds consist of City, Schools, Airport, Water, Sewer and Solid Waste Capital Projects Funds.

Proprietary Funds

Two fund types are used to account for a government's business-type activities (activities that receive a significant portion of their funding through user fees). These are the enterprise funds and the internal service funds.

Enterprise Funds
Water and Sewer, Solid Waste, Stadium, Airport and Passenger Facility Charge Funds are used to account for the acquisition, operation and maintenance of City-owned water and sewer facilities, solid waste management, stadium, and airport operations. These funds are entirely or predominantly self-supported by user charges. The operations of these funds are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises. The Airport, Stadium, and Solid Waste Funds receive some support from the General Fund in the form of an interfund transfer.

Internal Service Funds
Internal Service Funds are used to account for the financing of goods and services provided by one fund, department or agency to other fund, departments or agencies, and to other governments, on a cost-reimbursement basis.

The Fleet Services Fund contains funding for maintaining the City's equipment and vehicle fleet. Each department using Fleet Services contains funding to pay for the actual cost of maintaining vehicles utilized by the department. Fleet Services bills departments on a monthly basis for their fleet related expenses.

The Self-Insurance Fund is used to account for the self-insurance related activities including property/casualty and liability insurance.

Fiduciary Funds

These funds are used when a government holds or manages financial resources in a trustee or agency capacity; therefore, these resources cannot be used to support government programs. There are four fund types to account for various types of fiduciary obligations. These are pension trust funds, investment trust funds, private purpose trust funds and agency funds.

The City's Agency Funds are custodial in nature (assets equal liabilities). These funds consist of the City Payroll Agency Fund (which includes health and dental claims), School Fiscal Agent Fund, and Special Welfare Fund.

Lynchburg City Schools

Federal, State and City funds support the operating needs of the Lynchburg City Schools. Capital construction needs of the schools are primarily supported by City funds with additional State funding as approved by the General Assembly.

The Lynchburg City Schools operate eleven elementary, three middle and two high schools in the City.

BUDGET PROCESS

Basis of Accounting:
Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Governmental and fiduciary fund types utilize the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, when they become both "measurable" and "available" to finance expenditures of the current period. Accordingly, real and personal property tax revenues are recorded as revenues principally on the cash basis until year end, at which time current property tax receipts received within 45 days of year end are accrued. Property taxes not collected within 45 days after year-end, net of allowances for uncollectible accounts are reflected as deferred revenues.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies are recognized when earned or at the time of the specific expenditure. Sales, public utility, and Communications Sales and Use taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred.

Basis of Budgeting:
The budgets for the General, Airport, Sewer, Solid Waste, Water and Capital Projects Funds are prepared in accordance with the City Charter on a cash basis. Revenues, expenditures, and operating transfers related to internal service type functions are included for budget purposes.

Project budgets are utilized in the Capital Funds. All Operating Fund appropriations which are not encumbered lapse at year-end. Appropriations for the Capital Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed.

Encumbrances
Encumbrance accounting is a process in which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation for future expenditure. Encumbrances are treated as a reservation of fund equity and re-appropriated in the next fiscal year.

Amending the Budget:
The City Manager's Office is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total budget amounts and /or appropriations of any fund require an amendment to the budget. The Code of Virginia requires that City Council approve any amendment. If the total of the proposed amendment exceeds either $500,000 or one percent of the total budgeted revenue, the proposed amendment must be advertised and a public hearing must be held before City Council can act. After the public hearing, City Council can act on the proposed amendment.

The Relationship between the Budget and the Capital Improvement Program:
The City also prepares a five-year Capital Improvement Program (CIP) for all funds. The CIP specifies capital improvement or construction projects, which are tentatively identified for funding during the next five years, with the first year of the plan serving as the capital budget. General obligation bonds, revenue bonds, grants and low interest as well as no-cost loans from the State government are the primary means for funding capital improvements. Additionally, "pay-as-you-go financing" (cash) is used to provide capital funding. Restricted sources from user fees such as the Passenger Facility Charge on airfares are another source of funding for Airport Capital Improvements. A debt service schedule for all bonds and loans is included in the Budget and CIP summaries by Fund.

CITY OF LYNCHBURG
BUDGET CALENDAR
FY 2008

AUGUST	
August 9, 2006	Deputy City Manager to meet with Planning Commission to discuss CIP process
August 10, 2006	CIP Instructions sent to departments
August 25, 2006	Reclassification and new position requests due to Human Resources
SEPTEMBER	
September 8, 2006	CIP submissions due to Budget office
September 27, 2006	CIP submissions to the Planning Commission for review for compliance with the Comprehensive Plan
September 30, 2006	New Project requests due to Information Technology
OCTOBER	
October 11, 2006	Recommendations due from Planning Commission
October 17, 2006	Budget Instructions available for Departments to pick up
October 24, 2006	CIP submissions to Physical Development Commission for review
October 26, 2006	Q&A for Budget Contacts
NOVEMBER	
November 10, 2006	Personal Services Budget Due
November 22, 2006	Small Departments Budget Requests Due (Assessor, Atty, Mngr, Cmm&Mrk, ED, Fleet, HR, Int Aud, Rsk)
November 29, 2006	Medium Departments Budget Requests Due (Finance, Police, Fire, IT)
DECEMBER	
December 11, 2006	Large Departments Budget Requests Due (Airport, Sld Waste, SS, JS, Detentn Home, Comm Dev, Libraries, Mus, P&R, Public Works, Constitn)
December 11-15, 2006	Manager meet with Small Departments, as necessary
JANUARY	
January 2, 2007	Budget Submission for Public Works divisions, Water and Sewer Funds Due
January 8-17, 2007	Manager meet with Medium and Large Departments, as necessary
January 18, 2007	Schools Operating Budget Due; Fund Summaries Due From Accountants
January 23, 2007	Proposed CIP to Council work session
January 24, 2007	Revenue Projections to City Manager
January 29-February 2, 2007	Balance Budget
FEBRUARY	
February 14, 2007	Balancing Adjustments to Departments at Leadership Team Meeting
February 27, 2007	Proposed Budget to Printer
MARCH	
March 2, 2007	Proposed Budget to Council
March 6, 2007	Council Work Session - Departments to Present to Council
March 13, 2007	Council Work Session - Departments to Present to Council Ad for Public Hearing
March 20, 2007	Council Work Session - Departments to Present to Council/CDBG & Home Discussion
March 27, 2007	Council Work Session - Departments to Present to Council Public Hearing for Budget
APRIL	
April 10, 2007	Council Work Session - Council Balance Budget
April 17, 2007	Council Work Session - Council Balance Budget
April 24, 2007	Council Work Session - Council Balance Budget
MAY	
May 8, 2007	Council Meeting - First Reading of Budget for Adoption
May 22, 2007	Council Meeting - Second Reading of Budget for Adoption
JUNE	
June 18, 2007	Adopted Budget to Printer
June 25, 2007	Post FY 2008 Budget
June 29, 2007	Adopted Budget to Council and Departments

