In the opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the City, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax. See "TAX MATTERS" herein.

NEW ISSUE —
BOOK-ENTRY ONLY

RATINGS:	
Fitch:	**AA+**
Moody's:	**Aa2**
Standard & Poor's:	**AA+**

(See "RATINGS" herein)

Official Statement
Relating To The Issuance Of

$115,190,000
City Of Lynchburg, Virginia,
General Obligation Public Improvement and Refunding Bonds, Series 2014

Dated: Date of Delivery **Due: As Shown On Inside Cover**

This Official Statement has been prepared by the City of Lynchburg to provide information on the Bonds. Selected information is presented on this cover page for the convenience of the reader. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety.

Purpose	The proceeds of the Bonds will be used to finance the costs of various public improvement projects of and for the City, to pay the outstanding principal of a general obligation note issued to finance the costs of various public improvement projects of and for the City, and to refund and defease certain outstanding general obligation bonds of the City (see "INTRODUCTION" and "PLAN OF REFUNDING" herein).
Issued Pursuant to	The Bonds will be issued pursuant to the Public Finance Act of 1991, Title 15.2, Chapter 26, of the Code of Virginia, 1950. The City Council of the City adopted a resolution on May 13, 2014 authorizing the issuance and sale of the Bonds.
Security	The Bonds will be general obligations of the City, and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as they become due.
Interest Payment Dates	June 1 and December 1, beginning December 1, 2014.
Record Dates	May 15 and November 15, beginning November 15, 2014.
Redemption Provisions	See "SECTION TWO: THE BONDS - Description of the Bonds - *Optional Redemption"* and *"- Mandatory Sinking Fund Redemption"* herein.
Denomination	$5,000 or whole multiples thereof.
Registration	Book-entry only; Cede & Co., as nominee for The Depository Trust Company.
Registrar/Paying Agent	Director of Financial Services, City of Lynchburg, Virginia.
Financial Advisor	Davenport & Company LLC.
Bond Counsel	Hawkins Delafield & Wood LLP, New York, New York.
Issuer Contact	Director of Financial Services, City of Lynchburg, Virginia, (434) 455-3968.

The Bonds are offered when, as and if issued, subject to approval of their validity by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, as described herein. It is expected that delivery of the Bonds will be made through the facilities of DTC on or about July 10, 2014.

Dated: June 10, 2014

$115,190,000
CITY OF LYNCHBURG, VIRGINIA,
GENERAL OBLIGATION PUBLIC IMPROVEMENT AND REFUNDING BONDS, SERIES 2014

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP Number**
2015	$ 1,295,000	2.00%	0.15%	551239 5H5
2016	1,065,000	5.00	0.42	551239 5J1
2017	2,635,000	5.00	0.77	551239 5K8
2018	2,990,000	5.00	1.15	551239 5L6
2019	4,245,000	5.00	1.47	551239 5M4
2020	4,800,000	5.00	1.76	551239 5N2
2021	5,565,000	5.00	2.03	551239 5P7
2022	5,600,000	5.00	2.24	551239 5Q5
2023	5,670,000	5.00	2.42	551239 5R3
2024	5,510,000	5.00	2.54	551239 5S1
2025	5,585,000	5.00	2.65*	551239 5T9
2026	5,660,000	5.00	2.75*	551239 5U6
2027	4,000,000	5.00	2.85*	551239 5V4
2028	3,995,000	4.00	3.07*	551239 5W2
2029	3,995,000	4.00	3.16*	551239 5X0
2030	3,995,000	4.00	3.24*	551239 5Y8
2031	3,990,000	4.00	3.31*	551239 5Z5
2032	3,990,000	4.00	3.38*	551239 6A9
2033	3,980,000	4.00	3.45*	551239 6B7
2034	3,980,000	4.00	3.52*	551239 6C5
2035	3,270,000	4.00	3.57*	551239 6D3
2036	3,270,000	4.00	3.66*	551239 6E1

$13,060,000 4.00% Term Bond Due on June 1, 2040 – Yield 3.85%* CUSIP: 5512396F8
$13,045,000 4.00% Term Bond Due on June 1, 2044 – Yield 4.00% CUSIP: 5512396G6

---

* Yield to par call on June 1, 2024.

** CUSIP numbers have been assigned by an organization not affiliated with the City and are included solely for the convenience of the holders of the Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds as indicated above.

CITY OF LYNCHBURG, VIRGINIA

CITY COUNCIL

Michael A. Gillette, Mayor

Caesor T. Johnson, Vice Mayor

Hunsdon "H" Cary, III

Joan F. Foster

Jeff S. Helgeson

J. Randolph Nelson

Edgar J.T. Perrow, Jr.

CITY OFFICIALS

L. Kimball Payne, III, City Manager

Bonnie Svrcek, Deputy City Manager

Donna S. Witt, Director of Financial Services

Valeria P. Chambers, Clerk of Council

Walter C. Erwin, III, City Attorney

BOND COUNSEL

HAWKINS DELAFIELD & WOOD LLP
New York, New York

AUDITORS

BROWN, EDWARDS & COMPANY, L.L.P.
Lynchburg, Virginia

FINANCIAL ADVISOR

DAVENPORT & COMPANY LLC
Richmond, Virginia

[This Page Intentionally Left Blank]

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there by any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

TABLE OF CONTENTS

[This Page Intentionally Left Blank]

OFFICIAL STATEMENT
RELATING TO THE ISSUANCE OF

$115,190,000
CITY OF LYNCHBURG, VIRGINIA,
GENERAL OBLIGATION PUBLIC IMPROVEMENT AND REFUNDING BONDS, SERIES 2014

SECTION ONE: INTRODUCTION

The purpose of this Official Statement is to furnish information in connection with the sale by the City of Lynchburg, Virginia (the "City"), of its $115,190,000 aggregate principal amount General Obligation Public Improvement and Refunding Bonds, Series 2014 (the "Bonds"). The Bonds will be general obligations of the City to the payment of which the full faith and credit and unlimited taxing power of the City are irrevocably pledged. Financial and other information contained in this Official Statement has been prepared by the City from its records (except where other sources are noted). This information speaks as of its date and is not intended to indicate future or continuing trends in the financial or economic position of the City.

The Issuer

The issuer of the Bonds is the City of Lynchburg located adjacent to Amherst, Bedford and Campbell Counties in the Piedmont section of Virginia within 14 miles of the geographic center of the Commonwealth of Virginia.

The City is autonomous and entirely independent of any county or any other political subdivision of the Commonwealth of Virginia. Based on the 2010 Census, the City had a population of 75,568 in 2010. The latest provisional population estimate from the Weldon Cooper Center of the University of Virginia reports the City's 2013 population at 77,376.

Purpose and Use of Proceeds of the Bonds

The proceeds of the Bonds will be used to finance the costs of various public improvement projects of and for the City, to pay the outstanding principal amount of a general obligation public improvement bond anticipation note issued to finance the costs of various public improvement projects of and for the City, and to refund and defease certain outstanding general obligation bonds of the City.

A more complete description of the use of proceeds of the Bonds is provided in Section Two.

The Bonds

General

The Bonds will be dated the date of their delivery and will mature on June 1 in each of the years and in the principal amounts in each such year set forth on the inside cover page of this Official Statement. The Bonds will be issued in the denomination of $5,000 or any integral multiple thereof and will be held by DTC or by its nominee as securities depository with respect to the Bonds.

The Bonds will bear interest at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on December 1, 2014 and semiannually on each June 1 and December 1 thereafter. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. So long as the Bonds are held by DTC or its nominee, interest will be paid to Cede & Co., as nominee of DTC, on each interest payment date.

The record dates for the payment of principal of and interest on the Bonds are November 15, 2014 and each May 15 and November 15 thereafter.

Optional Redemption

The Bonds are subject to redemption at the option of the City as described herein under "SECTION TWO: THE BONDS — Description of the Bonds — *Optional Redemption*".

Mandatory Sinking Fund Redemption

The Bonds maturing on June 1, 2040 and on June 1, 2044 are subject to mandatory sinking fund redemption as described herein under "SECTION TWO: THE BONDS — Description of the Bonds — *Mandatory Sinking Fund Redemption*".

Delivery

The Bonds are offered for delivery, when, as and if issued, subject to the approval of their validity by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the City by its City Attorney, Walter C. Erwin III, Esquire. It is expected that the Bonds will be available for delivery, at the expense of the City, in New York, New York, through the facilities of DTC, on or about July 10, 2014.

Ratings

The Bonds have been rated as shown on the cover page hereof by Fitch Ratings, One State Street Plaza, New York, New York 10004, Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. A more complete description of the ratings is provided in Section Three.

Additional Information

Any questions concerning the content of this Official Statement should be directed to Ms. Donna S. Witt, Director of Financial Services, 900 Church Street, Lynchburg, Virginia 24504 (434/455-3968, email: donna.witt@lynchburgva.gov), or to the City's Financial Advisor, Davenport & Company LLC, One James Center, 901 East Cary Street, Richmond, Virginia 23219 (804/697-2900).

SECTION TWO: THE BONDS

Authorization and Purposes of the Bonds

The Bonds are being issued in accordance with the provisions of Title 15.2, Chapter 26 of the Code of Virginia, 1950 (being the Public Finance Act of 1991), and a resolution duly adopted by the Council of the City on May 13, 2014.

A portion of the proceeds of the Bonds, exclusive of the costs of issuance thereof, will be used to finance a portion of the costs of the acquisition, construction, reconstruction, improvement, extension, enlargement and equipping of the public improvement projects of and for the City set forth below:

Public Improvement Project	Amount
Public Schools	$68,435,100
City Stadium Improvement Projects	8,152,500
Transportation (Streets and Bridges)	7,049,300
Juvenile Group Home	4,178,100
General Governmental Improvement Projects	4,116,500
Water Improvement Projects	7,329,000
Sewer Improvement Projects	5,859,500
	$105,120,000

A portion of the proceeds of the Bonds, exclusive of the costs of issuance thereof, will be used to pay the outstanding principal amount of the City of Lynchburg, Virginia, General Obligation Bond Anticipation Note, Series 2011, dated November 11, 2011 (the "Series 2011 Bond Anticipation Note"). The proceeds of the Series 2011 Bond Anticipation Note were used to finance a portion of the costs of the acquisition, construction, reconstruction, improvement, extension, enlargement and equipping of various public improvement projects of and for the City.

A portion of the proceeds of the Bonds, exclusive of the costs of issuance thereof, will be used to refund and defease certain outstanding general obligation bonds of the City (see "Plan of Refunding" below).

Sources and Uses of Funds

The following table sets forth the anticipated application of the proceeds of the Bonds for the purposes described above:

Sources of Funds	
Principal Amount	$115,190,000.00
Premium(1)	11,917,438.70
Total Sources	$127,107,438.70
Uses of Funds	
Deposit to Capital Improvements Fund	$110,125,164.55
Deposit to the Escrow Deposit Fund	15,819,553.61
Costs of Issuance(2)	1,162,720.54
Total Uses	$127,107,438.70

(1) Based on the initial public prices of the Bonds.
(2) Including underwriting compensation as discussed under "Sale at Competitive Bidding" in Section Three.

Description of the Bonds

General

The Bonds consist of one issue totalling $115,190,000 principal amount of General Obligation Bonds, to which the full faith and credit and unlimited taxing power of the City are pledged for payment (see "Security for the Bonds"). The Bonds are dated the date of their delivery, bear interest from that date payable on December 1, 2014 and semiannually on each June 1 and December 1 thereafter at the rates per annum set forth on the inside cover page of this Official Statement and are scheduled to mature on June 1 in each of the years and in the principal amount in each such year set forth on the inside cover page of this Official Statement.

The Bonds will be issued in fully registered form in the denomination of $5,000 or integral multiples thereof and will be held by DTC, or its nominee, as securities depository with respect to the Bonds. Purchasers of beneficial ownership interests in the Bonds will be made only in book-entry form and individual purchasers will not receive physical delivery of the Bonds. See "Appendix G - Description of The Depository Trust Company and the Book-Entry System".

Optional Redemption

The Bonds maturing on and after June 1, 2025 (or portions thereof in installments of $5,000) are subject to redemption at the option of the City prior to their stated maturities on or after June 1, 2024, in whole or in part at any time, in such order as may be determined by the City (except that if at any time less than all of the Bonds of a given maturity of any series are called for redemption, the particular Bonds or portions thereof in installments of $5,000 of such maturity to be redeemed shall be selected by lot), upon payment of a redemption price equal to the principal amount of the Bonds to be redeemed, together with the interest accrued thereon to the date fixed for the redemption thereof.

Mandatory Sinking Fund Redemption

The Bonds maturing on June 1, 2040 are subject to mandatory sinking fund redemption on June 1, 2037 and on June 1 of each year thereafter and to payment at maturity on June 1, 2040 in the principal amounts in each year set forth below, in the case of redemption with the particular Bond or Bonds maturing on June 1, 2040 or portions thereof to be redeemed to be selected by lot, upon payment of the principal amount of the Bonds maturing on June 1, 2040 to be redeemed, together with the interest accrued on the principal amount to be redeemed to the date fixed for the redemption thereof:

Year (June 1)	Principal Amount
2037	$ 3,265,000
2038	3,265,000
2039	3,265,000
2040†	3,265,000
	$13,060,000

† Final maturity.

The City, at its option, may credit against such mandatory sinking fund redemption requirement the principal amount of any Bonds maturing on June 1, 2040 which have been purchased and cancelled by the City or which have been redeemed and not theretofore applied as a credit against such mandatory sinking fund redemption requirement.

The Bonds maturing on June 1, 2044 are subject to mandatory sinking fund redemption on June 1, 2041 and on June 1 of each year thereafter and to payment at maturity on June 1, 2044 in the principal amounts in each year set forth below, in the case of redemption with the particular Bond or Bonds maturing on June 1, 2044 or portions thereof to be redeemed to be selected by lot, upon payment of the principal amount of the Bonds maturing on June 1, 2044 to be redeemed, together with the interest accrued on the principal amount to be redeemed to the date fixed for the redemption thereof:

Year (June 1)	Principal Amount
2041	$ 3,265,000
2042	3,260,000
2043	3,260,000
2044†	3,260,000
	$13,045,000

†Final maturity.

The City, at its option, may credit against such mandatory sinking fund redemption requirement the principal amount of any Bonds maturing on June 1, 2044 which have been purchased and cancelled by the City or which have been redeemed and not theretofore applied as a credit against such mandatory sinking fund redemption requirement.

Notice of Redemption

If any Bond (or any portion of the principal amount thereof in installments of $5,000) shall be called for redemption, notice of the redemption thereof, specifying the date, number and maturity of such Bond, the date and place or places fixed for its redemption, and if less than the entire principal amount of such Bond is to be redeemed, that such Bond must be surrendered in exchange for the principal amount thereof to be redeemed and a new Bond or Bonds issued equalling in principal amount that portion of the principal amount thereof not to be redeemed, shall be mailed not less than 30 days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of such Bond at such registered owner's address as it appears on the books of registry kept by the Registrar and Paying Agent for the Bonds as of the close of business on the 45th day next preceding the date fixed for redemption. If notice of the redemption of any Bond (or portion thereof in installments of $5,000) shall have been given as aforesaid, and payment of the principal amount of such Bond (or the portion of the principal amount thereof to be redeemed) and of the accrued interest payable upon such redemption shall have been duly made or provided for, interest on such Bond shall cease to accrue from and after the date so specified for redemption thereof.

Any notice of the optional redemption of the Bonds may state that it is conditioned upon there being on deposit with the City, or with the Registrar and Paying Agent for the Bonds or other agent designated by the City, on the date fixed for the redemption thereof an amount of money sufficient to pay the redemption price of such Bonds, together with the interest accrued thereon to the date fixed for the redemption thereof, and any conditional notice so given may be rescinded at any time before the payment of the redemption price of such Bonds, together with the interest accrued thereon, is due and payable if any such condition so specified is not satisfied. If a redemption of any Bonds does not occur after a conditional notice is given due to there not being on deposit with the City, or with the Registrar and Paying Agent for the Bonds or other agent designated by the City, a sufficient amount of money to pay the redemption price of such Bonds, together with the interest accrued thereon to the date fixed for the redemption thereof, the corresponding notice of redemption shall be deemed to be revoked.

So long as the Bonds are in book-entry only form, any notice of redemption shall be given only to DTC or to its nominee. The City shall not be responsible for providing any beneficial owner of the Bonds any notice of redemption.

Security for the Bonds

The Bonds will be general obligations of the City, and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as they become due. The Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

Plan of Refunding

A portion of the proceeds of sale of the Bonds will be applied to the refunding and defeasance of $14,545,000 principal amount of the City's General Obligation Public Improvement Bonds, Series 2006, dated May 9, 2006 and maturing on January 15 in each of the years 2017 through 2026, which are subject to redemption and are to be redeemed on January 15, 2016 (the "Refunded Bonds").

Such proceeds will be deposited with U.S. Bank National Association, Richmond, Virginia, as Escrow Agent (the "Escrow Agent"), under an Escrow Deposit Agreement, dated July 10, 2014 (the "Escrow Deposit Agreement"), by and between the City and the Escrow Agent. Such proceeds will be invested in Government Securities. The Government Securities will mature and bear interest payable at times and in amounts sufficient to pay interest when due on the Refunded Bonds to their respective redemption dates and to pay the principal of the Refunded Bonds on such dates. The City is undertaking the refunding of the Refunded Bonds described above in order to reduce its annual debt service expenditures.

The Refunded Bonds are more fully described below:

City of Lynchburg, Virginia, General Obligation Public Improvement Bonds
Series 2006, Dated May 9, 2006

Year of Maturity (January 15)	Principal Amount	Interest Rate	Redemption Date	Redemption Price	CUSIP Number
2017	$1,190,000	4.25 %	January 15, 2016	100%	551239 Y59
2018	1,240,000	4.25	January 15, 2016	100	551239 Y67
2019	1,290,000	4.375	January 15, 2016	100	551239 Y75
2020	1,345,000	4.50	January 15, 2016	100	551239 Y83
2021	1,410,000	4.50	January 15, 2016	100	551239 Y91
2022	1,470,000	4.50	January 15, 2016	100	551239 Z25
2023	1,540,000	4.75	January 15, 2016	100	551239 Z33
2024	1,610,000	4.75	January 15, 2016	100	551239 Z41
2025	1,685,000	4.75	January 15, 2016	100	551239 Z58
2026	1,765,000	4.75	January 15, 2016	100	551239 Z66
	$14,545,000				

Bondholders' Remedies in the Event of Default

Section 15.2-2659 of the Code of Virginia, 1950, provides that, upon the affidavit of any owner or any paying agent of any general obligation indebtedness of a political subdivision of the Commonwealth of Virginia (including the City) in default as to payment of principal or interest, the Governor shall immediately make a summary investigation and if such default is established to the Governor's satisfaction, the Governor shall immediately make an order directing the State Comptroller to withhold all further payment to the political subdivision of all funds, or any part thereof, appropriated and payable by the Commonwealth to the political subdivision so in default for any and all purposes until such default is cured. The Governor shall, while such default continues, direct the payment of all such sums so withheld, or so much thereof as shall be necessary, to the owners of the indebtedness so in default, or the paying agent therefor, so as to cure, or to cure insofar as possible, the default on such indebtedness and the interest thereon. The Governor shall, as soon as practicable, give notice of such default and of the availability of funds with the paying agent or with the State Comptroller by publication one time in a daily newspaper of general circulation in the City of Richmond and, in the case of registered bonds, by mail, to the registered owners of such indebtedness. The State Comptroller advises that to date no order to withhold funds pursuant to Section 15.2-2659 has ever been issued. Although the provisions of Section 15.2-2659 have never been tested in a Virginia court, the Attorney General of Virginia has ruled that appropriated funds may be withheld by the Commonwealth pursuant to that section. In the fiscal year ended June 30, 2013, total direct appropriations paid by the Commonwealth to the City amounted to approximately $91,736,166.

Neither the Bonds nor the proceedings with respect hereto specifically provide any remedies to the Bondholders if the City defaults in the payment of principal of or interest on the Bonds, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the Bondholders upon the occurrence of such default. Upon any default in the payment of the principal of or interest on a Bond, a Bondholder could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the City Council to levy and collect a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds as the same shall come due and otherwise to observe the covenants contained in the Bonds and the proceedings with respect thereto. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

Although Virginia law currently does not authorize such action, future legislation may enable the City to file a petition for relief under the United States Bankruptcy Code (the "Bankruptcy Code") if it is insolvent or unable to pay its debts. Bankruptcy proceedings by the City could have adverse effects on the Bondholders including (1) delay in the enforcement of their remedies, (2) subordination of their claims to those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation indebtedness or the Bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent". The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

The City has never defaulted in the payment of either principal of or interest on any indebtedness.

Approval of Legal Proceedings

Certain legal matters relating to the authorization and validity of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. The opinion of Bond Counsel will be furnished at the expense of the City upon delivery of the Bonds and will be printed on or appended to the Bonds. The proposed form of the opinion of Bond Counsel is set forth in Appendix E to this Official Statement. Bond Counsel has not prepared this Official Statement or verified its accuracy, completeness or fairness. Accordingly, Bond Counsel will express no opinion of any kind as to the Official Statement, and the opinion of Bond Counsel will be limited to matters relating to the authorization and validity of the Bonds and to the exclusion of interest on the Bonds from gross income under present federal and Virginia income tax laws.

Tax Matters

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinions, Bond Counsel has relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

Bond Counsel expresses no opinion regarding any other federal or State tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under State and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, without regard to the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest that is unconditionally payable at least annually at prescribed rates), that premium constitutes "premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that result in the lowest yield on such Bond). An owner of a Premium Bond must amortize the premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the premium allocable to that period. In the case of a tax-exempt Premium Bond, if the premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of premium for federal income tax purposes, including various special rules relating thereto, and State and local tax consequences, in connection with the acquisition, ownership, amortization of premium on, sale, exchange or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally may be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or State level, may adversely affect the tax-exempt status of interest on the Bonds under federal or State law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014, by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest". The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such tax-exempt bond. Similarly, on February 26, 2014, Representative David Camp, Chairman of the United States House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%) which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their "modified adjusted gross income", defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Verification

The Arbitrage Group, Inc. will verify certain mathematical computations (a) as to the sufficiency of the moneys and investments deposited under the Escrow Deposit Agreement (i) to pay, when due, the interest on the Refunded Bonds from the date the Bonds are issued to the respective redemption dates for the Refunded Bonds and (ii) to pay the principal of the Refunded Bonds on such dates and (b) as to the yield on the Bonds and on the Government Securities to be purchased with the proceeds of sale of the Refunding Bonds and deposited in escrow pursuant to the terms of the Escrow Deposit Agreement. See "Plan of Refunding" above.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal to accept delivery of and pay for the Bonds. All expenses in connection with the assignment and printing of CUSIP numbers will be paid by the underwriters of the Bonds.

SECTION THREE: MISCELLANEOUS

Ratings

The City has applied to Fitch Ratings, One State Street Plaza, New York, New York 10004, Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, for credit ratings on the Bonds. The initial credit ratings are set forth on the cover of this Official Statement. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

Financial Advisor

Davenport & Company LLC, Richmond, Virginia, is employed as Financial Advisor to the City in connection with the issuance of the Bonds.

Sale at Competitive Bidding

The Bonds were sold at competitive bidding on June 10, 2014 (the "Sale Date").

The Bonds were awarded to a group of underwriters (the "Underwriters") for whom J.P. Morgan Securities LLC is serving as the representative (the "Representative") at an aggregate purchase price of $126,526,060.95. The Representative supplied the information as to the initial public offering yields for the Bonds shown on such inside cover page. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices, or prices derived from the yields, shown on such inside cover page.

Closing Certificates

In addition to the customary closing certificates, the Underwriters will be furnished at the time the Bonds are delivered a certificate signed by the City Manager and the Director of Financial Services stating that the descriptions and statements, including financial statements, of or pertaining to the City contained in this Official Statement (other than under the caption "Litigation" in Appendix A hereto), on the Sale Date and at the time of delivery of the Bonds, were and are true and correct in all material respects and did not and do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. Such certificate will further confirm that insofar as the descriptions and statements, including financial data, contained in this Official Statement of or pertaining to non-governmental bodies and governmental bodies other than the City are concerned, such descriptions, statements and data have been attained from sources believed by the City to be reliable and the City has no reason to believe that they are untrue or incomplete in any material respect.

The Underwriters will be furnished a certificate signed by the City Attorney stating that the portion of this Official Statement entitled "Litigation" in Appendix A hereto on the Sale Date and at the time of the delivery of the Bonds was and is true and correct in all material respects and did not and do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

Continuing Disclosure

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Certificate, the form of which is set forth as Appendix F to this Official Statement, pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds, consistent with the Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (“Rule 15c2-12”), to provide to the Municipal Securities Rulemaking Board (the “MSRB”) annual financial information and operating data for the City, including audited financial statements of the City, within nine (9) months after the end of each fiscal year beginning on and after July 1, 2013, and, in a timely manner not in excess of ten (10) business days after the occurrence thereof, notices of certain events with respect to the Bonds, whether relating to the City or otherwise, including (i) principal and interest payment delinquencies, (ii) non payment related defaults, if material, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds, (vii) modifications to rights of Bondholders, if material, (viii) Bond calls, if material, and tender offers, (ix) defeasances, (x) release, substitution or sale of property securing repayment of the Bonds, if material, (xi) rating changes, (xii) bankruptcy, insolvency, receivership or similar event of the City, (xiii) the consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; and, in a timely manner, notice to the MSRB of any failure of the City to provide required annual financial information referred to above to the MSRB. The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds.

In the Continuing Disclosure Certificate, the City represents that in the five previous years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

Summaries and Descriptions

All summaries in this Official Statement of provisions of the Constitution of the Commonwealth of Virginia, statutes of the Commonwealth of Virginia, resolutions or other proceedings of the City, or other documents and instruments and of the Bonds are subject to the detailed provisions and judicial interpretations to which reference is hereby made for further information. Such summaries do not purport to be complete statements of any or all of such provisions.

This Official Statement and any advertisement of the Bonds are not to be construed as a contract with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly identified, are set forth as such and not as representations of fact, and no representation is made that any of these estimates will be realized.

Deemed Final Document

The City has authorized the distribution of the Preliminary Official Statement and has deemed it final as of its date within the meaning of Rule 15c2-12, except for the omission of certain pricing and other information permitted to be omitted pursuant to Rule 15c2-12.

CITY COUNCIL OF THE CITY OF LYNCHBURG, VIRGINIA

/s/ MICHAEL A. GILLETTE
Mayor

[This Page Intentionally Left Blank]

APPENDIX A

CITY OF LYNCHBURG, VIRGINIA

[This Page Intentionally Left Blank]

APPENDIX A

CITY OF LYNCHBURG

General Description

Overview

The City of Lynchburg is named for its founder, John Lynch, who, at the age of 17, established a ferry service across the James River in 1757. In October of 1786, the Virginia General Assembly granted John Lynch a charter and a town was formed, Lynch's Ferry House. The town later became known as Lynchburg, was incorporated in 1805 and became an independent city in 1852. Lynchburg, Virginia, is a city which remembers its past while focusing on the future. It is a vibrant central city, serving as the business and cultural center of the region, fostering a strong sense of community, promoting economic opportunity for all of its citizens and providing responsive, results-oriented government. An active community boasting friendly residential neighborhoods, Lynchburg has a tradition of outstanding public education. The City is also home to five colleges and universities including Liberty University, the largest private university in the Commonwealth.

Encompassing 50 square miles, Lynchburg is located adjacent to Amherst, Bedford and Campbell Counties, on the eastern edge of the beautiful Blue Ridge Mountains, and is within 14 miles of the geographic center of the Commonwealth of Virginia. Although it serves as the core city of a 2000 square mile region, Lynchburg is autonomous and entirely independent of any county or any other political subdivision of the Commonwealth of Virginia. The 2010 census reported the City population to be 75,568 and the population of the Lynchburg MSA, including the City and the Counties of Amherst, Bedford and Campbell, to be 252,634. The latest population estimate from the Weldon Cooper Center of the University of Virginia reports the City's 2013 population at 77,376.

Operating under City Council's vision of Lynchburg as, "*A Great Place to Live, Work and Play*," City employees strive to fulfill their mission to deliver services to City residents and visitors in an efficient, effective and equitable manner and to build a stronger community. Lynchburg has received frequent recognition for its successes, most recently by the Gallup organization which ranked the City as the 37th (of 189 metropolitan areas) "Happiest and Healthiest City" in the nation for its state of well-being. In November 2013, for the tenth consecutive year, the City was named among the top 10 in the nation for cities its size by the Center for Digital Government for its use of information technology to "create value to constituents." The City has also been recognized by Forbes Magazine as a Top 25 Best Places to Retire, and a Top 200 Best Places for Business and Careers. Milken Institute named Lynchburg a Best Performing City and Kiplinger has identified the City as one of the Top 50 Places to Live.

Organization of Government, Vision and Priorities

Council-Manager Government

The City has been organized under the Council-Manager form of government since 1920. City Council is the governing body that makes all policy decisions for the proper administration of the City. The Council is elected by the voters and is comprised of seven members, who elect a Mayor and Vice-Mayor from their members for a two-year term. Three City Council members are elected at-large and four are elected from wards. Terms are four years and a portion of Council is elected every two years. City Council appoints a City Manager to act as administrative head of the City. The Manager serves at the pleasure of City Council, carries out its policies, directs City operations, provides financial and human resource management, and has the power of appointment and removal of all department directors and employees of the City.

City Council's Vision and Priorities:

On October 8, 2013, City Council adopted a new vision statement and strategic plan for the Lynchburg community. The strategic plan was a natural evolution from the Sustainable Lynchburg Initiative underway for several years and includes both a foundation and strategic pillars (core areas) that support the vision of Lynchburg as, "A Great Place to Live, Work and Play." City Council's vision provides a baseline for City policy development and operational priorities. In December 2013, Council identified an initial set of priorities, one under each pillar, to advance the implementation of the strategic plan. The plan will be reviewed annually, progress measured, and priorities adjusted as appropriate.

Foundation: Good Governance and Fiscal Responsibility are the foundation to achieving Council's vision of making Lynchburg "A Great Place to Live, Work and Play."

Mission: Deliver services to City residents, workers and visitors in an efficient, effective and equitable manner and to build a stronger community.

Values: Open Communication, Personal Responsibility, Integrity and Customer Focus.

Following are the pillars that support Council's Vision:

Arts and Culture: Lynchburg is a place to discover and enjoy arts, history, and culture.

Citizen Engagement and Social Capital: Lynchburg citizens are engaged in participative democracy, interact with each other, learn from each other and together make the community more than the sum of its parts.

Economic Development: Lynchburg fosters an environment where businesses develop, thrive and compete in the global marketplace.

Healthy and Active Living: Lynchburg supports healthy and active living.

Infrastructure: Lynchburg will develop, renew and replace the City's infrastructure in a manner that is cost effective, efficient, and sensitive to the community's needs.

Land Use: Lynchburg optimizes the use of land and resources within its 50 square miles.

Lifelong Learning: Lynchburg is a community that values, encourages, and supports the pursuit of learning opportunities at all stages of life.

Natural Resources: Lynchburg protects, preserves, and restores the natural environment.

Neighborhoods: Lynchburg is a community of vibrant, healthy, and diverse neighborhoods.

Safe Community: Lynchburg supports a safe and vibrant community through partnerships, planning and prevention.

Social Equity: Lynchburg is a city where everyone is valued and respected, and has fair access to public resources.

Transportation: Lynchburg's transportation system is multi-modal, safe and accessible to all citizens.

Lynchburg School Board

The City Council appoints a nine-member School Board to serve staggered three-year terms of office. Although the School Board is appointed by City Council, under Virginia law all operations of the School Board are completely independent of City Council and City administration. The School Board appoints a School Superintendent who serves at the pleasure of the Board and is responsible for the operations of the school system in accordance with Virginia laws, regulations of the state Board of Education, and the policies and regulations of the Board. The Superintendent recommends and the School Board appoints a staff which directs the three divisions: School Administrative Services, Instructional Services and Operations. The School Board presents an annual budget to City Council, which is required to make an annual appropriation for school operations, but has no authority over how the appropriation is spent. The School Board is not empowered to levy taxes or incur indebtedness and all school facilities are titled to the City.

School Board's Vision and Priorities:

In 2012, the Superintendent presented a new division-wide Comprehensive Plan that focused on the indicators of excellence – Achievement, Behavior, and Culture – and included a new division-wide Vision, Mission, and Goal.

The Vision*:* A Tradition of Excellence for All

The Mission*:* Every Child, By Name and By Need, to Graduation

The Goal*:* Excellence in Achievement, Behavior, Culture, Operations and Personnel

The Lynchburg City School Board subsequently adopted the plan and specific goals have been set for each indicator, with strategies outlining how the division will meet the goals.

Constitutional Officers

The Constitutional Officers of the City (the Commissioner of the Revenue, the Treasurer, the Commonwealth's Attorney, the Sheriff and the Clerk of the Circuit Court) are elected at-large by the citizens. They are not responsible to City Council, but closely coordinate their efforts with the Council and the City Manager.

Principal Officers

Elected Officials	Name	Term and Manner of Selection	Length of Service With City	Expiration of Term
Mayor and Council Member	Michael A. Gillette	4 years (Elected)	9 years	6/30/2016
Vice Mayor and Council Member	Ceasor T. Johnson	4 years (Elected)	9 years	6/30/2016
Council Member	Hunsdon "H" Cary	4 years (Elected)	3 years	6/30/2014
Council Member	Joan F. Foster	4 years (Elected)	11 years	6/30/2014
Council Member	Jeff S. Helgeson	4 years (Elected)	9 years	6/30/2016
Council Member	J. Randolph Nelson	4 years (Elected)	4 years	6/30/2014
Council Member	Edgar J.T. Perrow, Jr.	4 years (Elected)	5 years	6/30/2016
Government Officials				
City Manager	L. Kimball Payne III	Appointed by Council	13 years	Pleasure of Council
Deputy City Manager	Bonnie Svrcek	Appointed by City Manager	14 years	Pleasure of City Manager
City Attorney	Walter C. Erwin III	Appointed by Council	34 years	Pleasure of Council
Director of Financial Services	Donna S. Witt	Appointed by City Manager	14 years	Pleasure of City Manager
Superintendent of Schools	Dr. Scott S. Brabrand	Appointed by School Board	2 years	Pleasure of School Board

Certain City Administrative and Financial Staff Members

L. Kimball Payne III ("Kim")
Lynchburg City Manager

L. Kimball Payne III, ("Kim") became Lynchburg City Manager in February 2001. Previously, he served as the County Administrator of Spotsylvania County, Virginia, from February 1987 to February 2001. Prior to that he served as Assistant County Administrator in Spotsylvania from February 1984 to February 1987.

Mr. Payne holds a Bachelor of Arts degree from Duke University and Master of Planning and Master of Arts in Public Administration degrees from the University of Virginia. He has attended the Senior Executive Institute at the Weldon Cooper Center for Public Service at the University of Virginia. Mr. Payne is an Adjunct Professor at Virginia Tech in the Public Administration program.

Mr. Payne is a retired Commander in the Naval Reserve. He completed nearly eight years of active duty as a Naval Flight Officer with his last assignment as a Naval ROTC Instructor at the University of Virginia. He is a member of the International City-County Management Association (ICMA), and a Past President of the Virginia Local Government Manager's Association (VLGMA). Mr. Payne serves on boards of a number of regional agencies including the Lynchburg Regional Chamber of Commerce, the Region 2000 Services Authority and the Region 2000 Local Government Council, Business and Economic Development Alliance and Metropolitan Planning Organization.

Kim and his wife Leslie have five children and five grandchildren.

Bonnie Svrcek
Deputy City Manager

Bonnie Svrcek was appointed Deputy City Manager in June 1999. In this position, she oversees the City's Office of the Assessor, Community Development, Communications and Marketing, Financial Services, Fleet Services, Libraries and Information Technology.

Prior to her appointment, Ms. Svrcek served as the Assistant Town Manager in Blacksburg, Virginia, from 1990 to 1999. During her tenure with the Town of Blacksburg, Ms. Svrcek served as the Interim Director of Public Works for nine months and as Interim Director of Finance for nearly a year and Interim Town Manager for four months. She served as President of the Montgomery County, Radford and Floyd United Way and the Montgomery County Rotary Club. She also served as a Budget Analyst in Fairfax County, Virginia, from 1985 to 1990. Prior to her position in Fairfax, she served as a Staff Assistant in Washington, D.C. for the City of Los Angeles. She received her B.S. in Housing and Applied Design from the University of Maryland and a Masters of Public Administration from the University of Southern California, Washington Public Affairs Center. She also attended the Senior Executive Institute in Charlottesville and in 2011 she attended the State and Local Government Excellence Executive Education Program at the Harvard Kennedy School of Government.

Ms. Svrcek has been recognized as the Outstanding Assistant Manager in Virginia by the Virginia Local Government Management Association (VLGMA) and was honored with the Athena Woman of Worth Award in September 2006 by the Greater Lynchburg Chamber of Commerce. She served as President of the Virginia Local Government Management Association (VLGMA) in 2005. She completed a term as a Southeast Region Vice President on the Executive Board of the International City-County Management Association (ICMA) in 2009. In June 2011, Ms. Svrcek was selected President-Elect of ICMA and will complete her three-year term (President-Elect: 2011-2012, President: 2012-2013, and Past President: 2013-2014) in September.

Donna S. Witt
Director of Financial Services

Donna S. Witt was promoted to Director of Financial Services on June 14, 2006. For the six months prior to that date, she served as the Financial Services Department's Interim Director, assuming the duties and responsibilities of the retiring Director on January 1, 2006.

Ms. Witt has worked for the City of Lynchburg since September 1999, first as the Billings and Collections Administrator, until July 2004, when she was promoted to Assistant Director of Financial Services. As Director of Financial Services, Ms. Witt is responsible for directing overall financial planning and policy by identifying, monitoring, and analyzing the fiscal condition of the City. Further responsibilities include: managing all aspects of the City's bonded indebtedness, including assessing debt capacity; coordinating bond issues and bond rating activities; and management oversight of the Accounting, Procurement, Budget, Human Services Financial, and Billings and Collections (including utility billing) Divisions.

A Kentucky native, Ms. Witt possesses 31 years of financial services experience, having received her Bachelor of Arts Degree from Liberty University in 1983 with a Major in Accounting and a Minor in Business Administration. Immediately prior to her service with the City, she was employed by Liberty University as its Director of Accounting from 1989 to 1997 and its Director of Budget from 1997 to 1999.

Ms. Witt is a member of the National and State organizations of the Government Finance Officers Association of the United States and Canada. In fall 2011, Ms. Witt was awarded the designation of Certified Public Finance Officer and was also awarded the Virginia Government Finance Officers' Certificate. In 1999, she completed an extensive governmental leadership program sponsored by the Weldon Cooper Center for Public Service at the University of Virginia. She is also a graduate of Leadership Lynchburg 2004 and was commissioned a Kentucky Colonel by the Governor of Kentucky in 1998. Ms. Witt has been accepted to participate in the Harvard Kennedy School Executive Education Senior Executives in State and Local Government Program in July 2014.

Scott S. Brabrand, Ed.D.
Superintendent of Schools

Scott S. Brabrand, Ed.D. was appointed Superintendent of Schools in April 2012. As Superintendent of Schools, Dr. Brabrand administers all educational activities and organizational functions of the school division in accordance with the policies adopted by the Lynchburg City School Board.

Since his arrival, Dr. Brabrand has implemented a new Comprehensive Plan around Achievement, Behavior and Culture that is already showing results in these areas. In the Fall of 2013, data around the Comprehensive Plan indicated a 20.93% decrease in the number of students not graduating on time, as reported in the Federal Graduation Rate. The division also saw a 34% increase in the number of students taking at least one Advanced Placement course, and a 71% increase in the number of students taking at least one Dual Enrollment course. Truancy has decreased by 16%, and the number of students with at least one short term suspension has decreased 9.5%.

Prior to becoming Superintendent of the Lynchburg City Schools, Dr. Brabrand served as Assistant Superintendent for one of the most diverse clusters in the Fairfax County Public Schools (Cluster IV). Dr. Brabrand was responsible for providing educational and administrative leadership to 27 schools and approximately 2,500 employees, serving over 22,000 students. During his tenure, the number of schools achieving 90 percent SOL math proficiency increased from 5 to 12 schools. Additionally, four of the Cluster's six Title 1 schools that were in state sanction for reading and math exited from those sanctions. Dr. Brabrand was also selected as "District Shepherd" for the system's Priority Schools Initiative that focused on increasing academic achievement in 30 lower performing schools in partnership with the University of Virginia's Turnaround Specialist Program.

Dr. Brabrand, who is proficient in Spanish, worked in management in the telecommunications industry for three years before becoming a teacher. He earned his bachelor's degree in Foreign Service from Georgetown University, his master's degree in education from George Washington University, and his doctorate in educational administration from Virginia Tech. He has taught courses on public school law for Virginia Tech and George Mason University and on school curriculum and instruction for the University of Virginia. Currently, Dr. Brabrand is a member of the board of directors for Central Virginia YMCA, Lynchburg's award winning children's museum, Amazement Square, and the Lynchburg Regional Chamber of Commerce.

Government Services and Facilities

Introduction

The City of Lynchburg provides a broad array of municipal services to its citizens, including police and fire protection, collection of refuse, water, sewer and storm water services, parks and recreation, libraries and museums, human services, maintenance of streets and highways, economic development, tourism and community planning. The City also operates a public school system including pre-school, kindergarten through twelfth grade, gifted, special, and technical education. Other services provided by the City, and which receive partial funding from the state, include health services, mental health and substance abuse assistance, agricultural services and judicial activities. The City operates a regional airport with commercial and general aviation services and a regional juvenile detention center. Additionally, the City participates in a regional jail authority, a regional public safety radio authority, a regional landfill authority, regional economic development activities and transportation planning. The City is currently studying the creation of a regional library system.