DEFINITION OF TERMS

Accrual Basis of Accounting – Method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

Adopted budget - The budget approved by City Council and enacted through a budget appropriation ordinance.

Airport fund - Supports the operation and maintenance of the Regional Airport. This fund is intended to operate on a self-sustaining or enterprise basis.

Appropriation - The legal authority granted by City Council to expend or obligate funds for a specific purpose. Appropriations may be adjusted during the fiscal year, either up or down, by amendment of City Council.

Assessment - The official valuation of property for purposes of taxation.

Assessment ratio - The ratio which the assessed value of a taxed item bears to market value of that item. In the City of Lynchburg, real estate is assessed every other year at market value.

Balanced budget - Occurs when total revenues equal total expenditures for a fiscal year; fund balance dollars above the Financial Policy limit of ten percent may be used to offset non-recurring expenditures.

Basis of accounting - A term used to indicate when revenues, expenditures, expenses and transfers, as well as the related assets and liabilities are recognized in the accounts and reported in the financial statements.

Beginning balance - Unexpended funds from the previous fiscal year, which may be used to fund one-time expenditures during the current fiscal year. This is also referred to as fund balance.

Blue Ridge Regional Jail Authority - The Blue Ridge Regional Jail Authority, (the "Authority"), was created by member jurisdictions for the purpose of developing and operating a regional jail system by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The member jurisdictions are the cities of Lynchburg and Bedford, as well as the counties of Halifax, Bedford and Campbell. The Authority began operating the existing jail facilities in the member jurisdiction on July 1, 1998. The City sold its existing jail facilities to the Authority during fiscal year 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each member jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based on an agreed upon number of prisoner days, and is subject to adjustment at the end of each fiscal year.

Bond - A written promise to pay a specified sum of money (called the principal) at a specified date in the future, together with periodic interest at a specified rate. In the budget document, these payments are identified as debt service. Bonds may be used as an alternative to tax receipts to secure funding for long-term capital improvements. General Obligation Bonds are debt approved by City Council to which the full faith and credit of the City is pledged. The State Constitution mandates that taxes on real property be sufficient to pay the principal and interest of such bonds.

Budget - A plan for the acquisition and allocation of resources to accomplish specified purposes. A plan of financial operations comprising an estimate of proposed expenditures for a fiscal year and the proposed means of financing those expenditures (revenues). The term may be used to describe special purpose fiscal plans or parts of a fiscal plan, such as "the budget of the Police Department or the Capital Budget" or may relate to a fiscal plan for an entire jurisdiction, such as "the budget of the City of Lynchburg."

Budget document - The official written statement that outlines the annual budget.

Budget message - A general discussion of the proposed budget presented to City Council by the City Manager as a part of or supplement to the budget document. The budget message explains principal budget issues against the background of financial experience in recent years, and presents recommendations made by the City Manager.

Budget ordinance - The official enactment by City Council to establish legal authority for the obligation and expenditure of resources.

Budget schedule - The key dates or milestones that the City follows in preparing, considering and adopting the budget.

Budgetary control - A mechanism whereby expenditures are monitored to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council.

Calendar year - Twelve months beginning January 1 and ending December 31.

Capital Improvement Program - A five-year plan for public facilities, which results in construction or acquisition of fixed assets, primarily buildings and infrastructure needs such as street re-paving. The program also includes funding for parks, sewers, sidewalks, major equipment and major items of capital equipment related to the new facilities.

Capital Funds - Funds defined by the State Auditor of Public Accounts, consisting of subfunds to account for the acquisition and/or construction of major capital facilities.

Cash Management - A conscious effort to manage cash flows in such a way that interest and penalties paid are minimized and interest earned is maximized. Checks received are deposited the same day, bills are paid no sooner that the due date unless discounts can be obtained by paying earlier, future needs for cash are determined with exactness and cash-on-hand not needed immediately is invested in short-term interest-bearing investments.

Dedicated Revenue – Revenue specifically designated by the Federal or State government to be used for specific programs in the City.

Department - An entity within the City organization, established either by State Code or identified need, for the administration of specifically related duties or responsibilities. A department head is responsible for all expenditures and other activities assigned to that department.

Depreciation - The process of estimating and recording the lost usefulness, expired useful life, or diminution of service from a fixed asset that cannot or will not be restored by repair and must be replaced. The cost of the fixed asset's lost usefulness is the depreciation or the cost to replace the item at the end of its useful life.

Disbursement - A cash payment to an outside party, or a transfer of funds to another accounting entity within the City's financial system.

Division - For manageability and accounting purposes, some departments are further divided into smaller units of control, called divisions. For example, the Streets Division is part of the Department of Public Works.

Encumbrance - A reservation of funds for an anticipated expenditure prior to actual payment for an item. Funds usually are reserved or encumbered once a contracted obligation has been entered into for an item, but prior to the cash payment actually being disbursed.