Lynchburg Public Schools

Lynchburg City Schools (LCS) is an urban school division consisting of a diverse population of students and employs faculty and staff who work together to provide the highest level of academic, artistic, and physical instructional programs and extra-curricular activities to ensure that each student reaches his or her full potential. The system operates thirteen elementary schools, three middle schools and two high schools In addition, three schools for innovation provide additional emphasis on science, technology, economics, performing arts, and foreign languages, and a year round elementary school provides periodic intersessions concentrating on remediation and enrichment activities. LCS participates in three regional programs, the Central Virginia Governor's School for Science and Technology, the Lynchburg Regional Governor's STEM (science, technology, engineering and mathematics) Academy, and a Students with Disabilities Program. Both E. C. Glass and Heritage High Schools were ranked in The Washington Post's May 2013 national ranking of the most challenging high schools. The Career-Technical program is consistently recognized state- and nation-wide with the E. C. Glass nuclear technologies class being one of only three courses like it in the country. In addition, a course has been set for meeting the 21st Century needs of the students through our LCS-ONE initiative, which will provide a personal computing device for all students in grades four (4) through twelve (12). LCS is also home to the 2014 Regional Teacher of the Year and 2012 State Teacher of the Year. The school division partners with more than 250 business organizations to encourage community involvement and engagement in the schools. For 2013, the Commonwealth of Virginia Department of Education recognized thirteen of the sixteen public schools with full accreditation and three were accredited with a warning in mathematics. The School Board has adopted a Comprehensive Plan that focuses on achievement, behavior and culture for all students and staff in the school system and a vision of "*Every Child, By Name and By Need, to Graduation*".

Public school facilities are funded by capital appropriations, and the issuance of general obligation bonds by City Council. The main purpose for the bond issuance that is the subject of this official statement is the construction of a new Heritage High School to replace an aging facility that was constructed after annexation in 1976. The new high school will be located adjacent to the existing facility and is currently under construction. It consists of approximately 266,000 square feet and will accommodate 1,200 students. The total project costs are estimated at $77 million which includes demolition of the existing school and the construction of new athletic fields. The school will be occupied in August 2016 with final completion of all project phases in July 2017. Building features include a commercial kitchen with food service equipment, dining commons, a 3 court gymnasium and 133 meter indoor track, a 600 seat auditorium, media center, general classrooms, career technical and technology areas, and administration areas. Support buildings around the site include three masonry press box buildings and a field house. Athletic areas include a synthetic turf baseball field and football field overlay, softball field, a synthetic turf football/soccer field, various practice fields and eight tennis courts.

Lynchburg City Schools is actively engaged in programs and opportunities focused on growing student capacity in the areas of science, technology, engineering, and math (STEM). It is currently designated as the fiscal agent for two regional schools with a focus on science and technology, the Central Virginia Governor's School for Science and Technology (CVGS) and the newly established XLR8-Lynchburg Regional Governor's STEM Academy. Both of these innovative schools highlight the collaborative nature of the Lynchburg region by serving not only Lynchburg students, but also students in the counties of Bedford, Campbell, Appomattox, and Amherst. CVGS and XLR8 have industry advisory boards and internship programs to ensure curriculum is relevant to the targeted workforce needs and growth patterns of the region. Students are actively engaged in informal learning opportunities through participation in robust regional robotics programs that allow students to interface directly with professionals in scientific and technical fields.

For the 2013 school year, the Commonwealth of Virginia provided approximately 47% of school funds, approximately 4% was provided from school operations, 12% from federal grants, and 37% was provided by a transfer of local revenues from the City's General Fund.

LYNCHBURG PUBLIC SCHOOLS - OPERATING INFORMATION - STUDENT ENROLLMENT, EMPLOYEES AND SCHOOLS BY FISCAL

Description	2009	2010	2011	2012	2013
Elementary School Membership	3,936	3,934	3,968	3,987	3,975
Secondary School Membership	4,583	4,438	4,359	4,317	4,133
Total Membership	8,519	8,372	8,327	8,304	8,108
Teachers and Administrators[1]	780	759	977	851	836
Other Employees	482	449	250	223	195
Total Employees	1,262	1,208	1,227	1,074	1,031
Elementary Schools	11	11	11	11	11
Secondary Schools	5	5	5	5	5
Total Buildings	16	16	16	16	16

[1] Includes only full-time equivalent positions funded through the operating budget.

Source: Superintendent of Schools, City of Lynchburg, Virginia.

LYNCHBURG CITY SCHOOLS - SCHOOL BUILDINGS

School	Grade	Site Size	Original Construction Date	Date of Additions	Maximum Capacity	Optimum Capacity	FY 2013 Enrollment
Secondary:							
E.C. Glass High School	9-12	54.0 acres	1953	1966, 1981, 2004	1,610	1,610	1,326
Heritage High School	9-12	56.0 acres	1977	1992	1,437	1,437	1,023
Dunbar Middle School for Innovation	6-8	14.0 acres	1940	1949,1957	789	789	636
Linkhorne Middle School	6-8	25.0 acres	1966	1976, 2002	680	680	589
Sandusky Middle School	6-8	29.6 acres	1966	1976	838	838	559
Elementary:							
Bass Elementary School	K-5	14.3 acres	1951	1963	276	276	261
Bedford Hills Elementary School	K-5	31.3 acres	1958	1992	474	474	552
Dearington Elementary School for Innovation	K-5	6.1 acres	1960	--	224	224	215
Heritage Elementary School	K-5	12.8 acres	1957	1961,1993	402	402	383
Hutcherson Elementary School	Pre-K	7.5 acres	1960	--	325	325	--[1]
Kizer Elementary School	Sp. Ed.	4.5 acres	1968	--	225	225	--[2]
Linkhorne Elementary School	K-5	10.0 acres	1964	1970,1988	482	482	423
Paul Munro Elementary School	K-5	9.7 acres	1962	1990	330	330	275
R.S. Payne Elementary School	K-5	4.5 acres	1925	--	500	500	489
Perrymont Elementary School	K-5	33.0 acres	1954	1956,1993	412	412	344
Sandusky Elementary School	K-5	10.0 acres	1964	1967,1974	340	340	375
Sheffield Elementary School	K-5	12.8 acres	1957	1961,2001	402	402	444
T.C. Miller Elementary School for Innovation	K-5	4.2 acres	1932	--	242	242	214
TOTAL							8,108

[1] Pre-kindergarten and Headstart are not included in enrollment totals.
[2] Kizer Elementary School houses a regional program for students with disabilities.

Source: Superintendent of Schools, City of Lynchburg, Virginia.

ACTUAL AND PROJECTED STUDENT ENROLLMENT BY GRADE AND BY FISCAL YEAR

	Fiscal Year Student Enrollment by Grade					Fiscal Year Student Enrollment by Grade		
	As of September 30, Actual Enrollment					As of September 30, Projected Enrollment		
Grade	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
K	732	718	696	740	735	709	761	709
1	673	702	726	705	720	696	732	765
2	648	648	670	676	662	654	703	695
3	653	632	620	643	643	627	669	674
4	608	639	629	615	601	648	616	656
5	622	595	627	608	614	591	636	609
6	635	598	605	621	609	596	593	631
7	604	619	593	586	608	609	601	588
8	614	581	622	593	567	570	607	600
9	797	706	642	669	629	754	660	646
10	732	719	666	580	623	638	569	626
11	702	619	672	625	534	576	572	532
12	499	596	559	643	563	607	573	542
Total	8,519	8,372	8,327	8,304	8,108	8,275	8,292	8,273

Source: Superintendent of Schools, City of Lynchburg, Virginia.

Parks & Recreation

A city with outstanding cultural, educational and recreation opportunities, Lynchburg operates fifteen parks, one senior center and two natural areas comprising over 800 acres of public recreational land with an extensive trail system. The parks serve those interested in sports and active recreation as well as those seeking a place to stroll, have a picnic or enjoy a quiet moment in a natural setting. The City also manages nine community centers, an Olympic size outdoor pool, a spray park, numerous playgrounds, tennis courts, athletic fields and basketball courts. The largest center, the Miller Center, is undergoing a $6 million renovation that will be complete in the Fall of 2014. This historic building serves as the administrative offices for Parks and Recreation and features a community theatre, neighborhood center, an environmental education center, classrooms and community meeting spaces. Other recreational opportunities include hiking and biking on the James River Heritage Trail and in the Blue Ridge Mountains, swimming, fishing and boating on Smith Mountain Lake and the James River, skiing at nearby Wintergreen Resort, year round skiing at Snowflex, ice skating or taking in a minor-league baseball game at the Lynchburg City Stadium. The football complex at City Stadium is currently undergoing a major renovation. Lynchburg has been recognized as a Runner Friendly Community by the Road Runners Club of America and in 2011 was named the Outstanding Runner Friendly Community in the nation. In 2013, Trail Runner magazine featured the City as one of the eight top trail towns in the United States.

Water, Sewer and Stormwater Systems

The City of Lynchburg's Water Resources Department operates three utilities serving the city and adjacent counties. The utility operations have been regularly recognized for excellent performance. As early as April 2008, the United States Environmental Protection Agency (EPA) recognized the City with the FY 2007 "Performance and Innovation in the State Revolving Fund Creating Environmental Success (PISCES) Award" for its use of the Virginia Clean Water Revolving Loan Fund in the Combined Sewer Overflow Program. The department's commitment to excellence continues to the present day. In 2013, the Virginia Department of Health, for the seventh consecutive year, recognized the City with Excellence in Granular Media Filtration Water Treatment Awards for consistently producing high quality water, three times cleaner than required by EPA, at the Abert and College Hill Water Treatment Plants. The City also received the "Water Fluoridation Quality Award" in 2012 from the Center for Disease Control. In 2013, the City received the "Publically Owned Best Maintained Dam Award" from the Virginia Lakes and Watersheds Association for the historic Pedlar River Dam, which impounds the City's primary water source. Additionally, in 2013, the City received the "Excellence in Environmental Engineering Award" from the American Academy of Environmental Engineers and Scientist for its holistic approach to water quality improvement in the CSO Program. In 2014, the Pedlar River Dam and Gravity Pipeline received the American Water Works Association's "Water Landmark Award," given to only a few historic North American water projects annually that meet strict eligibility requirements.

Water Treatment and Distribution Systems

The City owns and operates its own public water supply and distribution system. The primary source of supply is a surface water impoundment reservoir, Pedlar Lake, located in

Amherst County twenty-five miles from the City. The reservoir can be supplemented by the James River, which is sufficient to provide the City's total demand, if necessary. The City has over 465 miles of waterlines, some as large as 36" in diameter.

Raw water from the Pedlar Reservoir flows by gravity into two water treatment plants, College Hill and Abert. The College Hill Water Plant has a capacity of 14 million gallons per day (mgd) and the Abert Water Plant has a capacity of 12 mgd, for a total treatment capacity of 26 mgd. During the past three years (2011-2013), the highest one day water demand for the City's distribution system was 17.4 million gallons, with an average daily demand of 11.5 million gallons for the fiscal year ended June 30, 2013. Both treatment plants meet or exceed current Virginia Department of Health standards and are operated in accordance with current Health Department requirements. Recent studies project that these two facilities have adequate capacity to supply the City's needs well beyond the year 2050. Treated water from the two plants is stored in 11 reservoirs with a total combined capacity of 30.7 million gallons. Of the 22,517 active water customers in 2013, 20,140 were residential, 1,840 were commercial, 85 were industrial, 328 were institutional, 89 were municipal, 24 were irrigation only, and 11 were other accounts. In addition to serving the City of Lynchburg, portions of the counties of Amherst, Bedford and Campbell are served on a wholesale basis.

During FY 2013 and the first half of FY 2014, almost 35,000 linear feet of new water line was installed in the City. Water mains were replaced to improve fire flow protection to neighborhoods and to replace aging and undersized water lines. In addition, the renovation of a pump station located on Wards Ferry Road will be complete in April 2014. The project will allow use of the pump station to transfer water during an emergency event and as a supplement to the increasing water demands in the western half of the City. Two water tanks at the College Hill Treatment Plant were refurbished, the 1.4 MG tank in 2012 and the 10.5 MG tank in 2013.

Proposed work in FY 2015 will include a complete renovation of the electrical system at the Abert Water Treatment Plant; the construction of a new 500,000 gallon water storage tank; and multiple water main construction projects to continue replacement of the old and undersized water mains in the City.

Wastewater Treatment and Collection Systems

The City owns and operates a Regional Wastewater Treatment Plant and a sanitary collection system. The treatment plant, which is located in the northeastern part of the City, serves all of the City and portions of the counties of Amherst, Bedford and Campbell. The plant has an average capacity of 22 mgd with a peak of 44 mgd and treats the incoming sewage to secondary standards. The operational and capital costs of the facility are shared by the region's localities based on the amount of flow from each jurisdiction and capacity owned in the plant. For the fiscal year ending June 30, 2013 the average daily flow at the Wastewater Treatment Plant was 10.9 mgd, with a peak daily flow of 26.4 mgd. During FY 2013, a $10.2 million dollar upgrade to the secondary treatment process was completed. Improvements to the Secondary Treatment Process will allow the plant to treat maximum wet weather flows up to 60 mgd.

The Water Resources Department serves 18,916 City sewer customers, representing 84% of the water customers. During FY 2014, work continues on various sewer system repairs and system extensions. The wastewater collection system consists of approximately 460 miles of pipes, ranging in size from 8" to 84". During the past year, various sewer extension projects and miscellaneous repairs have been made to the system. Additionally in FY 2013, 213,816 feet of sewer line have been televised and 466,384 feet cleaned. A major interceptor replacement project along Burton Creek, that receives flow from Liberty University and the commercial area along Wards Road, will begin in 2014.

Combined Sewer Overflow

One of the characteristics of the City's wastewater collection system, typical of some older cities, is the collection of and transmission of stormwater in the same pipes. While considered state of the art at the time it was constructed, system overflows during high rainfall events coupled with water quality standards established by the Clean Water Act, required remediation of the Combined Sewer Overflows (CSO). In December 1989, the City completed and submitted to the Virginia State Water Control Board (SWCB), an update to the CSO portion of the City's 1978 inflow/infiltration study. That analysis established that complete separation of the City's storm sewers and sanitary sewers was the most feasible and cost-effective option to eliminate the problem of untreated wastewater overflow during high rainfall events. Accordingly, complete separation was selected as the City's Long Term Control Plan (LTCP) to improve water quality.

On August 19, 1994, the Virginia Department of Environmental Quality (DEQ) issued the City's sewage discharge permit and a Special Consent Order (Special Order) contingent upon the terms and conditions governing implementation of the LTCP. The permit required the City to implement the LTCP and to undertake certain combined sewer management practices designed to minimize CSO discharges until the sewer system was completely separated. The order established compliance criteria and project priorities for implementation of the LTCP. The order did not contain fixed dates for implementing the LTCP, but rather provided for implementation based on three criteria that reflected the limits of the City's financial capability. The first criterion required the City to adjust its sewer rates so that no later than five years after the effective date of the Special Order, the annual residential sewer bill, with 7 hundred cubic feet (hcf) of average monthly sewer use, equaled or exceeded 1.25 percent of the median household income, and the sewer volume rate for industrial users equaled the residential rate. The second criterion required the City to maintain a sewer operating debt service coverage ratio within a range of 1.1 to 1.5, and the third criterion required the City to annually adjust its sewer system reserve funds to equal no more than 25% of the subsequent years' budgeted operating expenditures.

Although the City has made significant progress in addressing CSO, due to changing Water Quality Standards (WQS), a proposed revision to the City's LTCP was submitted to DEQ in 2013. The proposed change followed extensive flow monitoring and water quality sampling, the development of a new hydraulic computer model of the combined sewer system, hydrologic modeling of the James River and tributaries within Lynchburg, and an evaluation of CSO alternatives. Extensive discussions with DEQ are taking place. The City remains hopeful of full approval of the new LTCP in the spring of 2014.

The proposed revision would significantly modify the City's LTCP. If approved, the proposed plan calls for the remaining separation projects in the current LTCP to be replaced by wet weather capacity/treatment improvements at the wastewater treatment plant. The proposed LTCP is estimated to cost $60 million over the next 10-15 years versus $250 million over decades for the current LTCP and the new plan will meet current water quality standards. The City received a State grant of $30 million in 2014 for CSO work of which $24.4 million is designated for wet weather capacity/treatment improvements at the wastewater treatment plant.

While the proposed revision to the LTCP is under review the City is proceeding with several projects found in both the current and proposed LTCP. Of the original 132 combined sewer overflow points, 112 have been eliminated, leaving 20 permitted overflow points. Since July 1, 1989, construction has been completed on all major combined interceptor sewers, except for the James River Interceptor (JRI) Division 3B. The last segment of the seven-mile James River Interceptor replacement project, JRI 3B, is under contract and started construction in March 2014. To date, 36 of the original 59 separation construction projects have been completed, are under design, or are under construction. Several of the original 59 projects have been divided into multiple construction projects and in one case two of the original projects were combined. This has resulted in a current list of 66 construction projects, 43 of which have been completed or are in progress.

From July 1, 1993 to June 30, 2013, funding of $240,810,184 has been authorized for CSO control projects, with expenditures totaling $225,286,114. The City will continue to be in compliance with the Special Order as long as it meets the Special Order criteria and complies with any water-quality related regulatory requirements applicable to wastewater systems. Because expenditures for non-CSO-related obligations must first be subtracted from any sums the City is required to spend on the CSO Control Plan implementation, all of the City's water-quality related financial obligations are effectively capped as long as the Special Order is in effect.

Virginia Clean Water Revolving Loan Fund Loan

Since 1994, in addition to receiving $91 million in federal and state grants for CSO projects, the City has entered into CSO project related loan agreements with the Virginia Clean Water Revolving Loan Fund (VCWRLF). Throughout this period, the City has remained in full compliance with the financial requirements of each loan agreement and the Special Order, maintaining sewer rates that are among the highest of the metropolitan areas of the state.

Water and Sewer Rates

To comply with requirements of the above noted Special Order, effective with the July 1, 1995 rate adjustments, the City revised its policy to consider rate revisions on an annual basis. In accordance with this policy, the City has annually engaged a consultant to conduct a comprehensive study of municipal water and sewer rates to determine necessary adjustments. Effective July 1, 2013 a revised utility rate structure was approved by City Council. The methodology used for the new rate structure was based on decreasing water consumption primarily due to declining average household consumption using low flow plumbing fixtures and appliances. With over 90% of system costs being fixed, steps have been taken to stabilize revenues by minimizing the volume rate increases and instead shifting more increases to fixed monthly charge. Effective July 1, 2013 the monthly service fee increased from $3.69 to $5.69 based on a 5/8" meter size. Effective July 1, 2014 for 5/8" meter size the monthly service fee will increase from $5.59 to $7.69. Revenues on these monthly charge increases are allocated one-third to the Water Fund and two-thirds to the Sewer Fund. This allocation is approximately the ratio of debt service between the two funds. Despite the costs of the CSO control program, Lynchburg's combined water and sewer rates are below the state average, due to the City's water rates, which are among the lowest in the state.

A comparison of FY 2013, FY 2014 and FY 2015 water and sewer rates are as follows:

	FY 2013	FY 2014	FY 2015
Water			
Volume Rate/hcf	$ 2.38	$ 2.38	$ 2.43
Hydrant charge or 8" or smaller fire line	19.79	19.79	19.79
10" fire line	35.53	35.53	35.53
12" fire line	56.38	56.38	56.38
Sewer			
Volume Rate/hcf	5.65	5.65	5.65
Other Charges			
Monthly Service Charge	See Service Charge Table Below	See Service Charge Table Below	See Service Charge Table Below

Monthly Service Charge Table

Meter Size	FY 2013	FY 2014	FY 2015
5/8'	$3.69	$ 5.69	$ 7.69
¾'	3.69	6.69	9.69
1'	3.69	8.69	13.69
1-1/2'	3.69	13.69	23.69
2'	3.69	19.69	35.69
3'	3.69	33.69	63.69
4'	3.69	63.69	123.69
6'	3.69	123.69	243.69
8'	3.69	183.69	363.69
10'	3.69	303.69	603.69

Stormwater

Throughout its history the City of Lynchburg has been linked to the James River. Changing Federal and State regulations, an increased focus on cleaning up the Chesapeake Bay and a responsibility for good environmental stewardship have resulted in an increased emphasis on water quality issues over the last several years. One of the most recent manifestations of that effort are new or increasing regulations regarding the management of stormwater. Other than combined sewer overflows, the largest impact to water quality in Lynchburg's streams and the James River is stormwater runoff. Approximately 45 miles of 254 total stream miles in the City are listed as impaired and have a pending Total Maximum Daily Load (TMDL) Implementation Plan for bacteria impairments. Within the City there are over 30 miles of storm sewer pipes, over 10 miles of culverts and 4,200 inlets and the condition of much of that system is unknown. The City holds a Small MS4 (Municipal Separate Storm Sewer System) General permit with the state for discharge of stormwater runoff. The permit includes requirements to address pollutants identified in TMDL waste load allocations (WLA) through the development and implementation of TMDL action plans that will then become part of the City's MS4 Program Plan.

There are two TMDLs that the City is required to address. The Chesapeake Bay TMDL requires a waste load allocation for nitrogen, phosphorus and sediment. The James River Basin (Bacteria) TMDL requires reduction in sources of E. coli bacteria in the stream segments that have been identified as impaired. The City will also be required to develop action plans for any future pollutants identified in a TMDL approved after permit issuance if the impairment is included in the 303(d)/305(b) Integrated Report and the report identifies that the TMDL will be developed during that permit cycle. Currently, the lower James River is being studied for Chlorophyll-impairment and the results of the study underway may have an additional and significant impact on the City's water quality plan.

In order to address water quality the City has initiated an evaluation of the existing stormwater conveyance collection system that includes data collection, survey, inspection, condition assessment, capacity analysis, master planning, maintenance, the development of standard operating procedures (SOPs) and prioritization, Capital Improvement Program (CIP) budgeting and planning. This will result in the identification and prioritization of operations and maintenance (O&M) activities, and water quality improvement capital projects for the stormwater collection system.