Enterprise fund - A type of proprietary fund used to account for the acquisition, operation, and maintenance of governmental facilities and services that are entirely or predominantly self-sustaining. This type of fund is defined by the State Auditor of Public Accounts and consists of subfunds to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods or services are financed or recovered, at least in part, through user charges.

Expenditure - The authorized payment of City funds for goods and services. Expenditures include payment in cash for current operating expenses, capital improvement and debt service.

Fiscal Year - A year-long accounting period. For the City of Lynchburg, the fiscal year is from July 1 to June 30 of the following year.

Fixed Assets - Assets of long-term character which are intended to continue to be held or used by the City, including land, buildings, machinery and other equipment.

Fringe Benefits - The fringe benefit expenditures included in the budget are the City's share of an employee's fringe benefits. Fringe benefits provided by the City include: FICA taxes (Social Security), health insurance, life insurance, retirement, unemployment insurance and worker's compensation insurance.

Fund - A fiscal and accounting entity with a self-balancing set of accounts which is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Fund balance - Resources, which, at year's end, have exceeded requirements and have not been designated for any specific use. These funds are not appropriated for expenditure. The unrestricted fund balance is a reserve for unanticipated emergencies and is targeted at approximately 10% of net operating revenues.

General Accepted Accounting Principles (GAAP) - Uniform minimum standards and guidelines for financial accounting and reporting. GAAP encompasses the conventions, rules and procedures necessary to define accepted accounting practices.

General Fund - A fund type used to account for all revenues and expenditures of the City not required to be accounted for in other funds. Revenues are derived primarily from property taxes, local sales tax, utility taxes, licenses, permits, user fees and other sources. General Fund expenditures finance the daily operations of the City and include the costs of general government activities, transfers to other funds and debt service requirements. Included in the General Fund are the groups and programs discussed in that section of this budget.

Governmental Funds – Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

Industrial Development Authority - Under the Code of Virginia, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council. City Council, however, is not financially accountable for the IDA.

Intergovernmental Revenues - Revenues from other governments, such as the State and Federal government in the form of grants, entitlements, shared revenues or payments in lieu of taxes.

Investment Earnings - Revenue earned on investments with a third party. The City uses a pooled cash system, investing the total amount of cash regardless of fund boundaries. The interest earned is then allocated back to individual funds by average cash balance in that fund.

Internal Service Fund - A type of proprietary fund used to account for the financing of goods or services provided by one City program to other City programs, or to other governments, on a cost-reimbursement basis.

Lease-Purchase Agreement - An agreement that conveys the right to property or equipment for a stated period of time. It allows the City to spread the cost of the acquisition over several budget years.

Line Item - A specific expenditure category within a department budget. For example: supplies and materials, utilities or gasoline/diesel.

Maturities - The dates on which the principal or stated values of investments or debt obligations become due and/or may be reclaimed.

Non-dedicated Revenue – Revenue that can be used at the City's discretion.

Operating Expenses - The portion of the budget pertaining to the daily operations that provides basic governmental services. Expenditures such as supplies and materials, utilities and gasoline/diesel fuel are considered operating expenditures.

Performance Measures - Indicators that help define effective service delivery.

Personal Services - A category of expenditures which primarily covers wages, salaries, overtime and fringe benefit costs paid to or on behalf of City employees.

Personnel (FTE) - Full-time equivalents; the total count of full-time and part-time classified personnel in a department or sub-department. Part-time classified personnel are shown as a percentage of a full-time position. Wage employees are not included in this count.

Position - A group of duties and responsibilities, as prescribed by an office or agency, to be performed by a person on a full-time, part-time or seasonal basis.

Proposed Budget - The budget recommended for adoption by the City Manager to City Council.

Proprietary Funds – Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

Real Property - Real estate, including land and improvements (buildings, fences, pavements, etc.) classified for purposes of assessment.

Reserve - These accounts contain funds that have been set-aside for a specific purpose or use.

Revenue - Government income including but not limited to taxes, permits, fees, licenses, fines, and grants, and also payments from other governmental entities.

Sewer Fund - Consists of the operating budget of the sewer and wastewater treatment programs of the City. Revenues from the operation, such as user fees finance this fund.

Special Revenue Funds – Governmental fund type used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

Stadium Fund - Consists of revenue and expenditures for the baseball stadium including operating costs and debt service.

Solid Waste Management Fund - Consists of solid waste collection, the City landfill operation and the drop-off recycling program. Revenues from the users of the services finance this fund.

Tax Base - The aggregate value of the items being taxed. The base of the City's real property tax is the assessed value of all real estate in the City.

Tax Rate - The level of taxation stated in terms of either a dollar amount (e.g., $1.11 per $100 assessed valuation), or a percentage of the value of the tax base (i.e., 4.5 percent sales tax).

Unencumbered Balance - The amount of an appropriation that is neither expended nor encumbered. It is essentially the amount of money still available for expenditures.

Water Fund - Consists of the operating budget of the water program of the City. This fund depends on the specific revenues generated by this operation, such as user fees or contracts to supply water to entities.

BUDGET CATEGORIES

Personnel Services – Salary and Wages - Compensation for direct labor of persons in the employment of the City. Salaries and wages paid to employees for full-time, part-time and temporary work, including overtime and automobile, clothing and tool allowances.

Personnel Services – Benefits - Employment related benefits provided to employees as part of their total compensation. Includes the following:

Group Life Insurance - Payments for both employer's and employees' portions of premiums for employees' life insurance coverage.

Virginia Retirement System - Payments for both the employer's and employees' portions of premiums for employees' retirement program.

Employer's FICA Contribution - Payments for employer's share of Social Security Program contribution.

Workers' Compensation Claims - Payments for authorized claims involving employees' work related injuries.

Group Hospitalization - Payments made for employer's share of insurance for full-time classified employees.

Unemployment Compensation - Payments for benefits related to unemployment claims.

Tuition Reimbursements - Payments to employees to assist with costs for college or other courses related to City work functions.

Deferred Compensation - Employer match of $5 per pay period for employees who contribute at least $5 per pay period and who have completed the initial employment period.

Contractual Services - Services acquired on a fee basis or a fixed time contract basis from outside sources (e.g., private vendors, public authorities or other governmental entities). Includes maintenance and repairs for City equipment; facilities and infrastructure; legal, architectural, environmental testing, medical, auditing and financial professional services; information technology services and software purchases; dietary, advertising, printing; and payments to the Industrial Development Authority.

Internal Services - Charges to departments for services provided by Fleet Services.

Other Charges - This category includes various types of charges such as: supplies and materials items for the office including books, publications; fuel and natural gas; chemicals; parts; and items for buildings, grounds, traffic and computer related maintenance. Safety, law enforcement and laboratory items as well as food, laundry and medical items are included. Utilities, telecommunication charges; postage; insurance premiums and claims; travel and training; dues and memberships; inventory purchases; payments to other funds for services; as well as contributions to other governmental, community and civic organizations are included.

Rentals and Leases - Includes charges for the rental and/or lease of real or personal property such as equipment, buildings, structures, parking facilities or land. Includes payments for lease purchase agreements.

Public Assistance Payments - Payments made to individuals or organizations providing goods or services for individuals in accordance with the requirements of the federal and state public assistance programs.

Capital Outlay - Includes expenditures for the acquisition of fixed assets in excess of $5,000 excluding land, buildings and infrastructure which are major capital expenditures. Includes equipment, furniture and fixtures, heavy equipment such as machinery and tools, computer and radio systems, and specific use equipment for public safety and human services.

Debt Service - Principal and interest payments on bond and capital lease long term debt.

Operating Transfers - Authorized amounts transferred between funds in the City's financial records that are not related to the provision of a specific service.

FINANCIAL MANAGEMENT POLICIES

Policy I	***Fund Balance***	**Adopted August 10, 1999** **Reaffirmed November 14, 2000** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Reaffirmed December 12, 2006**
Policy II	***Debt Management***	**Adopted August 10, 1999** **Reaffirmed November 14, 2000** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Revised December 12, 2006**
Policy III	***Budget Policy***	**Adopted November 14, 2000** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Revised December 12, 2006**
Policy IV	***Investment Policy***	**Adopted September 25, 2001** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Revised December 12, 2006**

BASIS FOR SOUND FINANCIAL MANAGEMENT POLICIES

The primary objective of sound financial management policies is for the City Council to create a framework within which financial decisions can be made. These policies are a statement of the guidelines and goals that influence and guide the financial management practices of the City of Lynchburg. Financial management policies that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Sound financial management policies:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis and economic disruption.
- Enhance short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible.
- Promote long-term financial stability by establishing clear and consistent guidelines.
- Direct attention to the total financial picture of the City rather than single-issue areas.
- Promote the view of linking long-term financial planning with day-to-day operations.
- Provide the City Council and citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
- Ensure that the organization has sufficient resources to perform mandated responsibilities.
- Provide a foundation for evaluating financial analysis and condition.

FINANCIAL MANAGEMENT POLICIES

Policy I - Fund Balance

General Fund

- The City of Lynchburg's Undesignated General Fund Balance will be maintained at a level to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- The City shall not use the Undesignated General Fund Balance to finance recurring operating expenditures.
- The City will maintain an Undesignated General Fund Balance (UGFB) equal to 10% of General Fund revenues. In the event the UGFB is used to provide for temporary funding of unforeseen emergency needs, the City shall restore the Undesignated General Fund Balance to the minimum of 10% over five years.
- Funds in excess of the targeted 10% fund balance may be considered to supplement "pay-as-you-go" capital outlay expenditures, other non-recurring expenditures or as additions to fund balance.

Enterprise Funds

Water Fund

- Minimum ending fund balance shall not be less than 25% of total fund appropriations with a target balance of 40% of total fund appropriations.
- Funds in excess of the annual requirements may be considered for "pay-as-you-go" capital outlay expenditures, other non-recurring expenditures or funding of necessary reserves.
- A rate review will be conducted at least every two years.

Sewer Fund

- In accordance with the Virginia Department of Environmental Quality Special Order for the correction of the Combined Sewer Overflows, the maximum ending fund balance shall not exceed 25% of total fund appropriations; however, the City shall endeavor to maintain a fund balance as close to 25% as practicable.
- As provided by the Special Order, any excess funds will be directed to "pay-as-you-go" capital outlay expenditures.
- A rate review will be conducted at least every two years.

Solid Waste Management Fund

- Minimum ending fund balance shall not be less than 25% of total fund appropriations with a target balance of 40% of total fund appropriations.
- Funds in excess of the annual requirements may be considered for "pay-as-you-go" capital outlay expenditures, other non-recurring expenditures, or funding of necessary reserves.
- A rate review will be conducted at least every two years.

Policy II - Debt Management

Tax-Supported Debt

Tax-supported obligations are those that are expected to be repaid from the General Fund tax revenue of the City of Lynchburg. These include general obligation bonds (except self-supporting bonds) and capital leases. General obligation bonds issued for self-supporting enterprise funds are not included in calculations of tax-supported bonds.

- The City will not use long-term debt to fund current operations.
- The City will not use short-term borrowing to fund current operations. Whenever the City finds it necessary to issue tax-supported bonds, the following policy will be adhered to:
    1. The term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
    2. Annual debt service expenditures for tax-supported debt should not exceed 10% of total General Fund Expenditures plus School Component Unit Expenditures.
    3. Total tax-supported debt will not exceed 4.50% of the net assessed valuation of taxable property in the City of Lynchburg.
    4. Total tax-supported debt per capita should be maintained at a reasonable level.
    5. The 10-Year Principal Payout Ratio shall not be less than 60% for Tax-Supported General Obligation Indebtedness.