The evaluation of the stormwater system will culminate with the development of a comprehensive stormwater master plan that will address the various issues in meeting the various federal and state water quality improvement initiatives, addressing local infrastructure needs, improve water quality within the City's watersheds and meeting sustainability goals. The revenue needed to perform this work is being provided by the City's stormwater utility that was established in FY 2013. The Utility was implemented to provide adequate resources for the core areas of the City's program which include regulatory compliance, program management, operations and maintenance and capital improvement programming.

Stormwater Fees

Stormwater utility fees are charged to owners or occupants of all developed property in the City and are based on the amount of impervious surface area on the property. The basic standard of 2,672 square feet is the average impervious area of a single-family unit (SFU). While there are three tiers for detached single family dwellings, charges for other properties, including commercial, institutional and industrial, are based on actual measurements of impervious surface area converted into equivalent SFU's. Each SFU is charges a monthly rate of $4.00. A credit program allows for a reduction in charges based on the implementation of stormwater management practices on the individual properties.

Solid Waste Management

Regional Solid Waste Management

The City is a founding member of the Region 2000 Services Authority. In July 2008 the Services Authority took over operations of the City landfill on Concord Turnpike and Campbell County landfill on Livestock Road. Since then the two landfills have served the communities of Lynchburg and Campbell, Appomattox and Nelson counties. The Services Authority will be closing the Concord Turnpike facility starting in the summer of 2014; however a residential convenience center, funded by the City of Lynchburg, will remain on the site. Lynchburg citizens can bring 500 pounds of trash per month to the convenience center for free. In addition to the convenience center and its regular solid waste collection program, the City offers brush and bulk service on a routine basis at no additional fee. The City pays a tipping fee of $28.75 per ton to the Services Authority for disposal of solid waste. The City has set aside $1,729,039 in a reserve to pay its portion of the closure and post-closure costs at the Concord Turnpike landfill.

Implementation of a Pay by the Bag Program

To encourage waste reduction and recycling the City, for many years, has had a "pay to throw" refuse collection system based on the volume being disposed of. System revenues pay only for disposal costs for residential trash collection. Historically citizens and small businesses have paid for refuse collection in two ways: purchase of an annual decal for a trash cart or by purchase of a trash tag which was placed on the cart or on a trash bag. Because some citizens regularly set trash out without the decal or tag displayed and due to the complexities of enforcement, the City has implemented a Pay by the Bag Program. Although decals will still be utilized, trash tags have been replaced with an official municipal prepaid trash bag that is available at retail stores throughout the City. The bag manufacturing and retail inventory is being handled by a private contractor. Citizens will continue to have the option to purchase an annual decal at a cost of $40 for a 32 gallon cart and $80 for a 64 gallon cart. In addition, citizens who do not comply with trash collection system will be charged a $25 service fee for collection. This new system began in April.

Recycling

Recycling is a voluntary effort. Nine recycling collection centers are located at strategic locations throughout the City. This collection program, coupled with a cooperative effort with industry and large commercial business, has helped the City to exceed the waste stream reduction requirements established by the Commonwealth of Virginia. The collection centers provide recycling bins for newspapers, corrugated or mixed paper, aluminum, steel, and plastics. In FY 2014, the City contracted with a private contractor to haul recyclables to its recycling center at no cost to the City.

Economic Development

The City's economic foundation is comprised of four major economic drivers, health care, retail, nuclear energy, and higher education, with a diversity of other business sectors also represented. Established in 1983, the Lynchburg Office of Economic Development

(LOED), with the Lynchburg Economic Development Authority (LEDA), leads business retention, attraction and new business development initiatives for the City. Siting a business, providing financing assistance, supporting workforce development and developing new markets are key priorities in the City's economic development strategy.

The Lynchburg business community continues to lead the regional economy with significant capital investment and job creation. In 2013, Lynchburg companies invested over $160.5 million in new capital, created 224 jobs, maintained over 3,000 positions by retaining operations in the City, and made machinery and equipment expenditures of over $12 million.

Economic development objectives focus on the growth of local business and industry and existing business expansion continues to be the primary driver of Lynchburg's economy and job growth. In 2013, long-standing corporate citizen Areva, Inc. announced almost $11 million in new machinery and equipment expenditures as part of a $26.3 million investment in its Operational Center of Excellence for Nuclear Products and Services. This project expands existing operations in the Lynchburg area and retains almost 1,800 jobs. New investment from outside the local economy accelerates economic activity and drives local wealth creation. Among the 42 net new businesses in 2013 was Porter's Fabrication, a North Carolina-based manufacturer of sheet metal products. A former supplier to Diebold, Porter's acquired Diebold's Lynchburg plant, invested in new machinery, and retained 80 existing positions while creating 40 new jobs. Porter's invested $1.8 million in its Lynchburg facility.

The City's two Enterprise Zones coupled with expanded small business financing continue to produce substantial results. Lynchburg companies within the zones invested $25.8 million in real property and created the vast majority of new jobs in the City. Almost $4 million in loans and grants was available to Lynchburg industry and small business in 2013.

Again in 2013, the Office of Economic Development expanded the City's two enterprise zones, providing development and job creation assistance to growing businesses throughout the City. In the past few years, the City has made several thousand additional acres of commercial property eligible for investment grants; over 170 jobs were created in Lynchburg's Enterprise Zones with $138,000 in state grants supporting an estimated $4.35 million in new payroll. Investments in commercial real estate were even more significant. Real Property Investment Grants of $1.18 million leveraged private commercial property investments of almost $26 million.

Lynchburg's Technology Zone continues to support investment and job creation in high-wage, high-growth tech industries. TRAX International invested nearly $200,000 in taxable equipment, hired almost 10 new employees and maintained over 60 positions in Lynchburg. TRAX's new hires included advanced technical jobs like electrical engineers with salaries averaging $68,000 a year.

The Local Enterprise Zone Redevelopment Grant provides an investment overlay district corresponding to existing Enterprise Zone boundaries. Designed to support small business real property investments and expand real estate tax receipts for the City, the grant has been effective in incentivizing public-private partnerships and private investments. From

Campbell Avenue to 5th Street, $83,000 in grants incentivized $3,071,075 in private commercial property investments and increased valuation of property in the City.

Several million dollars of business financing was available to Lynchburg companies in 2013 to support existing business expansion and entrepreneurial development. Combined across programs, $3,914,836 of capital in the form of loans and grants was made available to industry and small business in Lynchburg. The LEDA Revolving Loan Fund has approved $950,000 in small business loans, supporting five small firms throughout the City. While these businesses have directed funds toward growth and employment, they have also repaid $338,648 that can be re-loaned to other businesses.

Beyond providing over $1 million in small business financing, LOED and LEDA work closely with business support partners like the Business Development Center (BDC), Region 2000 Small Business Development Center (SBDC), the Young Entrepreneurs Academy (YEA), Grow One and local colleges to develop and support entrepreneurs from youth to adulthood. YEA boasted 10 new business startups, all by entrepreneurs under 18. The SBDC has counseled 45 individual entrepreneurs, helping them write business plans and access financing.

The James River Arts & Cultural District has served to define the character of Lynchburg, from historic and happening to funky and fun. An Arts and Cultural District Project Grant Program provides support for events and activities in the arts and humanities. In 2013, $30,000 in local funding combined with $5,000 from the National Endowment for the Arts and Virginia Commission for the Arts to support fourteen events or projects. Not only did the grants help to bring a variety of arts and cultural activities to Lynchburg, they also generated $197,000 in private investment and over $700,000 in total economic activity. Arts-related businesses within the district are also eligible for certain incentives.

A major new retail development, Lakeside Crossing, opened in 2013 at the intersection of Lakeside Drive and the Lynchburg Expressway. Analysis has shown this location to be a "sweet spot" able to serve the Boonsboro area of Lynchburg and the Forest area of Bedford County, two areas with the best demographics for retail sales in the region. Anchored by a Fresh Market grocery store, the 63,176 square-foot retail center opened with 95% occupancy and is expected to have a considerable impact on property tax and sales and meals tax receipts. Lakeside Crossing not only injected $16 million in new dollars into the Lynchburg economy, the success of the project has prompted renewed interest in new retail development in the area.

Recognizing the implications of Lynchburg's industrial past, LOED and LEDA have actively pursued testing, remediation and redevelopment opportunities for commercial brownfield sites. Leveraging sunk costs along 5th Street, LOED secured a $41,000 Virginia Brownfields Assistance Fund (VBAF) grant from the Virginia Economic Development Authority and Department of Environmental Quality. The VBAF grant supports environmental reviews, remediation and stabilization to encourage private investment. The VBAF grant combined with $85,000 in prior investment and $25,000 in development funds was used to support testing and contaminant abatement at 10 parcels on 5th Street. Multiple private development proposals for several parcels have already resulted from these activities. LOED and LEDA continue to organize citizen stakeholders and pro bono consultants in support of an application for an Environmental Protection Agency (EPA) Community Wide Brownfields Assessment Grant.

In 2013, working with Atlanta-based Garner Economics, LOED and LEDA embarked on a comprehensive economic development strategic planning process. Titled "Opportunity Lynchburg: Lynchburg's Strategy for Jobs & Competitiveness," the process and the report provided critical insight into the local economy and helped align economic development goals and operations. Input was solicited from business stakeholders and community leaders throughout the local economy in a series of discovery sessions. This information was combined with an economic analysis of Lynchburg and a target market study to provide a dashboard of the City's economic assets and challenges.

Lynchburg is indeed "the City of Opportunity" because all of the right ingredients for success exist in business, research and commercial development. A highly-skilled and educated workforce, diverse industry sectors and affordable commercial real estate join with comprehensive physical and technological infrastructure to create a stable, recession-resistant business environment. The City's growing population couples with rising incomes for a vibrant $8.74 billion regional economy. Lynchburg companies are selling to customers all over the globe, exporting ideas, innovation and some of the best advanced manufacturing and machining products in the world. Lynchburg retailers enjoy over $1.6 billion in annual sales from over a quarter million local consumers and thousands of visitors a year, with per capita spending on the rise in a variety of products, and market share in many segments.

From electrical engineers and doctors to machinists and tradesmen, Lynchburg workers represent many of the brightest, most skilled and most productive workers in the nation. Along with diverse industries, the workforce has afforded Lynchburg a comparatively stable labor market. Unemployment in Lynchburg averaged 7.2% in 2013, with a seasonal spike during the summer months of 8.4%. Beyond the trend of a seasonal improvement in end-of-year unemployment, the 12-month low of 6.4% in January 2014 also signals an improving employment picture.

Downtown and Riverfront Redevelopment

The City's commitment to downtown revitalization remains strong with thousands of square feet of newly renovated residential and commercial spaces coming online. With Phase I of the Bluffwalk project completed, significant progress has been made on Phase II or the Lower Bluffwalk. The Lower Bluffwalk is a planned pedestrian, mixed-use, retail and residential corridor. The City's focus on downtown revitalization continues to encourage private sector investment in thousands of square feet of newly renovated residential and commercial space. In FY 2013, $11 million in new private capital was invested, not including significant progress on existing projects and new property acquisitions. Over 72 new residential units are on the market, with the Grand Parlor Lofts on Main Street the most recently completed redevelopment project. Downtown now contains more than 550 residential units. These new residents are driving demand downtown, spurring the establishment of new business. The number of downtown businesses has increased by more than 205% in ten years. Sustained by the expanding residential population, 8 new businesses opened and 20 new jobs were created in 2013.

Midtown and Fifth Street Corridor Planning Efforts

Midtown Corridor Plan

On October 11, 2005, City Council approved an amendment to the City's Comprehensive Plan 2002-2020 to incorporate the Midtown Area Plan. The area referred to as Midtown includes a number of key anchors such as E.C. Glass High School, Lynchburg General Hospital, Miller Park, Lynchburg College, and the main branch of the Public Library in one of the City's first "shopping centers", the Plaza. It is in the geographic center of the City, contains well-established neighborhoods, has significant business development and is connected by major arterial roads to the rest of the City. Developed through extensive research, analysis and public participation, the Midtown Area Plan synthesized community ideas and depicts an idealized build-out for Midtown. The four cornerstone ideas of the Plan include neighborhood preservation, the development of great streets with pedestrian amenities, the connection of the Midtown area to the rest of the City and the value of taking immediate steps to realize Plan goals. A major component of Plan implementation is construction of the Midtown Connector, a road improvement project designed to provide a "Corridor of Confidence" into Midtown and the medical arts district. Construction of the $27.7 million project is underway and expected to be completed in September 2016.

Fifth Street Corridor Plan

The Fifth Street Corridor Plan's purpose is to provide a vision and a blueprint for the revitalization of the Fifth Street corridor between Main Street and the Martin Luther King, Jr. Memorial Bridge. Fifth Street links the Downtown/Riverfront and Midtown areas of the City, both of which are the focus of revitalization efforts as well. The total project cost for all three phases is estimated to be $8.2 million. Construction of the first phase of the Fifth Street improvements was completed in September 2009 and included a two block area fronting Fifth Street between Harrison and Jackson Streets. The Phase I project included the construction of an urban roundabout flanked by plaza areas at the intersection of Fifth and Federal Streets, which is the center of the corridor. Streetscape improvements in the form of wider sidewalks, street trees, historic style lighting and the placement underground or relocation of overhead utilities, consolidated to one side of the street, were completed as part of the project. Aging water and sewer lines were replaced. On-street parking to benefit local businesses was added throughout the length of the entire corridor where appropriate. Since the completion of Phase I, other amenities such as benches, trash cans and bus shelters have been installed throughout the plan area. Phase II of the Fifth Street improvement project, which has recently been completed, includes the blocks from Harrison to Main Street. Phase III will include sidewalk and landscaping improvements from Jackson Street to Park Avenue with plans for construction to begin in 2015.

Greater Lynchburg Transit Company

The Greater Lynchburg Transit Company ("GLTC") was created in 1974 to provide for the operation of a public transportation system. GLTC was chartered by the State Corporation Commission as a public service corporation whose outstanding stock is owned entirely by the City. It is managed by a nine member board of directors appointed by City

Council. No indebtedness has been incurred by GLTC or by the City for GLTC. In June 2009, the Virginia Transit Association presented GLTC with the Outstanding Program Award for its service to Liberty University. Additionally, the American Public Transportation Association recognized GLTC with its 2009 Outstanding Public Transportation Achievement Award. This Association represents transit systems across North America. In late Spring GLTC will open a new transfer center adjacent to the Kemper Street train station and construction is planned to start later this year on a new operations and maintenance facility.

GLTC has received the following funds to assist its operations:

Fiscal Year	City of Lynchburg	Federal Transit Administration[1]	Virginia Department of Rail & Public Transportation[2]	Passenger Revenue	Liberty University	Other[3]	Total
2004	$ 615,290	$ 1,301,949	$ 644,341	$ 739,994	-	$ 106,582	$3,408,156
2005	688,991	1,301,949	708,558	802,632	-	16,785	3,518,915
2006	916,872	1,358,900	793,993	851,849	-	124,857	4,046,471
2007	1,252,311	1,441,208	732,845	822,188	$ 389,056	83,047	4,720,655
2008	1,246,467	1,596,590	826,602	780,228	1,014,660	60,793	5,525,340
2009	1,128,884	1,708,496	1,244,392	826,520	1,496,609	154,876	6,559,777
2010	1,128,888	2,052,072	802,517	854,288	1,441,860	180,799	6,460,424
2011	1,411,884	1,823,492	933,519	900,048	1,486,396	176,898	6,732,237
2012	1,143,714	1,852,743	1,166,980	1,119,970	1,052,711	198,074	6,534,192
2013	1,369,262	1,845,335	1,435,818	1,087,387	1,162,567	158,226	7,058,595

1 Received upon evidence of compliance with requirements of the U.S. Federal Transit Administration as reimbursements for the operating grants made to GLTC by the City in those years.

2 The Virginia General Assembly provides for a maximum reimbursement of 50% of public transportation-related maintenance materials and supplies.

3 Miscellaneous revenue received from local Counties, capital and vehicle maintenance, and capital contributions.

Source: Greater Lynchburg Transit Company.

Lynchburg Regional Airport

Lynchburg Regional Airport, owned and operated by the City of Lynchburg, is a full service airport offering a full array of aeronautical services including scheduled airline service, aircraft charter, maintenance and avionics, fuel services, flight training, aircraft storage, and emergency med-flight services. As the primary commercial service airport for Central Virginia, Lynchburg Regional Airport's market area contains a population of more than 255,000. With a total of 12 scheduled airline arrivals and departures daily, the airport expects to serve over 159,000 passengers in FY 2015 through the regional affiliate of US Airways.

The City has made significant capital improvements over the past dozen years to meet both commercial and general aviation needs, including a full rehabilitation of both runways, constructing a new airfield maintenance facility, a new rental car service facility, a new airborne medical evacuation facility, a new general aviation terminal, a cluster of 12 T-hangar units, a 1,301-foot extension to the airport's main runway, a new and relocated Airport Rescue and Fire Fighting (ARFF) facility and acquisition of a new ARFF vehicle, replacement of the main terminal escalators and HVAC units, and an upgrade to the airport security access systems. Airport capital projects are primarily funded by a combination of federal and state aviation funds, as well as Passenger Facility Charges ("PFCs").

A new, lower fare structure put in place by US Airways in July 2008 continues to attract travelers to Lynchburg Regional Airport in impressive numbers. The recent merger of US Airways and American Airlines is not expected to have any significant impact on local airline service. A healthy local economy and increasing local college enrollment should support additional, albeit more modest, traffic growth. The annual operating subsidy from the City of Lynchburg, which has already been reduced from more than $700,000 to around $200,000 over the past decade, is projected to be completely eliminated within the next two to three years.

Risk Management

In 1986, due to the unavailability of certain coverage's and the large increase in premiums where coverage was still available, the City Council adopted a Self-Insurance Plan to guide the management of municipal liability risks. Currently, the City is self-insured for general liability and automobile liability claims. The City purchases primary insurance coverage for risks related to property, boiler and machinery, surety bonds and airport liability. City property is insured up to a limit of $432.8 million per occurrence. Other liability policies provide up to $60 million coverage in aggregate. Police Professional Liability and Public Officials' Liability claims are covered through a policy with the STATES Self Insured Risk Retention Group, with a $0.5 million deductible per claim. Total premiums for all insurance coverage purchased for the year ended June 30, 2013 were approximately $0.62 million. The City has designated a portion of the balance in the General Fund into a Self-Insurance Fund, to fund future general liability claims. City management believes any incurred but not reported (IBNR) claims as of June 30, 2013 would be insignificant.

City policy provides that all general liability and automobile liability claims are to be paid bi-weekly. During FY 2013, the City paid approximately $38,400 in actual claims and in defense of claims against the City. In addition, the City set aside reserves in the amount of $50,000 towards claims that have occurred, or legal settlements which are being appealed. The City has also purchased excess workers' compensation coverage to cover City employees with a liability limit of $1 million per person/$1 million limit per occurrence. The City is self-insured for workers' compensation claims. Annual appropriations are adopted to provide for current claims and the annual amount due under long-term claims.

The City Code provides for the establishment of a Self-Insurance Fund which is reported as part of the Reserved and Designated General Fund balance and also requires a minimum balance of not less than $0.5 million. If the designated Self-Insured Fund balance is less than $0.5 million, funds shall be appropriated to restore the fund to the required balance in accordance with the City Code, Section 18.125 adopted in 1986. As of June 30, 2013, the designated Self-Insurance Fund balance was $2.4 million. Based on average annual losses, as well as an actuarial survey, management of the City has determined that this amount is adequate.

Labor Relations

At the present time, there are no strikes or work stoppages by employees of the City either in progress or threatened. Pursuant to Section 40.1 57.2 of the Code of Virginia, 1950, the City is not empowered to recognize any labor union or other employee association as a bargaining agent of any public employees or to collectively bargain or enter into any collective bargaining contract with any such union or association with respect to any matter relating to them or their employment or service. The City has not negotiated with nor bargained with its employees in any manner concerning any aspect of the terms and conditions of the employment of its employees.

Demographic and Economic Information

Transportation

Lynchburg is advantageously located at the junction of two rail lines. The Norfolk Southern system provides freight service to and from Lynchburg and is utilized by Amtrak for passenger service. The James River Division of CSX Railroad runs along the James River and provides freight service. Both rail lines are major carriers from the port of Hampton Roads to cities in the Midwest. Amtrak provides rail passenger service through Lynchburg between Boston, Massachusetts and New Orleans, Louisiana. Amtrak offers an additional round trip daily to Washington, D.C., the Northeast Regional train, providing service to over 126,000 passengers annually. U.S. 29, U.S. 460 and U.S. 501 are the major arterial highways connecting Lynchburg with Interstates 81, 64, 95 and 40. The City enjoys an extensive network of roads and experiences almost no congestion.

Business and Employment

Lynchburg's business development dates to 1757, when Edward and John Lynch began a ferry across the James River. By the 1780's a thriving settlement had grown up along the river which provided business a way to transport products to distant markets. Cargos of tobacco, lime, wheat, and molasses were shipped downriver on batteaux, long narrow boats that could navigate the James River to Richmond.

As Richmond was a deepwater port, vessels from around the world brought their goods to that city and the batteaux were poled back up river to Lynchburg with cargos that included salt, textiles, French wines, and much more. George Washington and others envisioned a canal/river system that would connect the James River to the Kanawha, Ohio, and Mississippi Rivers and connect the frontier to the eastern states. By 1840, the canal connected Lynchburg and Richmond, which created a much safer and more efficient way to ship goods in and out of Lynchburg. The canal never reached the west, but it operated until 1880, with floods and railroads bringing an end to the canal era.