Revenue-Supported Debt

Revenue-supported obligations are those for which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities (i.e. water, sewer, solid waste). These are not considered tax-supported debt of the City. Whenever the City finds it necessary to issue revenue-supported bonds, the following guidelines will be adhered to:

1. The term of any revenue-supported bond issue will not exceed the useful life of the capital project/facility or equipment for which borrowing is intended.
2. Revenue-supported bonds will be structured to allow equal or declining annual debt service payments over a term not to exceed the life of the project being financed. For those revenue-supported bonds issued to the Virginia Revolving Loan Fund, annual debt service payments shall not exceed twenty years.

3. For any enterprise fund issuing revenue-supported bonds, net revenues available for debt service shall not be less than 1.2 times annual debt service for each fiscal year. Net revenues available for debt service will be calculated as operating income, plus depreciation and amortization and plus interest income. Debt service will include all debt service paid by the respective fund; however, the principal portion of any bond anticipation notes or other short-term financing should be excluded.

Refinancing of Debt

- The City shall issue refunding bonds to achieve debt service savings, eliminate onerous covenants or provisions in outstanding bond documents, or to respond to a financial emergency.
- The City shall continually monitor its outstanding debt to identify instances where the City may achieve savings through an advance refunding or current refunding transaction.
- The City shall receive a written refunding analysis indicating the amount of net present value savings from its financial advisor prior to selling bonds to refund any outstanding bonds.
- A refunding transaction to achieve debt service savings should only be undertaken when the net present value of the savings, net of issuance costs, will be at least 3% of the principal amount of the refunded bonds. Refunding transactions for revenue bonds can be structured so that savings are realized over the life of the refunding bonds or up-front, depending on the results of a cost-benefit analysis.

General Debt Policies

- The City will maintain communication with bond rating agencies to keep them abreast of its financial condition and will provide them with information on a timely basis including the City's *Comprehensive Annual Financial Report*, *Annual Budget* and *Capital Improvement Program*.
- The City shall comply with all of its undertakings in accordance with Securities and Exchange Commission Rule 15c2-12 and will follow the Government Finance Officers' Association and Securities and Exchange Commission requirements for continuing disclosure.
- The City may use the Virginia Public School Authority (VPSA) or State Literary Fund loans to finance school capital projects. City bonds sold to the VPSA and Literary Fund loans constitute general obligation debt of the City. City Council shall approve any application to the VPSA or the Department of Education for a Literary Fund loan. City Council shall approve the issuance of the bonds as required by the Public Finance Act. The School Board shall recommend such financings before a proposed financing is brought to City Council for approval.

Policy III - Budget Policy

Principles

- Public participation in the budgetary process will be encouraged.
- The City will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.
- The budget process will be coordinated in a way that major policy issues are identified for City Council several months prior to consideration of budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Policies

- City Council shall adopt a balanced budget in accordance with all legal requirements.
- A structured budget preparation and formulation process shall be used for all departments and agencies receiving funding from the City.
- Departmental budgets shall be managed within the total appropriated budget for each fiscal year.
- All operating budget appropriations shall lapse at the end of the fiscal year to the extent that they are not expended or

encumbered, with the exception of year-end carry-forward items approved by City Council.

- The budget shall be adopted by the favorable vote of a majority of members of City Council.
- The Vision, Goals and Strategic Plan of the City Council as well as the *Comprehensive Plan* will serve as the framework for the budget proposed by the City Manager.
- The fiscal year for the City is July 1 through June 30 as defined by the *City Code*, Section 18-1.
- One-time revenues shall be used for one-time expenditures only.
- A General Fund Reserve for Contingencies of $1.2 million shall be used as a source of funding for unanticipated expenditures during the budget year. The Reserve for Contingencies is limited to one-time expenditures and shall not be considered a source for recurring financing.

Process

- The City Manager shall annually prepare a *Proposed Budget* for City Council review. The *Proposed Budget* shall serve as a financial plan for the upcoming fiscal year and shall contain the following information:
  1. A budget message that outlines the proposed revenue and expenditures for the upcoming fiscal year together with an explanation of any major changes from the previous fiscal year. The budget message should also include any proposals for major changes in financial policy.
  2. Charts indicating the major revenues and expenditures in each major fund (General, Water, Sewer, Airport and Solid Waste) as well as changes in fund balance for all funds.
  3. Summaries of proposed expenditures by function, department and activity for all funds proposed to be expended in a fiscal year.
  4. A schedule of estimated requirements for the principal and interest of each bond issue.
  5. A three-year history of revenues and expenditures to include the prior year actual, current year adopted, amended, and proposed budgets for each major fund.
  6. The proposed budget appropriation ordinance, including the tax levy.
- The City Council shall hold a public hearing on the budget submitted by the City Manager and all interested citizens shall be given an opportunity to be heard on issues related to the proposed budget, including the *Capital Improvement Plan*.
- Following the public hearing on the *Proposed Budget*, City Council may make adjustments. In instances where City Council increases the total proposed expenditures, it shall also identify a source of funding at least equal to the proposed expenditures.

Capital Improvement Program

- A five-year *Capital Improvement Plan (CIP)* that serves as the basis for annual capital appropriations and debt financing requirements shall be prepared and updated annually.
- The *CIP* shall include descriptions, timeline, cost estimates, and a schedule of expected expenditures for each project.
- Debt service requirements and funding needs for schools and City government shall be determined based on the *Adopted CIP*.
- Long-term borrowing shall be confined to major capital improvements and equipment purchases.
- Short-term borrowing shall be limited to bond anticipation purposes and equipment leasing, where feasible, with a life of less than 8 years.
- Capital project appropriations shall lapse upon project completion, allowing for an adequate warranty period. Lapsed appropriations shall remain in the Capital Fund for reallocation to other projects.
- Incremental operating costs associated with capital projects shall be funded in the operating budget after being identified and approved in the Capital Improvement Program.
- Pay-as-you-go funding as a percentage of the City's 5-Year CIP shall not be less than 10% with a goal of 15%.

Quarterly Financial Reporting

The City Manager will present to the City Council's Finance Committee (with copies to the remainder of Council) quarterly financial reports identifying meaningful trends in revenues and expenditures for the General, Water and Sewer, Airport, Stadium, Comprehensive Services Act, Juvenile Detention, and Solid Waste Funds.