Lynchburg became a city in 1852 and tobacco remained the major cash crop for much of the 19th century. Lynchburg's per capita income in 1860 was said to be second in the nation, with only New Bedford, Massachusetts wealthier from its whaling industry. At the beginning of the Civil War, Lynchburg was a major tobacco market and transportation center, but manufacturing had also begun along the river. Foundries used Virginia iron ore and made railroad cars, plows, and munitions. Coal was imported and converted to gas, which provided lighting for parts of the City by the early 1850s. Grain mills were also built in the City along the river and its tributaries. During the Civil War, a Confederate depot produced wagons, limbers, and leather goods, and the foundries shipped thousands of tons of bullets and shells for the armies.

By 1860, three railroads served Lynchburg: the Virginia and Tennessee, Orange and Alexandria, and the Southside. Lynchburg was a hospital and supply center for the Confederacy from 1861-1865 and fortunate to escape destruction during the war years. While the economy was devastated by the conflict, Lynchburg recovered quicker than most southern cities as the transportation networks were soon rebuilt. New industries emerged, among them shoe manufacture, a variety of textile mills, and more foundries producing an array of metal goods such as pipes, farm equipment, cigarette rolling machines, and bridge materials.

For the next 100 years, Lynchburg business continued to evolve and prosper. In the late 1950's, two new industries brought significant change to the City, as General Electric and Babcock and Wilcox created major manufacturing sites here. These electronics and nuclear industries brought new blood, hundreds of jobs, and a widely diversified industrial economy to the City.

Today, Lynchburg is a regional center for medical services, higher education, finance, insurance, and retail businesses. Lynchburg's unemployment has consistently been below the national average.

Following are lists of major employers which illustrate the wide diversification of the economy within and immediately adjacent to the City:

Largest Employers within the City as of April 2014

Company	Product	Approximate Employment
Centra Health, Inc. (Virginia Baptist Hospital, Lynchburg General Hospital, Corporate Office and Guggenheimer Nursing Home)	Health care services	6,100
Liberty University and Thomas Road Baptist Church	Church ministries, University and private school	4,620
Areva	Engineering, maintenance & repair service to commercial nuclear power plants	1,792
J. Crew Outfitters	Mail order clothing products	1,400
Genworth Financial Inc.	Insurance	1,200
City of Lynchburg	Government	1,200
Lynchburg City Schools	Public education	1,210
Horizon Behavioral Health[(1)]	Health care	692
Lynchburg College	Private college	615
Kroger, Inc.	Food merchandising	607
Wal-Mart Stores, Inc.	Retail store	568
Tri-Tech Laboratories, Inc.	Perfumes and cosmetics	500
R. R. Donnelley, Inc.	Printing	464
Frito-Lay, Inc.	Food manufacturing	410
Harris, Inc.	Radio Communications	400
Nationwide Insurance Company (regional office)	Insurance	400
Westminster-Canterbury	Retirement community	358
C.B. Fleet Company, Inc.	Pharmaceuticals	354
Southern Air, Inc.	Mechanical, electrical and heating, ventilation and air conditioning systems	354
Central Virginia Community College	Public college	346
Delta Star, Inc.	Transformers	332
U.S. Post Office	Mailing Services	310
Virginia Department of Transportation	Road building and maintenance	310
Randolph College	Private college	305
Griffin Pipe Products Co.	Gray iron foundry	253
Flowserve Corp.	Machine casting	245
Norcraft	Cabinet manufacturing	236
Parker-Hannifin	Automobile seals and gaskets	228
Aerofin Corporation	Heat exchangers	225
Wells Fargo Bank	Financial services	215
BB&T	Commercial banking	200
Babcock & Wilcox Company	Mfg – Nuclear	200
Tessy Plastics	Mfg - Thermoplastics	188
Belvac Production Machinery	Mfg - Material Handling	188
Lowes	Retail building supplies	170
Wiley Wilson	Engineers	165
Hanwha Azdel	Mfg-Thermoplastics	160
Flowers Baking Company	Commercial Bakery	160
Bausch & Lomb	Eyewear Wholesaler	157
International Paper[(2)]	Corrugated containers	150
News & Advance	Newspaper Publishers	142

[(1)] Formerly Central Virginia Community Services (2)Formerly Weyerhaeuser
Source: Office of Economic Development, City of Lynchburg, Virginia.

Additional major employers in the surrounding counties of Amherst, Appomattox, Bedford and Campbell:

Major Employers in the Surrounding Region as of April 2014

Company	Product	Approximate Employment
Babcock & Wilcox Company[(1).]	Nuclear power systems	2,250
Abbott Laboratories	Adult/infant nutritional	590
BGF Industries, Inc.	Fiberglass fabrics	480
Founders Furniture Industries, Inc.	Household furniture	584
Teva Pharmaceuticals[(2)]	Generic drug manufacturing	453
Georgia-Pacific Corp.	Paperboard	425
Glad Manufacturing Co	Plastic "Glad-lock" bags	385
Progress Printing	Lithographic printing	186
Timken, Inc.	Bearings manufacturing	250
Greif Brothers Corp., Riverville Mill	Paper mills products	320
Schrader-Bridgeport	Metal fabrication	280
Buffalo Air Handling (Division of Howden Fan)	Heat exchangers	262
CommScope	Telecommunications equipment	150

(1) Formerly BWX Technologies
(2) Formerly Barr Laboratories
Source: Office of Economic Development, City of Lynchburg, Virginia.

Income Profile

Median Household Income

	2008	2009	2010	2011	2012
City of Lynchburg	$39,440	$38,005	$36,397	$36,657	$37,402
Virginia	61,210	59,372	60,665	61,877	61,782
United States	52,029	50,221	50,046	50,502	51,371

Source: United States Census Bureau.

Per Capita Personal Income

	2008	2009	2010	2011	2012
City of Lynchburg[(1)]	$31,504	$30,772	$31,317	$32,423	$33,180
Virginia	44,900	44,063	44,854	47,126	48,377
United States	40,873	39,357	40,163	42,298	43,735

(1) Includes Campbell County.
Source: U.S. Bureau of Economic Analysis.

Population

Statistics indicate that Lynchburg's population has shown consistent growth over the last decade. Due to the annexation effective January 1, 1976, the population increased by approximately 12,000 persons.

Year	Population
1970	54,083
1976	67,933[1]
1980	66,743
1990	66,049
2000	65,269
2001	65,400
2002	65,800
2003	66,400
2004	67,100
2005	67,756
2006	68,579
2007	70,056
2008	71,196
2009	72,371
2010	75,568
2011	76,448
2012	77,203
2013	77,376

[1] The population figure for the year 1976 is restated to reflect annexation.

Source: Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia. United States Bureau of the Census.

Taxable Retail Sales and
Taxable Retail Sales Per Capita

Calendar Year	Population[1]	Taxable Retail Sales[2]	Taxable Retail Sales Per Capita[2]
2004	67,100	$1,097,417,005	$16,355
2005	67,756	1,008,093,439	14,878
2006	68,579	1,275,068,173	18,593
2007	70,056	1,282,269,763	18,303
2008	71,196	1,274,691,679	17,904
2009	72,371	1,170,583,027	16,175
2010	75,568	1,159,339,401	15,342
2011	76,448	1,148,536,650	15,024
2012	77,203	1,217,552,914	15,771
2013	77,376	1,240,113,906	16,207

[1] *Source:* Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia.
[2] *Source:* Commonwealth of Virginia, Department of Taxation.

Construction Activity

The following data is presented to illustrate construction activity in the City:

Building Permits and Value

	Residential		Commercial		Government		Total	
Calendar Year	No.	Value	No.	Value	No.	Value	No.	Value
2004	626	$45,132,484	210	$62,438,869	12	$3,299,840	848	$110,871,203
2005	753	63,508,784	188	104,531,747	13	2,998,252	954	171,038,784
2006	813	58,990,247	250	83,163,172	14	3,316,899	1,077	145,470,318
2007	808	75,970,066	188	92,511,091	12	5,673,187	1,088	174,154,344
2008	684	43,982,503	221	80,165,303	13	41,514,839	918	165,662,645
2009	654	24,643,765	183	52,200,551	18	4,896,597	855	81,740,913
2010	511	33,073,539	171	42,120,290	11	5,258,994	693	80,452,823
2011	386	19,245,241	168	62,925,293	13	3,475,906	567	85,646,440
2012	449	40,305,356	195	106,306,852	10	1,149,585	654	147,761,793
2013	432	30,402,571	202	147,877,565	28	8,186,340	662	186,466,476

Source: Division of Inspections, City of Lynchburg, Virginia.

Housing

The following data is presented to illustrate the character of housing in the City:

Housing Units by Type of Structure

Type of Structure:	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Number of Single Family Units:	26,840	26,858	26,868	26,751	26,768
Number of Multi-Family Units:	213	218	218	231	251
Total	27,053	27,076	27,086	26,982	27,019
*Median Single Family Value	$118,400	$118,800	$118,000	$118,200	$116,500

*Single Family Unit: Combined Land + Improvement Value for property classes: 101 - 107.
Information based on City Assessor's Land Book records as of July for each fiscal year.

Source: Real Estate Assessor, City of Lynchburg, Virginia.

Higher Education

Institutions of higher education within the City include Lynchburg College, Randolph College (formerly Randolph-Macon Woman's College), Liberty University and the Virginia University of Lynchburg. Sweet Briar College is located in neighboring Amherst County. All are private institutions. Also, located in the City is Central Virginia Community College, part of the state-supported community college system. Fall 2013 higher education enrollment totals were 21,206 students, equivalent to 27.5% of the City's population.

Lynchburg's active engagement in programs and opportunities focused on growing student capacity in the areas of science, technology, engineering and math (STEM) continues beyond the local school system along with its institutions of higher education, which also are broadening STEM focused fields of study. Liberty University's accredited School of Engineering and award winning School of Aeronautics are offering groundbreaking opportunities for study with one of the largest private institutions in the country. Central Virginia Community College's technician programs and "Produced in Virginia" engineering partnership with the University of Virginia, are allowing students to pursue affordable coursework in the scientific and engineering fields without leaving their home community. Randolph College offers courses of study in science, physics, and engineering and offers a large scale four day community science festival engaging over 1,500 students a year. Sweet Briar has an engineering program as well, a unique offering for an all-female institution. Details of each institution of higher education are below.

Lynchburg College

Lynchburg College, is one of only two Virginia colleges, among 40 higher education institutions nationwide, that has been honored in "Colleges That Change Lives" by Loren Pope, former education editor of The New York Times. Additional honors include being featured on the Princeton Review website as a "Best in the Southeast" college; and selection for inclusion in The Princeton Review College Guide, The Best 378 Colleges: 2014 Edition. Lynchburg College is included on G.I. Jobs magazine's list of "Military Friendly Schools" for its effort to “embrace America's veterans as students”. U.S. News & World Report ranked the college in the top tier of southern colleges and universities offering a full range of undergraduate and master's degree programs in the “Best Regional Universities” category. Finally, the college is ranked as a top Virginia college for return on investment by Affordable Colleges Online. Lynchburg College has experienced continued growth in freshmen enrollments over the past five years with a Fall 2013 total campus population of 2,700, representing thirty-nine (39) states and nine (9) foreign countries.

Since 2009, student growth has stimulated facility expansions including new academic, residential and recreational space. A $12 million renovation and expansion of the Drysdale Student Center is underway and is scheduled for completion in Fall 2014. In 2011-2012, 700 students contributed 70,648 hours of community service, and the college was placed on the President’s Higher Education Community Service Honor Roll for 2013. The College offers thirty-nine (39) academic majors and fifty-two (52) minors at the undergraduate level; and, the M.Ed. (with seven academic disciplines), M.B.A., M.A. (with three academic disciplines), M.S.N., D.P.T. and a Ed. D. degree in Leadership Studies at the graduate level. Its rich experiential learning atmosphere and small class sizes maximize students’ learning. The first class with a Doctorate of Physical Therapy (DPT) graduated in May 2013. In Summer 2015, Lynchburg College will begin a new Physician Assistant Medicine Program.

Randolph College

Randolph College was founded in 1891 as Randolph-Macon Woman’s College. It became coeducational and adopted its new name in 2007. Total enrollment for Fall 2013 was 682, of which 36% was male and 64% was female. Since its founding, Randolph College has offered students a rigorous education in the liberal arts and sciences. Randolph is a Phi Beta Kappa institution with a primarily undergraduate mission and offers thirty (30) majors and forty-four (44) minors, including an independently designed major tailored to student interests. It also offers a graduate program in education. Randolph College has a highly diverse student body with students are from thirty-six (36) states and twenty (20) foreign countries. The long-standing and unique honor system is a central part of daily life at Randolph that adds to the already close knit community feel. Randolph’s small size enables close student-faculty relationships. The college has also been recognized for its quality. Forbes magazine has named Randolph College as one of America’s Top Colleges in July 2013. *The Princeton Review* ranked Randolph College as one of “The Best 378 Colleges” for undergraduate education and one of the best colleges in the Southeast. *The Fiske Guide to Colleges 2014* and the *Washington Monthly* recognized Randolph as one of the top liberal arts schools in the nation. Randolph also was named a “2013-2014 College of Distinction”, one of only ten colleges and universities in Virginia.

Recent campus renovations and additions include a new stadium, new tennis courts, major landscaping enhancements throughout the campus, and extensive library renovations. Residence halls renovations are currently underway and a recently purchased apartment complex across from the campus will be renovated and open for students in the Fall. In February 2013, a $6 million renovation of the Student Center, funded by alumnae donations, was completed and the facility opened.

Liberty University

Liberty University (LU) is recognized as the nation's largest private nonprofit online educator with a total student population of over 100,000 students, of which more than 90,000 are online and 12,600 are resident students in Fall 2013. Liberty has over $1 billion in net assets and more than a 7,000 acre campus. Last year, *U.S. News & World Report* ranked Liberty as the fourth largest university in the nation based on undergraduate enrollment. Liberty University School of Law received an "A" in the cover story of The National Jurist magazine's March 2014 issue that features the Best Schools for Practical Training. Liberty School of Law was one of twenty-one (21) universities and colleges across the United States to receive an "A" or higher, putting it in the top ten percent (10%) of all 203 law schools in the nation. Liberty University's business programs received accreditation from the Accreditation Council for Business Schools and Programs (ACBSP) in November 2013.

Plans are to continue to increase online and resident student population as evidenced by the announcement in October 2013, of an estimated $600 million in capital costs for its "campus transformation" well underway and currently employing nearly 200 people. Construction is expected to continue at least through 2019. Projects are as follows. A newly constructed observatory of nearly 1,000 square feet opened in Spring 2013. A new baseball stadium opened in Spring 2013. It doubled capacity to 2,500 chair back seats and the field is artificial turf. A new basketball practice facility opened in Spring 2013 along with the baseball stadium.

The new Jerry Falwell Library, which opened in January 2014, is as innovative in design as it is in technology. The $50 million project for a four-story library with 170,000 square feet was inspired by Jeffersonian architecture and incorporated modern elements. With more than 80,000 square feet of interior and exterior glass, the building allows for an abundance of natural light as well as breathtaking views. The library features an Active Learning Classroom that allows students and professors to collaborate digitally using multiple shared screens throughout the room, and learn in new and innovative ways. The library includes a four-story robotic book retrieval system, which has a capacity for 420,000 items, as well as fully equipped computer labs and a spacious food court.

Construction of the new Center for Medical and Health Sciences is estimated at $40 million for the four-story, 140,000-square-foot building and expected to be completed by May 2014. Home to the new College of Osteopathic Medicine, the first class of osteopathic medical students will begin in Fall 2014. The Center is expected to create an additional 400 jobs in the next five years. It includes a comprehensive medical clinic, an extensive learning resources center and library, research center with multiple labs and state-of-the-art simulation for hands-on training and standardized patient education.

A new NCAA-regulation softball stadium is targeted for Spring 2014 and built in similar style to the new baseball stadium. Adjacent to the softball stadium will be a new 1,472 space parking garage. The existing 163,550-square-foot LaHaye Student Union is undergoing renovations to 19,000 square feet of its existing recreational space, as well as gaining a 67,000-square-foot addition. The project is underway and expected to be completed by Fall 2014. The groundbreaking ceremony for the new Center for Music & the Worship Arts took place on

April 11, 2014. The 144,000-square-foot, state-of-the-art building will feature a 1,600-seat fine arts auditorium; fifty (50) practice rooms; forty (40) teaching studios and piano, songwriting, and music computer labs; as well as two student recital halls/classrooms. The educational wing of the building is scheduled to be completed by Fall 2015 and the auditorium is scheduled to open later that semester. Liberty's School of Music became the seventh largest in the country when the Center for Worship and the Music and Humanities Department merged in 2012.

Liberty's first high-rise residence hall is taking shape. It is the first of six 9-story residence halls planned for the campus. It is expected to be completed in time for the 2014-15 school year and will help accommodate growth as Liberty plans for 16,000 residential students by 2020.

Central Virginia Community College

Central Virginia Community College, a two-year institution established as a member of the Virginia Community College System, provides State-supported educational facilities beyond the high school level for the city of Lynchburg and the counties of Amherst, Appomattox, Bedford, and Campbell. The campus is approximately 104 acres with building facilities of approximately 195,000 square feet. Central Virginia Community College is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award associate degrees, diplomas and certificates. The college's FY 2014 budget of $24 million annually serves 7,100 students in total, or 2,759 in full-time equivalents, with thirty-four (34) programs in college transfer, health, business and technology. It works in partnership with Region 2000 business and industry to serve their training needs. Additionally, it hosts the Lynchburg Regional Governor's Science, Technology, Engineering & Mathematics (STEM) Academy. The college partners with all five local public school systems for Early College and dual enrollment programs. The college offers one hundred (100) online courses with two (2) online degrees and operates four (4) off-campus centers in Amherst, Altavista, Appomattox, and Bedford. There is an undergraduate Engineering Program based on a partnership between CVCC, AREVA NP Inc., area businesses, and the University of Virginia (UVA). Students earn their associate's degree in engineering from CVCC and their undergraduate bachelor's degree in engineering from UVA at CVCC.

In the Fall of 2009, CVCC opened a newly renovated Bedford Learning Resource Center, the first renovations to this building since its construction in 1975. The renovation was funded by a $4.2 million grant from the Virginia General Assembly. This 29,000 square foot building is a "High Tech Learning Resource Center", providing the Distance Learning Center for online classes and online classroom development and instruction to the off-campus centers. The Library provides traditional books and computers for students and classrooms are television equipped for instruction purposes. In Fall 2010, CVCC began its new Culinary Arts Program and opened the newly constructed Culinary Arts Building in 2011. CVCC also serves the region as the host location for the Region 2000 Small Business Development Center, which receives funding from the Small Business Administration.

Health Care

Centra Health, is a regional non-profit healthcare system consisting of Lynchburg General and Virginia Baptist Hospitals along with Southside Community Hospital, its affiliate in Farmville. With more than 6,000 employees, a medical staff of nearly 500, and 150 employed physicians providing care in 38 locations, Centra serves over 380,000 people throughout central and southside Virginia with a comprehensive array of medical services in a variety of convenient settings. Community services include physician practices, screenings and tests, media and publications, and community programs to promote wellness and prevention.

Lynchburg General Hospital is home to the Centra Stroobants Heart Center and the Stroobants Cardiovascular Pavilion, a national benchmark facility for cardiac care. It is a Level II Trauma Center, offering emergency and critical care services, and air medical transport by the state-of-the-art helicopter, Centra ONE. It has a pediatric and outpatient surgery center, and offers orthopedic, neurology, neurosurgery, diabetes and pulmonary services. The five-story East Tower at Centra Lynchburg General has 108 spacious, private patient rooms available for orthopedic, oncology and surgery patients.

Virginia Baptist Hospital is home to The Birth Center and the region's neonatal intensive care unit. Additional services include skilled care, rehabilitation, physical therapy, mental health and ambulatory surgery, an outpatient surgery center, and specialty services including the women's health care, wound care and hyperbaric medicine, sleep disorders and pain management.

Southside Community Hospital in Farmville is full-service acute care facility with a state-of-the-art birth center, serving as a medical hub for an eight-county region. Each year Southside has approximately 4,000 admissions and sees more than 20,000 patients through its emergency department.

Centra provides three health and rehabilitation centers: Guggenheimer (130 beds), Summit (120) beds, and Fairmont Crossing (130 beds).

In April 2014, Bedford Memorial Hospital and Oakwood Rehabilitation Center announced their decision to transfer full ownership of the facilities to Centra by mid calendar year 2014 in an effort to best meet the community's health care needs. These facilities include a 50-bed community hospital and a 111-bed long-term care facility, both of which have been jointly owned by Centra and Carillion Clinic since 2001.

The Centra Alan B. Pearson Regional Cancer Center has provided comprehensive cancer care services since 2008. In June 2013, the Cancer Center received the Outstanding Achievement Award by the American College of Surgeons' (ACS) Commission on Cancer (CoC), one of 79 U.S. health care facilities with accredited cancer programs to receive this national honor from surveys performed last year. It acknowledges cancer programs that achieve excellence in providing quality care to cancer patients.

The Rosemary & George Dawson Inn, a twenty room non-profit 501(c) (3) inn named after a former CEO and his wife, provides home-like lodging to patients and their family members who are receiving medical treatment in the Lynchburg area, but live beyond a commuting distance. Centra was named one of the Safest Hospitals in America and a Distinguished Hospital for Clinical Excellence by Forbes magazine and is ranked among the top 5% of health systems in the country.