Third Quarter Review

In mid-March, City staff will evaluate all expenditures and revenues as compared to budget and make recommendations to City Council regarding possible adjustments. Section 15.2-2507 of the *Code of Virginia* requires that a public hearing be held prior to City Council action when the potential increases in the appropriation are greater than $500,000 or one percent of revenues.

Policy IV - Investment Policy

I. Policy Statement

It is the policy of The City of Lynchburg, Virginia ("the City") that the investment and administration of its funds be made in accordance with the Code of Virginia Investment of Public Funds Act, the applicable provisions of any outstanding bond indebtedness, and this policy. It is the intent of the City to be in complete compliance with all applicable federal, state and local laws, and other regulations and statutes governing the investment of public funds. Within those parameters, the goal of this policy is to achieve the highest rate of return that is reasonable. The City will establish an Investment Committee consisting of the City Manager, Deputy City Manager, and Director of Financial Services. This Committee will provide broad policy oversight over investments. This policy will be reviewed on an annual basis. Any changes must be approved by the Investment Committee and be reaffirmed by City Council. See Appendix 1 for a Glossary of Investment Terms.

II. Scope

This policy applies to the investment of all the financial assets and funds held by the City. Specific requirements or limitations imposed upon the investment of Bond Proceeds, Debt Service Funds and Debt Service Reserve Funds are located in Section X of this Policy. These Funds are accounted for in the City of Lynchburg's Comprehensive Annual Financial Report and include the General, Special Revenue, Capital Projects, and Proprietary Funds.

III. Objectives

Funds shall be invested in only those investments permitted by Federal, State and local law as it relates to public funds, as well as any contractual agreements entered into by the City.

All of the City's funds, regardless of term, shall be invested with the following objectives listed in the order of priority:

1. *Safety* - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. Specifically, the City will:

    a. seek to avoid realizing any loss through the sale or disposal of an investment; and

    b. seek to mitigate the risk of unrealized losses due to a decline in value of investments held in the portfolio.

2. *Liquidity* - The investment portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. This shall be accomplished by structuring the portfolio in the following manner:

    a. The City will purchase investments scheduled to mature in accordance with its anticipated cash needs, in order to minimize the need to sell investments prior to maturity;

    b. A portion of City Funds will be maintained in cash equivalents, including money market funds, investment pools and overnight securities, which may be easily liquidated without a loss of principal should an unexpected need for cash arise; and

    c. The portfolio will consist largely of investments with active secondary markets.

3. *Yield* - The City's investment portfolio shall be designed with the objective of maximizing a fair rate of return consistent with the investment risk constraints and cash flow characteristics of the portfolio. The Investment Committee shall establish suitable benchmarks for the measurement of the portfolio's return.

IV. Delegation of Authority

Under the guidance of the Investment Committee, the City's Director of Financial Services is the official charged with collecting, safeguarding and disbursing City funds. In this capacity, and with consensus from the Investment Committee, the Director of Financial Services is responsible for establishing staff roles and responsibilities, considering the quality and capability of staff, selecting investment advisors and consultants involved in investment management, and developing and maintaining appropriate administrative procedures for the operation of the investment program. Examples of key staff roles and responsibilities include, but are not limited to, solicitation of investment offerings, placement of purchase and sell orders, confirmation of trades, and preparation of reports and other activities as required for the daily operations of the investment area. The Director of Financial Services is also charged with developing written standard Investment procedures and an asset allocation plan consistent with this policy. Such procedures shall be reviewed and approved by the Investment Committee. Subject to the approval of the Investment Committee and City Council, the Director of Financial Services may employ financial consultants on a contractual basis to assist in the development and implementation of investment procedures and policies, to monitor the effectiveness and continued compliance with such policies and procedures, and to provide guidance in investment matters.

V. Standards of Care

The standard of prudence to be used by investment personnel shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The "prudent person" standard states:

> "Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The Director of Financial Services, and those delegated investment authority under this Policy, when acting in accordance with written procedures and this Investment Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

VI. Ethics and Conflicts of Interest

Officers and employees of the City involved in the investment process shall refrain from personal business activities that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Office of the Clerk of Council any material interests in financial institutions with which they conduct business and any personal investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City. Officers and employees are required to abide by the provisions of the Virginia Conflict of Interests Act. The Act prohibits City officers and employees from seeking or accepting money or any other thing of value for the performance of their duties, using confidential information for their own benefit and having a personal interest in a company with which the City is doing business. "Officer" means any person appointed or elected to the City's government whether or not he/she receives compensation or other emolument of office. "Employee" means all persons employed by the City.

VII. Collateral and Safekeeping Arrangements

The City's investments shall be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by Virginia Code, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. The Code refers to a counterparty as the issuer or seller of the security and any repurchase agreement provider. All securities purchased or sold will be transferred when possible only under "delivery vs. payment method" to ensure that funds or securities are not released until all criteria relating to the specific transaction are met.

VIII. Competitive Selection of Investment Instruments

It is desirable to select investments on a competitive basis when possible to ensure that the City receives the best price available on a particular investment and avoids paying excessive fees, mark-ups or other compensation to the provider. A list will be maintained of approved financial institutions and security broker/dealers selected by creditworthiness (*e.g.*, a minimum capital requirement of $10,000,000 and at least five years of operations). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions will supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the City of Lynchburg Investment Policy

Under the guidance and oversight of the Investment Committee, the Director of Financial Services shall adhere to the following procedures, with assistance from the City's Investment Advisor where appropriate, when funds become available for investment to the extent practical:

1. The Director of Financial Services shall determine the class of investment and maturity range most appropriate for investment of the funds available, based upon the anticipated expenditure schedule of the City, the desired asset allocation of the City's portfolio and the City's Investment Plan.
2. Offers will be solicited for the selected investment from the list of pre-approved providers as noted above.
3. The Director of Financial Services will accept the offer (or bid, if the City is selling an investment) which provides the highest rate of return or which is otherwise deemed most suitable while complying with this Policy and any other criteria specified in the solicitation of offers.