Centra is the only Virginia health system among 50 hospitals nationwide to receive the Premier Care Science Award which honors the top 1 percent of all hospitals in the country for quality and efficiency in patient outcomes.

Centra's Lynchburg General, Southside Community and Virginia Baptist Hospitals are three of the Top 100 Most Wired hospitals in the country according to Hospitals & Health Networks magazine. Centra received a national VIP award from McKesson Technology Solutions for its use of information technology to achieve outstanding results in health care delivery.

Centra's Virginia Baptist Hospital has received Press Ganey's prestigious Summit Award for inpatient care, healthcare's most coveted symbol of achievement in patient satisfaction. To earn the award, hospitals must sustain the highest level of patient satisfaction for three consecutive years. In the last five years, only 102 hospitals in the United States have earned this distinction.

Lynchburg General Hospital has been named one of the nation's 50 Top Cardiovascular Hospitals by Thomson Reuters. Lynchburg General was designated one of the 100 Top Cardiovascular Hospitals in the five previous years. The 50 Top award is Thomson Reuters' new designation beginning in 2011.

Fairmont Crossing in Amherst and Guggenheimer in Lynchburg, were recipients of the 2011 Silver - Achievement in Quality National Quality award from the American Health Care Association and National Center for Assisted Living. The award recognizes facilities that serve as models of excellence.

Financial Information

Annual Audit

The financial statements and notes thereto included in the Official Statement in Appendix C have been audited by Brown, Edwards & Company, L.L.P., certified public accountants and independent auditors, as set forth in their report dated November 12, 2013.

Financial Management Policies

In August 1999, City Council adopted fund balance and debt management financial management policies. Since then, the City has expanded its financial management policies to include a budget policy (adopted November 2000) and an investment policy (adopted September 2001). Biennially City Council reviews these policies and revises or reaffirms each as appropriate; the most recent revisions occurred in February 2013.

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

City Council's adopted financial management policies, with February 2013 revisions, can be found in Appendix D of this Official Statement.

Budget Process

The City Charter requires the City Manager to prepare and submit a balanced annual budget to City Council. The budget is for information and fiscal planning purposes and is based upon detailed estimates furnished by departments.

Typically in early March, the City Manager submits to City Council a proposed operating budget for the upcoming fiscal year starting July 1 and ending June 30 of the following year. The proposed operating budget outlines projected expenditures and the means of financing them and includes a message from the City Manager explaining budget issues and presenting recommendations. Council reviews the proposed budget at work sessions throughout the months of March and April and holds a public hearing to receive citizens' comments. Concurrently, citizen engagement meetings are held during these months to receive citizen input in a more informal environment. In May, Council makes final budget decisions and adopts the budget through passage of an appropriations resolution. By July 1, the beginning of the fiscal year, the City Manager prepares and distributes City Council's adopted budget.

In FY 2006, the City began to include performance measures for select departments in the annual budget document. While this practice has evolved through the years, in October 2013 City Council adopted a new vision statement and strategic plan for the Lynchburg community. The strategic plan includes both a foundation and pillars (core areas) that support the vision of Lynchburg as "A Great Place to Live, Work and Play". In the Proposed FY 2015 Budget, department performance measures were linked to a specific pillar to ensure a connection to the strategic plan. The strategic plan will be reviewed annually, progress measured, and priorities adjusted as appropriate.

General Fund Adopted Budgets For Fiscal Years 2014 and 2015

The City's fiscal year 2015 adopted General Fund Budget is $176,327,105, which is an increase of $3,518,074 or 2% above the fiscal year 2014 adopted General Fund Budget of $172,809,031.

The General Fund is the principal fund of the City and its revenues are derived from a variety of sources. The two major sources of General Fund revenues are General Property Taxes and Other Local Taxes, which make up $122,545,506, or 72.7% of the $168,521,251 budgeted for fiscal year 2015. The $7,805,854 difference in the adopted General Fund Budget and the General Fund Revenues is made up of use of fund balance or 4.4% of the General Fund Budget. A summary and comparison of General Fund revenue sources is shown below for the fiscal years ending June 30, 2014 and June 30, 2015.

Of the $176,327,105 budgeted for General Fund expenditures for fiscal year 2015, $135,819,511, or 77%, is dedicated to six functions. These functions are General Government Administration ($12,275,209), Public Safety ($33,859,278), Public Works ($16,053,538), Health and Welfare ($17,800,037), Education ($38,924,147), and Debt Service on general obligation general improvement bonds for both General Fund and Schools ($16,907,302). A summary and comparison of expenditures by function is shown below for the fiscal years ending June 30, 2014 and June 30, 2015.

The total City Budget for fiscal year 2015 is $394,677,631, which is an increase of $76,979,040, or 24.2%, above the original fiscal year 2014 total City Budget of $317,698,591. Also shown below is a Budget Summary and Comparison of selected other major City Operating Funds for the fiscal years ending June 30, 2014 and June 30, 2015.

BUDGETED GENERAL FUND REVENUES BY SOURCE

Fiscal Years Ending June 30,

	Adopted FY 2014	Adopted FY 2015	Variance	Percent
Revenues				
General Property Taxes	$73,358,784	$74,766,839	$1,408,055	1.9%
Other Local Taxes	46,688,787	47,778,667	1,089,880	2.3%
Permits and Fees	569,900	717,150	147,250	25.8%
Fines and Forfeitures	481,000	476,000	(5,000)	-1.0%
Use of Money and Property	388,226	433,064	44,838	11.5%
Charges for Services	7,846,238	6,871,233	(975,005)	-12.4%
Miscellaneous	3,150,356	3,834,738	684,382	21.7%
Revenue from Commonwealth: Non-Categorical Aid	9,024,371	9,195,378	171,007	1.9%
Revenue from Commonwealth: Categorical Aid	17,064,771	17,802,722	737,951	4.3%
Revenue from Federal Government	7,135,226	6,645,460	(489,766)	-6.9%
Total Revenues	**$165,707,659**	**$168,521,251**	**$2,813,592**	**1.7%**
Use of Fund Balance	7,101,372	7,805,854	704,482	9.9%
Total Sources	**$172,809,031**	**$176,327,105**	**$3,518,074**	**2.0%**

BUDGETED GENERAL FUND EXPENDITURES BY FUNCTION

Fiscal Years Ending June 30,

	Adopted FY 2014	Adopted FY 2015	Variance	Percent
Expenditures				
Administration	$12,227,550	$12,275,209	$47,659	0.4%
Judicial	4,650,357	4,778,402	128,045	2.8%
Public Safety	33,729,233	33,859,278	130,045	0.4%
Public Works	15,712,847	16,053,538	340,691	2.2%
Health and Welfare	18,257,519	17,800,037	(457,482)	-2.5%
Parks, Recreation and Cultural	5,064,479	6,196,856	1,132,377	22.4%
Community Development	2,302,878	2,320,360	17,482	0.8%
Nondepartmental	15,627,232	15,384,865	(242,367)	-1.6%
Total Expenditures	**$107,572,095**	**$108,668,545**	**$1,096,450**	**1.0%**
Transfers to Schools	38,201,147	$38,924,147	$723,000	1.9%
Transfers to Other Funds	956,486	952,834	(3,652)	-0.4%
Transfers to Capital	7,030,338	7,339,676	309,338	4.4%
Greater Lynchburg Transit Company	1,194,239	1,394,038	199,799	16.7%
Reserves	4,040,157	2,140,563	(1,899,594)	-47.0%
Transfers to Debt Service	13,814,569	16,907,302	3,092,733	22.4%
Total Uses	**$172,809,031**	**$176,327,105**	**$3,518,074**	**2.0%**

BUDGETED COMPARISON OF SELECTED MAJOR FUNDS

Fiscal Years Ending June 30,

	Adopted FY 2014	Adopted FY 2015	Variance	Percent
Major Funds				
City Schools	$92,964,218	$96,735,696	$3,771,478	4.1%
Fleet Services Fund	8,160,083	6,279,716	(1,880,367)	-23.0%
Airport Fund	2,432,788	2,433,245	457	0.0%
Water Fund	13,710,704	14,293,589	582,885	4.3%
Sewer Fund	19,579,769	21,312,181	1,732,412	8.8%
Stormwater Fund	3,869,072	3,751,030	(118,042)	-3.1%
Comprehensive Services Act Fund	5,062,861	5,062,797	(64)	0.0%
Regional Juvenile Detention Fund	2,812,239	2,837,336	25,097	0.9%
Risk Management Fund	957,603	965,547	7,944	0.8%
Technology Fund	795,930	773,369	(22,561)	-2.8%
City/Federal/State Aid Fund	2,975,084	2,671,658	(303,426)	-10.2%
Community Development Block Grant Fund	609,209	853,330	244,121	40.1%
Total	**$153,929,560**	**$157,969,494**	**$4,039,934**	**2.6%**

Capital Improvements Program

Annually, City Administration presents a five-year Capital Improvement Program (CIP) to the Planning Commission and to City Council proposing capital outlays for general City, water, sewer, stormwater, airport, and schools improvements based on staff recommendations. The CIP is adopted by City Council, and the upcoming fiscal year's capital projects' budgets are appropriated by resolution. However, the adopted CIP does not represent a legislative commitment to expend funds for the projects indicated for future fiscal years; it is a plan for future spending and establishes priorities for the orderly development of the City. The CIP for all fiscal years is subject to continuing examination and revision. In the proposed FY 2015-2019 Capital Improvement Program budget, twenty-nine projects requiring bond funding in future years were moved to a deferred project list to be prioritized by City staff and initiated based on funding availability.

The following is a summary of the Adopted CIP for FY 2015-2019.

Adopted Capital Improvement Program FY 2015 – 2019

Proposed Expenditures

	Fiscal Year Ending June 30,					
Type	2015	2016	2017	2018	2019	5-Yr Totals
City Capital Projects						
Buildings - City	$7,233,862	$3,202,013	$1,913,312	$2,566,368	$1,593,265	$16,508,820
Transportation	13,065,299	6,523,472	12,442,992	12,081,763	4,183,293	48,296,819
Economic Development*	1,350,000	1,500,000	1,500,000	1,500,000	1,500,000	7,350,000
Parks and Recreation	1,272,000	1,119,000	1,378,000	1,328,000	1,338,000	6,435,000
Miscellaneous	191,500	191,500	191,500	191,500	0	766,000
Reserves	250,000	250,000	250,000	250,000	250,000	1,250,000
Total City Capital Project	**$23,362,661**	**$12,785,985**	**$17,675,804**	**$17,917,631**	**$8,864,558**	**$80,606,639**
Schools Capital Projects						
Heritage High School	$72,314,191	$0	$0	$0	$0	$72,314,191
School Bus Replacements	1,040,000	950,000	988,000	670,000	696,800	4,344,800
Athletic Complexes	510,000	680,000	80,000	0	60,000	1,330,000
Major Building Repairs - Schools	615,000	1,070,000	900,000	380,000	700,000	3,665,000
Paving and Fencing	145,600	151,424	157,481	163,780	170,331	788,616
Playground Equipment Replacement	114,400	118,976	123,735	128,684	0	485,795
Roof Replacements - Schools	650,000	0	0	0	0	650,000
Total Schools Capital Project	**$75,389,191**	**$2,970,400**	**$2,249,216**	**$1,342,464**	**$1,627,131**	**$83,578,402**
Other Capital Projects						
Airport	$1,550,000	$2,950,000	$1,250,000	$1,400,000	$1,400,000	$8,550,000
Water	3,250,000	3,800,000	3,000,000	2,000,000	2,500,000	14,550,000
Sewer	3,070,000	2,750,000	18,376,630	5,000,000	2,150,000	31,346,630
Stormwater	1,480,000	3,110,000	2,750,000	3,660,000	3,450,000	14,450,000
Total Other Funds	**$9,350,000**	**$12,610,000**	**$25,376,630**	**$12,060,000**	**$9,500,000**	**$68,896,630**
Total Uses of Funds	**$108,101,852**	**$28,366,385**	**$45,301,650**	**$31,320,095**	**$19,991,689**	**$233,081,671**

* Includes additional $1,000,000 for Downtown Projects

Adopted Capital Improvement Program FY 2015-2019

Sources for Funding for Appropriations

Type	Fiscal Year Ending June 30, 2015	2016	2017	2018	2019	5-Yr Totals
City Capital Fund						
Pay-As-You-Go	$4,914,676	$1,000,000	$1,000,000	$0	$0	$6,914,676
Pay-As-You-Go: Based on Availability of Funds	0	5,323,885	4,973,099	6,613,791	5,584,026	22,494,801
Group Home Reserves and Per Diem	759,815	0	0	0	0	759,815
VDOT Highway Maintenance	3,142,000	3,162,100	3,202,705	3,243,840	3,280,532	16,031,177
State Revenue Sharing	3,033,947	980,000	1,960,000	0	0	5,973,947
State Commonwealth Transportation Board	0	0	3,500,000	8,060,000	0	11,560,000
Other: Contribution from Liberty University	1,260,000	1,020,000	2,040,000	0	0	4,320,000
Amount to be Provided by General Obligation Bond Issues	10,252,223	1,300,000	1,000,000	0	0	12,552,223
Total City Capital Fund	**$23,362,661**	**$12,785,985**	**$17,675,804**	**$17,917,631**	**$8,864,558**	**$80,606,639**
Schools Capital Fund						
Amount to be Provided by General Obligation Bond Issues	$68,464,191	$0	$0	$0	$0	$68,464,191
Heritage High School Furniture, Fixture and Equipment Reserve	4,500,000	0	0	0	0	4,500,000
Pay-As-You-Go	2,425,000	0	0	0	0	2,425,000
Pay-As-You-Go: Based on Availability of Funds	0	2,970,400	2,249,216	1,342,464	1,627,131	8,189,211
Total Schools Capital Fund	**$75,389,191**	**$2,970,400**	**$2,249,216**	**$1,342,464**	**$1,627,131**	**$83,578,402**
Airport Capital Fund						
Federal Aviation Administration	$630,000	$2,655,000	$1,125,000	$1,260,000	$1,260,000	$6,930,000
Virginia Department of Aviation	230,000	295,000	125,000	140,000	140,000	930,000
General Obligation Bonds	690,000	0	0	0	0	690,000
Total Airport Capital Fund	**$1,550,000**	**$2,950,000**	**$1,250,000**	**$1,400,000**	**$1,400,000**	**$8,550,000**
Water Capital Fund						
Pay-As-You-Go - Water Operating	$800,000	$800,000	$800,000	$800,000	$800,000	$4,000,000
General Obligation Bond Proceeds	2,450,000	3,000,000	2,200,000	1,200,000	1,700,000	10,550,000
Total Water Capital Fund	**$3,250,000**	**$3,800,000**	**$3,000,000**	**$2,000,000**	**$2,500,000**	**$14,550,000**
Sewer Capital Fund						
Pay-As-You-Go - Sewer Operating	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$10,000,000
General Obligation Bond Proceeds	1,070,000	750,000	4,170,000	3,000,000	150,000	9,140,000
Virginia Clean Water Revolving Loan Fund Proceeds	0	0	12,206,630	0	0	12,206,630
Total Sewer Capital Fund	**$3,070,000**	**$2,750,000**	**$18,376,630**	**$5,000,000**	**$2,150,000**	**$31,346,630**
Stormwater Capital Fund						
Pay-As-You-Go - Stormwater	$1,050,000	$1,110,000	$750,000	$660,000	$450,000	$4,020,000
Pay-As-You-Go - Fund Balance	430,000	0	0	0	0	430,000
Virginia Clean Water Revolving Loan Fund Proceeds	0	2,000,000	2,000,000	3,000,000	3,000,000	10,000,000
Total Stormwater Capital Fund	**$1,480,000**	**$3,110,000**	**$2,750,000**	**$3,660,000**	**$3,450,000**	**$14,450,000**
Total Sources of Funds	**$108,101,852**	**$28,366,385**	**$45,301,650**	**$31,320,095**	**$19,991,689**	**$233,081,671**

Pension Plan

All full-time classified employees of the City participate in the Virginia Retirement System ("VRS"). Teachers, administrators, full-time qualified employees of the Lynchburg City Schools also participate in VRS. See Appendix C, Note 11 which details information regarding the City and Schools pension plans. In addition to Note 11, the following is a description of the Hybrid Retirement Plan that was implemented as of January 1, 2014, and therefore was not disclosed in Note 11 as of June 30, 2013.

The VRS Hybrid Retirement Plan is summarized as follows. Most members hired on or after January 1, 2014 are covered by the Hybrid Retirement Plan. Exceptions include members who are vested in earlier versions of VRS pension plans (designated as Plan 1 or Plan 2) and public safety members with hazardous duty benefits. Plan 1 and Plan 2 members may opt into the Hybrid Plan during a one-time special election period of January 1, 2014 through April 30, 2014.

The Hybrid Retirement Plan combines the features of a defined benefit (DB) plan and a defined contribution (DC) plan. The defined benefit is based on age, creditable service and average final compensation at retirement using a formula. The benefit for the DC plan depends on the contributions made to the plan and the investment performance of those contributions. A summary of the Hybrid Plan is described below.

The employee contributes a mandatory 5% and can voluntarily contribute up to a maximum of an additional 4% as a DC voluntary 457 contribution. The 5% employee mandatory contribution is allocated as a 1% DC 401(a) contribution and a 4% contribution.

The employer has a fiscal year mandatory total fixed contribution rate. The employer contributes a mandatory 1% as a DC mandatory 401(a) contribution. The remainder of the employer fixed contribution rate is allocated to the employer's DB contribution. Also, the employer contributes up to an additional 2.5% as a DC employer match for the employee DC voluntary 401(a) contribution. An increase in the percentage of the employer's match does not increase the employer's mandatory total fixed contribution rate. This is because the employer DB contribution decreases as the DC employer match for employee DC voluntary 401(a) contribution increases. Lynchburg's employer total fixed contribution rate is 20.89% for FY 2014 and 20.80% for FY 2015.

The Hybrid Plan works in a similar manner for the Schools. There is a separate employer contribution rate for professional and non-professional Schools employee groups. The professional rate is 16.66% for FY 2014 and 19.5% for FY 2015. The non-professional rate is 15.03% for FY 2014 and 13.86% for FY 2015.

As of June 30, 2012, the most recent actuarial valuation, the City's plan was 60.33% funded with an unfunded actuarial accrued liability of $129.5 million; and, the Schools' plan was 78.37% funded with an unfunded actuarial accrued liability of $3 million.

Commitments and Contingent Liabilities

City employees accumulate annual leave based upon their length of service. Outstanding annual leave and compensated absences are payable up to a maximum of thirty-six (36) days upon termination of employment for employees hired prior to 1/1/14 and a maximum of 31 days for non-public safety employees hired on or after 1/1/14. As of June 30, 2013, compensated absences liabilities are reported as follows: $3,944,692 for the General Fund, $262,543 for the Water Fund, $160,242 for the Sewer Fund, $13,827 for the Stormwater Fund, $46,155 for the Fleet Fund and $55,979 for the Airport Fund.

At June 30, 2013, the compensated absences liability for the Schools' employees was $773,649. Compensated absences liability amounts are reflected in the appropriate proprietary fund level financial statements and in the Long-term Liabilities Note 9 of the Comprehensive Annual Financial Report. See Appendix C.

Other Post-Employment Benefits (OPEB)

The City provides post-employment health and dental benefits to its retirees. The City does not provide prescription coverage for Medicare eligible retirees. All health care benefits are provided through the City's self-insured health plan and retirees who qualify for City sponsored health benefits receive a City contribution in the same amount as active employees. Retirees may continue to participate in the group health and dental plans based upon the date of full time hire in accordance with the provisions outlined as follows: (1) Full time Classified employees hired on or after July 1, 1996 are currently eligible to participate in the City's health and dental plans at the retiree's expense when they retire directly from the City with at least fifteen (15) years of full time service with the City. The retiree must pay the current premium value of the medical coverage. (2) Full time Classified employees hired on or after July 1, 1990, but before July 1, 1996 are currently eligible to participate in the City's health and dental plans and receive City contributions for the coverage when they retire directly from the City with at least fifteen (15) years of full time service with the City and the retiree worked for the City five (5) of the fifteen (15) years immediately preceding retirement. (3) Full time Classified employees hired prior to July 1, 1990 are currently eligible for health and dental plan participation and receive City contributions for their coverage when they retire directly from the City.

For the fiscal year ended June 30, 2013, the City's annual required contribution (ARC) was $3.5 million with an unfunded actuarial accrued liability of $61 million. This was based on an actuarial valuation as of July 1, 2012 utilizing a six and three quarter percent (6.75%) discount rate and a thirty-year (30) amortization period. The City's annual contribution was $3.8 million, leaving a Net OPEB obligation of $4.1 million.

During FY 2013, the City designated $0.25 million for the OPEB liability. The FY 2014 Adopted Budget includes an additional $0.25 million designated for the OPEB liability. These amounts were in addition to the pay-as-you-go budgets. The City is exploring the possibility of developing a trust to accumulate and invest assets necessary to pay for the accumulated liability. An updated actuarial valuation study as of July 1, 2014 is being prepared at this time.