The City shall retain a record of the offers received, the instruments chosen, and the rationale for making the decision.

From time to time, certain investment dealers may present the City with offers that are attractive for investment. Although the City should endeavor to verify (and document) that the price is "fair," it may occasionally purchase such a security without a competitive process if the investment is for $500,000 or less.

Additionally, a competitive process shall not be required for the investment of funds in money market funds, investment pools and overnight securities. However, it shall be the responsibility of the Director of Financial Services to be aware of the yields being offered by various highly liquid investments, and to invest the City's overnight funds in the vehicle(s) which provide a competitive return to the City while complying with this policy and any other criteria established by the Investment Committee or City Council.

IX. Suitable and Authorized Investments – Without Exception, Only the Following Investments Are Suitable and Authorized

1. Treasury Securities

Bonds, Notes and Bills issued by the United States Treasury or certificates representing ownership of treasury bond principal or coupons.

2. **Agency Securities (FHLB, FNMA, FFCB, FHLMC, GNMA)**
   Obligations issued and guaranteed as to principal and interest by the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association, maturing within five years of the date of purchase.

3. **Prime Commercial Paper**
   Commercial Paper maturing within 270 days of the day of purchase rated P-1 or higher by Moody's and A-l or higher by Standard & Poor's, provided that the issuing domestic corporation has a net worth of $50 million and its long-term debt is rated A or better by Moody's and Standard & Poor's.

4. **Certificates of Deposit**
   Certificates of Deposit maturing within one year and issued by domestic banks rated P-l by Moody's and A-l by Standard & Poor's.

5. **Banker's Acceptances**
   Banker's Acceptances maturing within 180 days rated P-l or higher by Moody's and A-l or higher by Standard & Poor's, provided the issuer is a major domestic bank or the domestic office of an international bank rated AA or higher by Moody's and Standard & Poor's.

6. **Commonwealth of Virginia and Virginia Local Government Obligations**
   General Obligations, Insured Obligations or Revenue Bonds secured by Debt Service Reserve Funds not subject to annual appropriation rated AA or higher by Moody's or Standard & Poor's.

7. **Repurchase Agreements**
   Repurchase Agreements collateralized by securities approved for investment herein, provided that the counterparty is rate A or better by Moody's and Standard & Poor's and the collateral is held by an independent third party. All Repurchase Agreements are purchased with a Master Repurchase Agreement in place with a third-party custodian.

8. **Open-End Investment Funds**
   Open-end Investment Funds registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein.

9. **Virginia Local Government Investment Pool**

10. **Virginia State Non-Arbitrage Program or Other Authorized Arbitrage Investment Management Programs**

X. Suitable and Authorized Investments – Restricted Funds

Funds defined as sinking funds under the Virginia Code may be invested in items listed in Section IX.1 and IX.6 above, repurchase agreements collateralized by those investments, and in the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs.

XI. Internal Controls

Under the guidance of the Investment Committee, the Director of Financial Services will establish and maintain an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure will be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. The Internal Audit Department shall add this Policy and related Procedures to their Audit Universe for audit consideration. The internal control structure will address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery of securities
- Clear delegation of authority to subordinate staff members

- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

XII. Reporting

Under the guidance of the Investment Committee, the Director of Financial Services will ensure that a Management Report will be prepared on a quarterly basis. The information from this Report may be derived from the Investment Advisor and/or the Safekeeping Agent, or both, where appropriate. This Report will include information that provides an analysis of the status of the current investment portfolio and whether investment activities during the reporting period have conformed to the investment policy herein. The Report will be presented to City Council for information and comment. To the extent practical, the report detail may include such items as the following:

- Listing of securities held at the end of the reporting period
- Realized and unrealized gains or losses resulting from appreciation or depreciation
- Average weighted yield to maturity of portfolio on investments compared to benchmarks
- Listing of investment by maturity type
- Percentage of the total portfolio which each type of investment represents

XIII. Diversification

The City will endeavor to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity. Target asset allocation strategies shall be developed by the Investment Committee to provide guidance as to appropriate levels of diversification. With the exception of U. S. Treasury securities and authorized pools, no more than 50% of the City's total investment will be the obligations of a single financial institution.

XIV. Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase.

Appendix 1: Glossary of Investment Terms

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point - A unit of measurement used in the valuation of fixed -income securities equal to l/l00 of 1 percent of yield, e.g., "one-quarter" of 1 percent is equal to 25 basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality - The measurement of the financial strength of a bond issuer to help an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate - Interest rate charged by one institution lending federal funds to the other.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market See "Treasury Bills, Notes, and Bonds."

Interest Rate - See "Coupon Rate."

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers -Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. Development of a wire transfer agreement with the lead bank and third-party custodian – The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 - Federal legislation which sets the standards by which investment such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity - An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See 'Weighted Average Maturity."

Money Market Mutual Fund - Mutual funds that invest, solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services - Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.) [(Total assets) - (Liabilities)] / (Number of shares outstanding)

No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or 'interest rate."

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par - Face value or principal value of a bond, typically $1,000 per bond.

Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+l basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement - (repo or RP') - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act -. Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility - A degree of fluctuation in the price and valuation of securities.

"Volatility Risk" Rating - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bonds funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("AAA" by S&P; "V- 1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("CCC"- S&P, "V-10" by Fitch).

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued' transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-call (YTC) - The rate of return an investor earns on a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

MISCELLANEOUS STATISTICS

June 30, 2006

Date of Incorporation	1805
Date of Independent City Status	1852
City Population	68,000
Metropolitan Statistical Area Population	214,911
Composition of Population	
White	66.6%
Black	29.7%
Other	3.7%
Median Household Income, 2 Person Family	$32,234
Form of Government	Council-Manager
Number of Employees – All Funds (excluding Police and Fire):	
Full and Part-Time FTE	1,311.9
Seasonal and Non-Seasonal Wage FTE	68.56
City of Lynchburg Facilities and Services:	
Miles of Streets	415
Number of Street Lights	10,758
Number of Traffic Signals	117
Culture and Recreation:	
Community Centers	7
Senior Centers	1
Parks	17
Park acreage	848
Swimming Pools	1
Tennis Courts	40
Gymnasiums	7
Fire and Emergency Medical Services (EMS):	
Number of Stations	8
Number of Fire Personnel and Officers	179
Number of Calls Answered (3)	463 per month (est.)
Number of Inspections Conducted	293
Number of EMS Calls	13,032
Police protection:	
Number of Stations	1
Number of Police Personnel and Officers	222
Number of Patrol Units	54
Number of Law Violations:	
Physical Arrests	6,996
Traffic Violations	10,926
Parking Violations	6,306
Sewage System:	
Number of Service Connections	18,179
Daily Average Treatment in Gallons	12 million
Maximum Daily Capacity of Treatment Plant in Gallons	44 million
Water System:	
Number of Service Connections	21,930
Number of Fire Hydrants	2,799
Daily Average Consumption in Gallons	11.1 million
Maximum Daily Capacity of Plant in Gallons	26 million
Education:	
Number of Elementary Schools	11
Number of Secondary Schools	5
Number of Teachers and Administrators	776
Number of Community Colleges	1
Number of Universities	4
Facilities and Service not included in the Reporting Entity:	
Hospitals:	
Number of Hospitals	2
Number of Patient Beds	587

Source: Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2006

PRINCIPAL PROPERTY TAXPAYERS IN 2006

Taxpayer	Type of Business	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
R R Donnelley Printing Co.	Periodical Publication Printing	$ 46,218,580	1	1.07 %
River Ridge, Ltd.	Shopping Mall	44,768,400	2	1.03
Areva NP Inc.	Nuclear Power Design & Fuel Fabrication	36,015,079	3	0.83
Frito Lay, Inc.	Food Manufacturer	31,245,896	4	0.72
First Colony Life Insurance Co.	Life Insurance	30,828,664	5	0.71
J D N Realty Corporation, Inc.	Real Estate Company	20,028,300	6	0.46
Bostic Development at Lynchburg, LLC.	Real Estate Company	19,438,500	7	0.45
CCRC, Inc.	Nursing Home/Assisted Living	17,671,300	8	0.41
C B Fleet Company Inc.	Pharmatheutical industry	15,367,604	9	0.36
Wal-Mart Real Estate Business Trust	Real Estate Company	12,757,200	10	0.29
Total		$ 274,339,523		6.33 %

Total Assessed Valuation: $4,325,550,690

Source: City of Lynchburg, Real Estate Assessor and Commissioner of Revenue

DEMOGRAPHIC AND ECONOMIC STATISTICS, LAST TEN CALENDAR YEARS

Fiscal Year	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	School Enrollment (5)	Unemployment Rate (6)
1997	66,200	1,409,001	$ 21,284	33.1	9,506	4.3
1998	66,400	1,490,746	22,451	33.1	9,515	2.7
1999	66,200	1,551,927	23,443	33.1	9,387	2.2
2000	65,269	1,604,247	24,579	35.1	9,296	2.1
2001	65,400	1,646,576	25,177	35.1	9,212	4.5
2002	65,800	1,672,768	25,422	35.1	9,064	6.2
2003	66,400	1,739,215	26,193	35.1	8,955	6.1
2004	67,100	1,804,990	26,900	35.1	8,782	N/A
2005	68,000	1,878,568	27,626	35.1	8,625	5.2
2006	*	*	*	35.1	8,602	4.0

Source:
(1) Weldon Cooper Center for Public Service, University of Virginia www.coopercenter.org
(2) U.S. Department of Commerce, Economic and Statistic Administration, Bureau of Economic Analysis
(3) Virginia Employment Commission (annual average) www.vaemploy.com/www.vec.virginia.gov/velma.virtuallmi.com
(4) United States Census - 2000
(5) Lynchburg City Schools. Enrollment as of September 30 for each year presented.
(6) Virginia Employment Commission & U.S. Department of Labor, Bureau of Labor Statistics, as of June 2006
* FY 2006 information unavailable

PRINCIPAL EMPLOYERS,
CURRENT YEAR AND NINE YEARS AGO

	2006			1997		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment**	**Employees**	**Rank**	**Percentage of Total City Employment**
Centra Health, Inc.	4,500	1	14.80%	3,455	1	12.11%
Thomas Road Baptist Church, Jerry Falwell Ministries,Inc.	3,321	2	10.92%	1,240	5	4.35%
Areva (2)	1,512	3	4.97%	1,600	3	5.61%
Lynchburg City Schools	1,500	4	4.93%	1,500	4	5.26%
City of Lynchburg	1,309	5	4.30%	1,081	7	3.79%
Genworth Financial Inc. (1)	1,240	6	4.08%	1,200	6	4.21%
J. Crew Outfitters	800	7	2.63%	1,000	8	3.51%
Kroger, Inc.	619	8	2.04%	600	10	2.10%
Lynchburg College	599	9	1.97%	482	11	1.69%
Nationwide Insurance Company	585	10	1.92%	-	-	0.00%
R. R. Donnelley, Inc.	550	11	1.81%	803	9	2.81%
Ericsson	-		0.00%	2,800	2	9.81%
Total	16,535			15,761		

Employed Civilian Labor Force (June 2006) Lynchburg City - Virginia Employment Commission	30,413
Employed Civilian Labor Force (June 1997) Lynchburg City - Virginia Employment Commission	28,530

FY 2006 numbers are derived from Office of Economic Development,
City of Lynchburg, Virginia as of September 19, 2006

FY 1997 numbers are derived from Official Statement for bond issuance March 12, 1998

(1) Formerly First Colony Life Insurance Co.
(2) Formerly Framatome