The Schools provide certain benefits for retired employees through a single-employer defined benefit plan. The Schools may change, add or delete benefits (including contributions required of retired employees) with School Board approval. The Schools provide post-employment medical, dental and vision benefits to its retirees and their eligible dependents that elect to stay in the plans. At retirement, retirees may stay in one of two PPO plans with an additional choice of prescription drug benefits and can continue coverage under all the benefits until age 65. The retiree pays the premium for these benefits. Participants are eligible for the plan when they are eligible to retire under the provisions of the Virginia Retirement System and they have worked for Lynchburg City Schools for ten continuous years. The earliest retirement age is at age 50 with ten years of service, except for those eligible to elect the Early Retirement Incentive Plan. Under the Early Retirement Incentive Plan adopted by the School Board in April 2009, the Schools will pay the employer-only low option medical plan for an eligible retiree. Employees are eligible for this early retirement incentive plan upon reaching twenty-five (25) years of Virginia Retirement System service and ten (10) continuous years of employment with Lynchburg City Schools immediately preceding retirement. The benefit is payable for five (5) years or until age 65, whichever occurs first. This plan was offered only in FY 2009, and is no longer available to new participants. The Schools currently fund postemployment health care benefits on a pay-as-you-go basis. The Schools do not intend to establish a trust to pre-fund this liability.

For the fiscal year ended June 30, 2013, the Schools' annual required contribution (ARC) was $1 million with an unfunded actuarial accrued liability of $7.7 million. This was based on an actuarial valuation as of June 30, 2013 utilizing a four percent (4%) discount rate and a thirty (30) year amortization period. The Schools' annual contribution was $0.3 million, leaving a Net OPEB obligation of $2.8 million.

See Appendix C, Note 12 of the City's Comprehensive Annual Financial Report for detailed information regarding the City and Schools Other Post-Employment Benefits.

Leases

The City and the Lynchburg School Board lease certain equipment under operating lease agreements and certain equipment and vehicles under non-cancellable capital lease agreements, subject to annual appropriation. Further, the City is a lessor of certain airport and other facilities under various operating leases. See Appendix C, Notes 9 and 13.

Debt Management

Statement of General Obligation Long-Term Debt
As of June 30, 2013

Tax-Supported Debt	
General	$ 59,898,569
Schools	54,310,171
Sub-Total	$114,208,740
Enterprise Fund Debt	
Airport[1]	$989,741
Water[2]	40,670,955
Sewer[2]	23,396,771
Sub-Total	$ 65,057,467
Total Bonded Debt	$179,266,207

1 Effective July 1, 1996, the City established the Regional Airport Fund to provide financing and accounting for its transportation services.

2 Although all of the above Water and Sewer System Bonds are general obligations of the City, the entire principal and interest on the bonds historically have been paid from revenues of the Water and Sewer Systems. No tax revenue has been applied to such payment.

Source: Director of Financial Services, City of Lynchburg, Virginia.

Legal Debt Margin

	Based on Assessed Valuation as of June 30, 2013
Total Assessed Value of Real Estate	$5,170,622,507
Legal Debt Limit - 10% of Total Assessed Value of Real Estate	$ 517,062,251
Legal Debt Margin	$ 517,062,251
Bonded Debt as of June 30, 2013	$ 179,266,207 (1)
Legal Debt Margin for Creation of Additional Debt	$ 337,796,044

(1) Does not include $122,875,994 City of Lynchburg Public Utility Revenue Bonds which by State law are not required to be included in the calculation of legal debt margin for additional debt.

Source: Director of Financial Services, City of Lynchburg, Virginia.

Ratio of Net Bonded Debt to Assessed Valuation and Net Bonded Debt Per Capita (Amounts in Thousands, Except Per Capita Data)

Fiscal Year	Population[(1)]	Assessed Valuation[(2)]	Gross Bonded Debt[(3)]	Bonded Debt Payable from Enterprise Funds Revenues[(3)]	Net Bonded Debt[(3)]	Net Deferred Amounts[(4)]	Net Bonded Debt (Includes Net Deferred Amounts)	Net Bonded Debt To Assessed Value (Includes Net Deferred Amounts)	Net Bonded Debt Per Capita (Includes Net Deferred Amounts)
2004	67,100	$3,915,725	$174,813	$66,896	$107,917	$(416)	$107,501	2.75%	$1,602
2005	67,756	3,954,923	163,552	61,935	101,617	(914)	100,703	2.55	1,486
2006	68,579	4,935,723	190,828	74,032	116,796	40	116,836	2.37	1,704
2007	70,056	4,501,102	177,456	68,795	108,661	191	108,852	2.42	1,554
2008	71,196	5,330,939	182,350	63,550	118,800	664	119,464	2.24	1,679
2009	72,371	5,463,547	180,372	60,831	119,541	804	120,345	2.20	1,663
2010	75,568	5,764,489	210,940	71,749	139,191	1,040	140,231	2.43	1,856
2011	76,448	5,864,104	197,812	68,005	129,807	(69)	129,738	2.21	1,697
2012	77,203	5,888,731	184,094	64,016	120,078	(69)	120,009	2.04	1,554
2013	77,376	5,844,237	179,267	65,058	114,209	(70)	114,139	1.95	1,475

(1) Data from the Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia,.

(2) The FY 2013 amount only reflects two of the four billings associated with the personal property tax levy as of June 30, 2013.

(3) These amounts include principal only and do not include City of Lynchburg Public Utility Revenue Bonds of $122,875,994 at June 30, 2013.

(4) Net Deferred Amounts include Premiums, Discounts, and Loss on Refundings.

Source: Director of Financial Services, City of Lynchburg, Virginia.

Ratio of Annual Debt Service Expenditures for General Fund Bonded Debt to Total General Fund Expenditures and Transfers Including Reserve Allocations or Schools Expenditures(2)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures and Transfers(1)	Total General Fund Expenditures and Schools Expenditures(2)	Ratio of Debt Service to Total General Fund Expenditures and Transfers or Schools Expenditures (1) (2)
2004	$ 6,245,066	$3,801,676	$ 10,046,742	$141,124,882		7%
2005	6,792,366	4,003,865	10,796,231	127,571,914		8
2006	6,487,211	3,975,621	10,462,832	147,004,108		7
2007	7,452,412	4,568,650	12,021,062		$185,087,000	6
2008	7,318,763	4,921,875	12,240,638		196,144,005	6
2009	7,640,468	4,886,916	12,527,384		207,024,251	6
2010	8,677,952	5,089,391	13,767,343		210,856,129	7
2011	9,804,998	5,184,914	14,989,912		203,946,061	7
2012	9,268,663	5,047,873	14,316,536		206,418,706	7
2013	9,537,447	9,537,447	19,074,894		214,271,810	9

---

(1) Includes all General Fund expenditures, operating transfers out, and transfers to component units.

(2) Per the City of Lynchburg's Financial Management Policies Adopted August 10, 1999, and reaffirmed on November 14, 2000, October 29, 2002, and September 28, 2004. Through FY 2006, annual debt service expenditures for tax-supported debt should not exceed 10% of the following: Total General Fund Expenditures plus (a) transfers to the School Operating Fund and (b) Reserve Allocations. Amendments were made to the Debt Management Policy in December 2006 and again on December 8, 2008. For FY 2007 and forward, the policy states that annual debt service expenditures for tax-supported debt should not exceed 10% of total General Fund Expenditures plus School Component Unit Expenditures. The December 2008 revision strengthened the policy by including the following statement, "The City will never borrow more than it has the capacity to repay." On November 23, 2010, City Council approved revisions to the City's Debt Management Policy which included the following (changes in *italics*). (1) Annual debt service expenditures for tax-supported debt should not exceed 10% of total General Fund Expenditures plus School Component Unit Expenditures minus the *General Fund Transfer to Schools*. (2) 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*). With the transfer of the landfill operation to the Region 2000 Services Authority, the Solid Waste Management operation was removed from the Debt Management Policy. (3) For those revenue-supported bonds issued through the Virginia Revolving Loan Fund, annual debt service payments shall not exceed thirty years. The previous policy stated twenty years. On February 26, 2013, the following revision was approved by City Council (changes in *italics*). The 10-Year Principal Payout Ratio shall not be less than 60% *at the end of each adopted five-year Capital Improvement Program* for Tax-Supported General Obligation Indebtedness.

Source: Director of Financial Services, City of Lynchburg, Virginia.

Debt Service Requirements on General Obligation Outstanding Debt as of June 30, 2013

Fiscal	Governmental Funds			Payout	Proprietary Funds			Payout	Total General Obligation Debt Service			Payout
Year	Principal	Interest	Total	Ratio	Principal	Interest	Total	Ratio	Principal	Interest	Total	Ratio
2014	$9,509,233	$4,443,660	$13,952,893	8.54%	$3,960,666	$2,774,610	$6,735,275	6.32%	$13,469,899	$7,218,270	$20,688,169	7.74%
2015	8,752,249	4,062,805	12,815,055	16.39	3,781,278	2,627,800	6,409,077	12.35	12,533,527	6,690,605	19,224,132	14.94
2016	8,824,736	3,707,948	12,532,684	24.31	3,811,493	2,476,720	6,288,213	18.44	12,636,229	6,184,668	18,820,897	22.20
2017	8,702,328	3,372,545	12,074,873	32.12	3,680,320	2,335,280	6,015,600	24.31	12,382,648	5,707,825	18,090,472	29.31
2018	8,284,496	3,040,887	11,325,383	39.56	3,475,448	2,195,797	5,671,244	29.86	11,759,944	5,236,684	16,996,627	36.07
2019	7,359,347	2,733,429	10,092,776	46.17	2,997,590	2,064,582	5,062,172	34.64	10,356,937	4,798,011	15,154,948	42.02
2020	7,091,522	2,478,811	9,570,333	52.53	2,609,175	1,962,264	4,571,439	38.80	9,700,697	4,441,075	14,141,772	47.59
2021	6,577,673	2,226,982	8,804,655	58.44	2,418,803	1,867,044	4,285,847	42.66	8,996,476	4,094,025	13,090,501	52.76
2022	6,643,401	1,981,764	8,625,164	64.40	2,455,649	1,771,700	4,227,349	46.58	9,099,050	3,753,463	12,852,514	57.98
2023	6,497,518	1,721,870	8,219,388	**70.23**	2,470,324	1,664,302	4,134,626	**50.52**	8,967,842	3,386,172	12,354,014	**63.14**
2024	5,693,616	1,471,742	7,165,358	75.34	2,361,967	1,555,240	3,917,207	54.29	8,055,583	3,026,982	11,082,565	67.76
2025	5,411,860	1,241,821	6,653,681	80.20	2,200,155	1,451,042	3,651,197	57.80	7,612,014	2,692,863	10,304,878	72.14
2026	5,498,902	1,014,192	6,513,094	85.13	2,254,173	1,348,647	3,602,819	61.40	7,753,074	2,362,839	10,115,913	76.59
2027	3,566,271	791,767	4,358,038	88.34	1,979,824	1,243,930	3,223,754	64.56	5,546,095	2,035,697	7,581,792	79.78
2028	2,028,115	671,741	2,699,856	90.16	1,962,800	1,148,475	3,111,275	67.69	3,990,915	1,820,217	5,811,132	82.07
2029	1,970,395	574,228	2,544,623	91.92	1,970,400	1,054,258	3,024,658	70.84	3,940,795	1,628,486	5,569,281	84.33
2030	1,737,315	484,464	2,221,779	93.48	1,858,300	962,018	2,820,318	73.80	3,595,615	1,446,482	5,042,097	86.40
2031	1,083,100	407,514	1,490,614	94.46	1,806,900	866,907	2,673,807	76.69	2,890,000	1,274,421	4,164,421	88.06
2032	1,074,310	352,188	1,426,498	95.42	1,860,690	770,884	2,631,574	79.66	2,935,000	1,123,072	4,058,072	89.75
2033	866,280	300,034	1,166,314	96.20	1,773,720	673,787	2,447,507	82.49	2,640,000	973,822	3,613,822	91.26
2034	725,640	253,894	979,534	96.85	1,739,360	578,555	2,317,915	85.26	2,465,000	832,449	3,297,449	92.68
2035	585,000	212,677	797,677	97.37	1,705,000	484,295	2,189,295	87.98	2,290,000	696,972	2,986,972	93.99
2036	585,000	174,008	759,008	97.90	1,780,000	388,000	2,168,000	90.82	2,365,000	562,009	2,927,009	95.35
2037	585,000	135,340	720,340	98.42	1,850,000	287,757	2,137,757	93.78	2,435,000	423,097	2,858,097	96.75
2038	585,000	96,671	681,671	98.95	1,930,000	183,454	2,113,454	96.86	2,515,000	280,125	2,795,125	98.20
2039	585,000	58,003	643,003	99.47	965,000	98,324	1,063,324	98.40	1,550,000	156,327	1,706,327	99.09
2040	585,000	19,334	604,334	100.00	1,005,000	33,215	1,038,215	100.00	1,590,000	52,550	1,642,550	100.00
Grand Total	**$111,408,307**	**$38,030,319**	**$149,438,626**		**$62,664,034**	**$34,868,886**	**$97,532,920**		**$174,072,341**	**$72,899,206**	**$246,971,546**	

Tax Base Data
Assessed Value of All Taxable Property

Fiscal Year	Real Property [1]: Residential Property [2][7]	Real Property [1]: Commercial Property [2][8]	Real Property [1]: Public Service Corporation	Real Property [1]: Total	Real Property [1]: Tax Rate	Personal Property [3]: Personal Property	Personal Property [3]: Public Service Corporation	Personal Property [3]: Total	Personal Property [3]: Tax Rate	Machinery and Tools: Machinery and Tools [2]	Machinery and Tools: Tax Rate	Tax Assessed Value of Taxable Property	Tax Direct Tax Rate[10]
2004	$2,027,995,200	$1,088,583,200	$185,826,527	$3,302,404,927	$1.11	$458,996,765	$28,684,711	$487,681,476	$3.30	$125,639,040	$3.00	$3,915,725,443	$7.41
2005	2,091,324,700	1,098,902,300	191,327,640	3,381,554,640	1.11	441,221,304	25,901,179	467,122,483	3.80	106,245,785	3.00	3,954,922,908	7.91
2006	-	-	-	-	-	464,880,808[4]	-	464,880,808	3.80	113,654,354[4]	3.00	578,535,162	6.80
2006	2,380,565,600	1,177,739,000	166,819,698	3,725,124,298	1.11	497,307,627[5]	21,891,230	519,198,857	3.80	112,864,422[5]	3.00	4,357,187,577	7.91
2007	2,454,171,000[9]	1,217,460,100	163,455,331	3,835,086,431	1.11	514,804,057[5]	22,435,903	537,239,960	3.80	128,776,059[5]	3.00	4,501,102,450	7.91
2008	3,003,784,200	1,467,073,300	150,948,376	4,621,805,876	1.05	554,580,281[5]	24,595,702	579,175,983	3.80	129,957,629[5]	3.00	5,330,939,488	7.85
2009	3,115,326,600	1,506,910,900	173,670,897	4,795,908,397	1.05	505,110,365[5]	23,990,045	529,100,410	3.80	138,538,171[5]	3.00	5,463,546,978	7.85
2010	3,316,347,900	1,575,297,100	177,590,861	5,069,235,861	1.05	530,818,005[5]	26,216,286	557,034,291	3.80	138,218,372[5]	3.00	5,764,488,524	7.85
2011	3,346,989,900	1,616,639,400	184,591,013	5,148,220,313	1.05	547,011,982[5]	26,206,858	573,218,840	3.80	142,664,977[5]	3.00	5,864,104,130	7.85
2012	3,331,295,800	1,618,203,300	182,357,853	5,131,856,953	1.05	573,684,320[5]	24,189,993	597,874,313	3.80	158,999,951[5]	3.00	5,888,731,217	7.85
2013	3,349,936,800	1,636,110,200	184,575,507	5,170,622,507	1.11	499,827,352[6]	23,632,441	523,459,793	3.80	150,154,720[6]	3.00	5,844,237,020	7.91

Sources: Real Estate Assessor and Commissioner of Revenue, City of Lynchburg, Virginia

(1) Assessed value is as of July 1 of the fiscal year noted. The tax rate is per $100 of assessed valuation.
(2) Real estate and machinery and tools are assessed at 100% of fair market value. The tax rate is per $100 of assessed valuation.
(3) Effective July 1, 1989, personal property is assessed at 100% of average trade-in value. The tax rate is per $100 of assessed valuation.
(4) 2005 Personal Property Tax Levy in FY 2006.
(5) These figures have been updated to reflect all billings associated with the levy.
(6) 2013 Personal Property Tax Levy in FY 2013. These figures only reflect two of the four billings associated with this levy. These figures will be updated in FY 2014 to reflect all four billings.
(7) These figures are net of land use exemptions. Title 58.1-3230 through 3244 of the Code of Virginia provides for the assessment of land based on use value rather than market value. Use value is the assessment of the land for a specific purpose and is generally lower than market value. This is a local option statute adopted by the City of Lynchburg.
(8) Commercial property also includes industrial property.
(9) The residential property amount for 2007 has been updated from the Fiscal Year 2007 CAFR to reflect net of land use exemption.
(10) When a government's individual direct rates apply to the same proportion of the revenue base, and do not apply to only a portion (such as residential, commercial, industrial), the Total Direct Rate is the sum of individual direct rates.

Percentage of Total Locally Assessed Real Estate In Business and Industrial Use

Fiscal Year	Percent
2004	34.35%
2005	34.35
2006	33.00
2007	33.06
2008	32.75
2009	32.54
2010	32.15
2011	32.51
2012	32.64
2013	32.76

Source: Real Estate Assessor, City of Lynchburg, Virginia.

Certain Other Local Taxes

Fiscal Year	Local Sales and Use Tax	Consumer Utility Taxes	Communications Sales & Use Tax	Business License Taxes	Meals and Lodging Taxes
2004	$11,528,820	$6,892,926	-	$6,507,848	$ 8,924,472
2005	12,221,813	8,397,849	-	7,032,917	10,058,985
2006	13,319,691	6,840,948	-	7,675,284	10,874,292
2007	14,481,096	5,835,367	$1,669,968	7,922,666	11,539,203
2008	14,266,750	4,793,431	3,893,158	8,010,597	11,988,517
2009	13,056,829	4,739,261	3,537,283	7,913,270	12,169,147
2010	12,675,632	4,700,202	3,552,028	7,818,381	12,091,850
2011	13,290,563	4,692,477	3,534,449	7,263,543	12,642,823
2012	13,440,973	4,475,316	3,462,621	7,885,841	13,372,802
2013	13,589,747	4,628,647	3,471,805	8,057,554	13,841,972

In 2006, the General Assembly of the Commonwealth of Virginia created a new tax called the Communication Sales & Use Tax. This tax accounts for all communication taxes for telephone land line services and wireless services. Therefore, the consumer utility taxes reported above and the franchise taxes and emergency telephone service taxes not reported above are less beginning in FY 2007 and future years.

Source: Director of Financial Services, City of Lynchburg, Virginia.

Tax Rates

(Per $100 Assessment)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Real Estate:					
Locally Assessed	$1.05	$1.05	$1.11	$1.11	$1.11
Personal Property					
Locally Assessed	3.80	3.80	3.80	3.80	3.80
Machinery and Tools	3.00	3.00	3.00	3.00	3.00
Automobiles, Trucks and Business Equipment	3.80	3.80	3.80	3.80	3.80
Public Service Corporations					
Equalized	1.05	1.05	1.05	1.05	1.05
Automobiles	3.80	3.80	3.80	3.80	3.80

Source: Director of Financial Services, City of Lynchburg, Virginia.

Ten Largest Taxpayers
June 30, 2013

Taxpayer	Type of Business	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	2013 Total Tax Levy	Percentage of Total Tax Levy
AEP	Utility	$75,753,034	1	1.30%	$846,368	1.04%
Areva NP Inc.	Nuclear Power Design & Fuel	55,975,543	2	0.96	1,222,896	1.51
Frito Lay, Inc.	Food Manufacturer	52,766,043	3	0.90	1,101,133	1.36
Verizon Va, Inc.	Utility	52,485,054	4	0.90	596,808	0.74
River Ridge, Ltd.	Shopping Mall	46,604,400	5	0.80	517,309	0.64
Genworth Financial, Inc.	Life Insurance	41,561,923	6	0.71	735,646	0.91
R R Donnelley	Printing	36,208,130	7	0.62	723,538	0.89
Wal-Mart Real Estate Business Trust	Real Estate Company	35,151,800	8	0.60	390,185	0.48
CCRC, Inc.	Nursing Home/Assisted Living	18,802,100	9	0.32	208,703	0.26
LU Candlers Station Holdings LLC	Shopping Mall	17,588,400	10	0.30	195,231	0.24
Total		$432,896,427		7.41%	$6,537,817	8.07%

Total Assessed Valuation:	$5,844,237,020
Tax Levy:	
Real Estate	$ 55,299,746
Railroads and Pipelines	255,873
Public Service Corporations	2,077,707
Personal Property	23,388,916
Total Tax Levy:	$ 81,022,242

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

Tax Levies and Tax Collections (1)

Fiscal Year	Tax Levied For the Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Delinquent Tax Collection (3)	Total Collections to Date	
		Amount	Percentage of Levy (2)		Amount	Percentage of Levy (2)
2004	$54,014,300	$52,095,333	96.45%	$1,166,867	$53,262,200	98.61%
2005	55,674,712	54,679,067	98.21	1,115,795	55,794,862	100.22
2006	67,559,478	64,525,107	95.51	2,605,098	67,130,205	99.36
2007	63,281,557	60,579,970	95.73	1,502,899	62,082,869	98.11
2008	69,302,787	67,913,137	97.99	2,010,586	69,923,723	100.90
2009	70,934,803	68,912,258	97.15	1,808,276	70,720,534	99.70
2010	73,855,430	71,488,683	96.80	2,024,773	73,513,456	99.54
2011	75,345,301	72,759,636	96.57	1,376,520	74,136,156	98.40
2012	75,852,982	73,256,961	96.58	2,222,051	75,479,012	99.51
2013	80,180,463	77,536,743	96.70	-	77,536,743	96.70

(1) Total tax levy is calculated based on the sum of Real Estate Tax and Personal Property Tax levies and any supplemental bills. Due to the implementation of a new personal property tax billing system these figures will be updated each year to reflect the supplemental bills attributable to the year the tax should have been levied.

Real estate taxes are payable in four installments on or before November 15, January 15, March 15 and May 15 of the fiscal year. Personal property taxes are payable on or before November 15 if such property is titled within the City on or after January 1 of the tax year and before August 15 of the tax year. Taxes on personal property which are titled in the City after August 15 of the tax year are payable on or before February 15 of the following year. The tax levy and collections are exclusive of penalty and interest. Additionally for FY 2006 and future fiscal years as a result of process changes implemented in FY 2006, personal property taxes are payable in two installments on or before June 5, 2006 and December 5, 2006 for FY 2007.

(2) These columns represent the amount and percentage on the tax levy within the respective tax year reporting period.

(3) This column represents delinquent taxes collected within the respective reporting period. Beginning with fiscal year 2004 this column represents collections in subsequent years for the tax levied in the noted fiscal year.

Notes:

a) The increase in the FY 2006 levy is a result of the change in personal property tax billing to a two installment billing system. Both installments were levied in May 2006 for calendar year 2006 personal property tax. However, only the first installment was due in June 2006 with the second installment due in December 2006. Future fiscal years will include a May levy with installments due June 5 and December 5.

b) Fiscal Years 2005 and 2008 show more collected than levied due to subsequent adjustments to the tax owed.

Source: Director of Financial Services, City of Lynchburg, Virginia.

Litigation

During the normal course of business, the City and its employees have been named as defendants in claims for personal injuries and property damages which are being defended by the City Attorney and associated counsel. The City's potential liability is protected partially by indemnification agreements. It is the opinion of the City Attorney that any possible losses in connection with such litigation will not materially affect the City's financial condition.

The City Attorney is of the opinion that there is no litigation pending or threatened in either state or federal courts which would in any way affect the validity of the Bonds or the ability of the City to levy or collect *ad valorem* taxes for payment of the Bonds or the interest thereon.

Selected Financial Information

The financial data shown in the following tables represent a summary for the years ended June 30, 2004 through 2013, for the funds which represent significant operations of the City.

CITY OF LYNCHBURG, VIRGINIA
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
LAST TEN FISCAL YEARS

	Fiscal Year									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Revenues:										
Taxes	$ 85,774,800	$ 91,739,497	$ 103,012,216	$ 102,480,268	$ 110,636,590	$ 110,297,053	$ 112,519,658	$ 115,009,873	$ 116,760,078	$ 122,436,720
Regulatory licenses, permits, and privilege fees	738,887	635,880	1,025,782	887,272	849,742	650,514	664,028	683,712	916,546	991,098
Intergovernmental	27,295,898	27,321,323	30,391,990	31,311,980	33,410,321	33,646,195	33,239,946	33,199,440	35,030,474	33,669,141
Fines & forfeitures	551,716	552,797	593,518	581,986	586,661	612,595	667,756	598,424	721,839	726,438
Revenues from use of money & property	797,531	1,373,658	2,130,172	3,377,730	3,308,104	1,403,024	995,450	840,217	690,069	437,531
Charges for services	6,371,250	6,442,510	7,376,311	7,083,847	7,198,099	7,593,070	7,905,479	7,907,113	7,676,012	9,949,886
Miscellaneous	666,969	955,066	1,261,164	387,005	452,272	1,168,236	1,132,221	945,324	871,056	1,097,217
Total revenues	122,197,051	129,020,731	145,791,153	146,110,088	156,441,789	155,370,687	157,124,538	159,184,103	162,666,074	169,308,031
Expenditures:										
Current operating expenditures:										
General government	11,960,240	12,499,485	13,176,072	14,111,441	14,561,922	15,808,721	15,896,808	15,453,014	15,908,597	16,408,318
Judicial	3,303,952	3,536,008	3,827,095	4,182,946	4,423,005	4,457,959	4,342,042	4,426,215	4,421,907	4,650,024
Public safety	29,178,810	31,113,303	32,782,350	34,640,217	36,703,695	36,981,993	36,756,234	38,405,071	38,845,495	42,026,411
Public works	10,244,342	10,616,660	11,801,684	11,565,845	11,257,662	17,209,120	14,432,901	15,139,289	14,436,170	15,547,537
Health and human services	21,317,811	15,744,061	16,111,220	16,577,034	18,890,171	19,126,038	18,532,152	18,713,485	18,268,410	18,905,329
Cultural & recreational	6,427,237	6,466,171	6,926,949	7,287,216	7,691,627	7,794,603	7,311,064	7,397,754	7,383,687	7,560,762
Community development	3,102,768	3,874,987	3,559,260	4,034,373	3,936,251	3,730,495	3,604,356	3,883,971	3,930,173	3,504,251
Education	26,005,227	27,125,060	29,894,763	30,418,183	32,932,233	32,150,370	29,443,654	30,310,602	31,696,712	35,308,205
Debt service:										
Principal retirements	17,839,066	7,024,174	18,326,124	7,702,865	7,812,969	8,152,512	16,708,675	10,354,910	9,706,899	9,693,099
Interest payments and other fiscal charges	3,848,634	4,246,388	4,273,525	4,794,314	5,212,231	5,121,995	5,307,936	5,380,142	5,225,436	4,829,728
Issuance costs	-	161,433	146,165	-	127,866	-	186,536	162,757	28,450	29,815
Total expenditures	133,228,087	122,407,730	140,825,207	135,314,434	143,549,632	150,533,806	152,522,358	149,627,210	149,851,936	158,463,479
Excess (deficiency) of revenues over expenditures	(11,031,036)	6,613,001	4,965,946	10,795,654	12,892,157	4,836,881	4,602,180	9,556,893	12,814,138	10,844,552
Other financing sources (uses):										
Issuance of bonds	19,063,115	-	10,644,739	-	69,980	-	7,082,817	-	-	-
Premium on debt proceeds	-	-	361,837	-	-	-	540,631	-	-	-
Issuance of refunding bonds	-	24,393,868	-	-	4,106,224	-	5,929,460	16,605,512	-	4,129,625
Refunded bond principal payments	-	-	-	-	(4,048,996)	-	-	-	-	-
Payments to escrow agent	-	(24,152,140)	-	-	-	-	(5,872,800)	(16,418,708)	-	(4,129,625)
Transfers in	927,197	994,616	504,783	126,333	26,150	6,450,066	464,020	546,826	283,272	18,524
Transfers out	(7,065,218)	(5,182,642)	(6,178,901)	(15,241,180)	(11,257,106)	(8,673,819)	(4,180,805)	(10,170,259)	(11,695,113)	(9,851,795)
Total other financing sources (uses)	12,925,094	(3,946,298)	5,332,458	(15,114,847)	(11,103,748)	(2,223,753)	3,963,323	(9,436,629)	(11,411,841)	(9,833,271)
Net changes in fund balances	1,894,058	2,666,703	10,298,404	(4,319,193)	1,788,409	2,613,128	8,565,503	120,264	1,402,297	1,011,281
Fund balance - beginning, as restated [(1)]	21,869,384	23,821,442	26,488,145	37,096,549	32,777,356	34,565,765	37,178,893	46,880,303	47,000,567	48,402,864
Fund balance - ending	$ 23,763,442	$ 26,488,145	$ 36,786,549	$ 32,777,356	$ 34,565,765	$ 37,178,893	$ 45,744,396	$ 47,000,567	$ 48,402,864	$ 49,414,145

[(1)] Beginning fund balance restated as of June 30, 2004, June 30, 2006 and June 30, 2011. see Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2005, June 30, 2007 and June 30, 2011.

CITY OF LYNCHBURG, VIRGINIA

FUND BALANCES, GOVERNMENTAL FUNDS, LAST TEN FISCAL YEARS (modified accrual basis of accounting)

	Pre-GASB 54						
	2004	2005	2006	2007	2008	2009	2010
General Fund							
Reserved	$ 933,133	$ 1,131,403	$ 879,657	$ 1,236,149	$ 2,406,773	$ 719,850	$ 1,457,305
Unreserved	22,830,309	25,356,742	35,906,892	31,541,207	32,158,992	36,459,043	44,287,091
Total General Fund	$ 23,763,442	$ 26,488,145	$ 36,786,549	$ 32,777,356	$ 34,565,765	$ 37,178,893	$ 45,744,396
All Other Governmental Funds							
Reserved	$ 14,416,749	$ 6,941,128	$ 6,687,005	$ 5,430,322	$ 44,832,256	$ 31,264,091	$ 9,752,227
Unreserved, reported in:							
Special revenue funds	3,901,971	3,464,014	4,071,768	3,219,576	1,082,960	4,263,967	4,265,193
Capital projects funds	730,434	(2,600,639)	9,825,526	13,985,011	6,697,269	11,646,868	31,943,779
Total All Other Governmental Funds	$ 19,049,154	$ 7,804,503	$ 20,584,299	$ 22,634,909	$ 52,612,485	$ 47,174,926	$ 45,961,199

		Post-GASB 54	
	2011	2012	2013
General Fund			
Committed	$ 13,707,762	$ 13,992,915	$ 14,610,825
Assigned	4,077,230	5,574,299	3,128,072
Unassigned	29,215,575	28,835,650	31,675,248
Total General Fund	$ 47,000,567	$ 48,402,864	$ 49,414,145
All Other Governmental Funds			
Nonspendable	$ 500,000	$ 500,000	$ 450,000
Restricted	23,708,274	18,760,659	16,805,325
Committed	18,396,943	21,518,899	17,761,570
Assigned	121,599	126,818	100,000
Unassigned	(539,488)	(257,944)	(257,945)
Total All Other Governmental Funds	$ 42,187,328	$ 40,648,432	$ 34,858,950

Note: Seven years of data is available for GASB 34 compliance. Three years of data is available for GASB 54 compliance. GASB 54 was adopted in FY 2011.

CITY OF LYNCHBURG, VIRGINIA

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
WATER FUND
LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues:										
Charges for services and other operating revenues	$ 9,001,806	$ 9,488,676	$ 10,352,303	$ 10,397,780	$ 11,269,882	$ 11,705,595	$ 12,029,026	$ 12,462,594	$ 12,314,865	$ 12,985,275
Total operating revenues	9,001,806	9,488,676	10,352,303	10,397,780	11,269,882	11,705,595	12,029,026	12,462,594	12,314,865	12,985,275
Operating expenses: [2]										
Personal services and benefits	-	2,830,609	2,953,729	3,175,057	3,696,365	3,886,560	4,010,326	4,253,120	3,835,816	4,385,357
Operation and maintenance	3,752,474	1,120,155	1,052,595	1,086,665	1,439,712	1,296,658	1,839,617	1,234,608	1,158,818	1,460,251
Supplies and materials	-	650,421	833,802	915,748	1,409,039	1,451,738	1,353,184	1,471,159	1,296,768	1,220,000
Administration	2,129,563	1,318,927	1,359,399	1,329,083	1,299,889	1,227,113	1,084,407	1,174,601	1,182,821	1,220,437
Other charges	-	48,269	68,637	57,613	55,342	61,621	52,684	67,481	60,133	65,424
Depreciation	1,952,385	1,743,936	1,771,749	1,796,958	2,072,079	2,090,517	2,468,788	2,519,349	2,701,356	2,711,581
Total operating expenses	7,834,422	7,712,317	8,039,911	8,361,124	9,972,426	10,014,207	10,809,006	10,720,318	10,235,712	11,063,050
Operating income	1,167,384	1,776,359	2,312,392	2,036,656	1,297,456	1,691,388	1,220,020	1,742,276	2,079,153	1,922,225
Nonoperating revenues (expenses):										
Interest income	57,640	123,527	264,029	629,409	343,836	82,842	22,207	30,674	40,275	2,729
Governmental grants	-	-	-	-	-	-	-	-	-	72,289
Miscellaneous	17,052	26,984	3,902	8,468	28,142	25,223	29,613	19,585	10,847	16,535
Loss on disposition of assets	(238,743)	(8,422)	(17,683)	(12,880)	-	-		(293)	-	-
Interest on long-term debt	(971,932)	(963,889)	(1,135,500)	(1,382,240)	(1,331,124)	(1,267,391)	(1,796,575)	(1,520,334)	(1,643,503)	(1,751,114)
IRS interest subsidy - Build America Bonds	-	-	-	-	-	-	243,211	125,799	251,598	251,598
Total nonoperating revenues (expenses)	(1,135,983)	(821,800)	(885,252)	(757,243)	(959,146)	(1,159,326)	(1,501,544)	(1,344,569)	(1,340,783)	(1,407,963)
Income before contributions and transfers	31,401	954,559	1,427,140	1,279,413	338,310	532,062	(281,524)	397,707	738,370	514,262
Capital contributions	-	208,868	-	-	-	-	-	-	24,000	9,500
Transfers out	(161,000)	(147,123)	(182,846)	(77,000)	(215,500)	-	-	-	-	-
Change in net position	(129,599)	1,016,304	1,244,294	1,202,413	122,810	532,062	(281,524)	397,707	762,370	523,762
Total net position - beginning, as restated [1]	31,108,943	30,979,344	31,995,648	33,239,942	34,442,355	34,565,165	35,097,227	34,815,703	35,273,830	36,036,200
Ending net position:										
Net investment in capital assets	24,348,833	25,767,489	27,805,400	27,457,812	28,835,542	29,577,116	29,406,782	28,353,428	28,177,375	27,787,795
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	6,630,511	6,228,159	5,434,542	6,984,543	5,729,623	5,520,111	5,408,921	6,859,982	7,858,825	8,772,167
Total net position - ending	$ 30,979,344	$ 31,995,648	$ 33,239,942	$ 34,442,355	$ 34,565,165	$ 35,097,227	$ 34,815,703	$ 35,213,410	$ 36,036,200	$ 36,559,962

[1] Total net position - beginning, was restated as of June 30, 2011. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report for FY 2012 for an explanation.
[2] Beginning in FY 2005, operation and maintenance expenses reported in more detail.

CITY OF LYNCHBURG, VIRGINIA

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
SEWER FUND
LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues:										
Charges for services and other operating revenues	$ 13,919,612	$ 14,682,219	$ 15,405,174	$ 16,040,587	$ 17,861,892	$ 17,716,586	$ 18,536,169	$ 18,023,990	$ 18,520,421	$ 18,913,651
Total operating revenues	13,919,612	14,682,219	15,405,174	16,040,587	17,861,892	17,716,586	18,536,169	18,023,990	18,520,421	18,913,651
Operating expenses: [2]										
Personal services and benefits	-	1,894,076	1,919,958	2,094,012	2,497,423	2,580,269	2,690,817	2,821,960	2,963,550	2,731,139
Operation and maintenance	5,749,871	1,684,070	1,942,779	1,776,185	2,653,861	2,922,473	2,648,489	2,756,734	3,054,420	2,493,078
Supplies and materials	-	773,012	836,684	841,857	906,778	988,444	1,120,551	1,142,833	1,119,265	1,040,125
Administration	858,727	1,744,083	1,798,976	1,863,792	2,025,740	2,370,470	2,222,341	2,599,513	2,337,126	2,273,339
Other charges	-	23,902	40,887	34,347	35,078	35,903	45,466	39,915	70,699	33,447
Depreciation	3,662,382	3,777,969	3,954,820	4,108,561	4,296,493	4,430,958	4,857,843	5,035,336	5,819,288	6,147,918
Total operating expenses	10,270,980	9,897,112	10,494,104	10,718,754	12,415,373	13,328,517	13,585,507	14,396,291	15,364,348	14,719,046
Operating income	3,648,632	4,785,107	4,911,070	5,321,833	5,446,519	4,388,069	4,950,662	3,627,699	3,156,073	4,194,605
Nonoperating revenues (expenses):										
Interest income	200,511	248,236	456,342	858,384	691,799	363,942	182,548	173,319	167,849	102,589
Governmental grants	38,500	38,500	38,500	38,500	38,500	38,500	93,000	93,000	-	93,667
Miscellaneous	103,553	5,157	29,183	6,558	5,800	257,943	15,985	15,936	125,336	11,999
Gain (loss) on disposition of assets	2,080	(305,674)	(24,334)	-	-	-	-	-	-	(160,294)
Interest on long-term debt	(2,818,973)	(1,777,877)	(1,777,407)	(1,901,244)	(1,838,986)	(1,632,263)	(1,496,908)	(1,477,230)	(1,359,726)	(1,234,971)
IRS interest subsidy - Build America Bonds	-	-	-	-	-	-	44,421	22,977	45,953	45,952
Total nonoperating revenues (expenses)	(2,474,329)	(1,791,658)	(1,277,716)	(997,802)	(1,102,887)	(971,878)	(1,160,954)	(1,171,998)	(1,020,588)	(1,141,058)
Income before contributions and transfers	1,174,303	2,993,449	3,633,354	4,324,031	4,343,632	3,416,191	3,789,708	2,455,701	2,135,485	3,053,547
Capital contributions	4,711,890	3,851,205	1,534,561	766,259	2,210,259	4,045,756	12,542,361	8,435,244	700,878	31,025
Transfers out	(396,189)	(164,394)	(110,389)	(452,000)	(325,000)	-	-	-	(3,401)	-
Change in net position	5,490,004	6,680,260	5,057,526	4,638,290	6,228,891	7,461,947	16,332,069	10,890,945	2,832,962	3,084,572
Total net position - beginning, as restated [1]	68,706,621	75,646,728	82,326,988	87,384,514	92,022,804	98,251,695	105,713,642	122,045,711	132,997,076	135,830,038
Ending net position:										
Net investment in capital assets	63,406,634	69,171,836	73,629,641	74,801,294	78,570,747	89,162,429	103,867,512	118,483,855	122,482,265	128,264,125
Unrestricted	10,789,991	13,155,152	13,754,873	17,221,510	19,680,948	16,551,213	18,178,199	14,452,801	13,347,773	10,650,485
Total net position - ending	$ 74,196,625	$ 82,326,988	$ 87,384,514	$ 92,022,804	$ 98,251,695	$ 105,713,642	$ 122,045,711	$ 132,936,656	$ 135,830,038	$ 138,914,610

[1] Total net position - beginning, was restated as of June 30, 2011. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report for FY 2012 for an explanation.
[2] Beginning in FY 2005, operation and maintenance expenses reported in more detail.

CITY OF LYNCHBURG, VIRGINIA

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
SCHOOL FUND
LAST TEN FISCAL YEARS

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues:										
Intergovernmental	$ 63,603,079	$ 67,442,823	$ 71,207,508	$ 78,033,072	$ 82,325,106	$ 86,283,375	$ 82,233,197	$ 71,983,645	$ 74,046,427	$ 78,946,545
Revenue from use of money & property	1,643	2,100	32,611	31,600	34,279	6,748	1,314	527	136	106
Charges for services	386,744	324,097	395,382	1,344,909	1,380,153	1,367,940	1,228,196	1,504,368	1,556,187	1,468,451
Miscellaneous	203,831	392,233	343,074	159,662	208,542	111,542	230,075	804,264	1,197,197	590,372
Total revenues	64,195,297	68,161,253	71,978,575	79,569,243	83,948,080	87,769,605	83,692,782	74,292,804	76,799,947	81,005,474
Expenditures:										
Education:										
Instruction	49,693,140	52,327,742	55,484,371	60,849,179	63,943,555	66,182,342	61,342,226	54,022,173	54,189,572	57,096,206
Administration, attendance, and health	2,062,680	2,128,927	2,424,016	2,821,351	4,301,683	4,962,843	4,069,394	3,820,833	3,767,196	4,193,846
Pupil transportation services	3,001,085	3,214,586	3,774,716	4,112,219	4,698,221	4,122,671	3,508,602	3,786,131	4,418,735	4,661,286
Operations and maintenance	7,575,110	7,976,868	8,890,256	10,086,015	9,876,043	10,336,820	9,885,883	9,347,596	9,287,310	9,643,581
Food service and other	-	-	-	-	-	528	-	-	-	5,633
Facilities	858,962	-	-	-	-	55,414	64,784	48,403	40,563	87,879
Technology	-	-	-	-	-	-	2,048,301	2,037,654	2,362,774	2,049,937
Capital outlay	1,471,364	2,698,587	1,956,743	1,373,409	1,779,204	1,942,808	1,683,684	709,526	1,999,266	3,253,181
Debt service:										
Principal retirements	737,511	724,075	782,024	867,874	834,058	947,970	920,908	642,489	480,697	264,931
Interest payments	58,727	48,412	92,951	80,702	93,842	89,419	72,838	44,389	22,256	8,261
Total expenditures	65,458,579	69,119,197	73,405,077	80,190,749	85,526,606	88,640,815	83,596,620	74,459,194	76,568,369	81,264,741
Excess (deficiency) of revenues over expenditures	(1,263,282)	(957,944)	(1,426,502)	(621,506)	(1,578,526)	(871,210)	96,162	(166,390)	231,578	(259,267)
Other financing sources (uses):										
Capital lease proceeds	-	1,500,000	750,000	1,000,000	1,000,000	1,000,000	-	-	-	-
Transfers in (out)	-	-	-	-	-	-	(433,046)	(23,726)	-	(26,655)
Total other financing sources (uses)	-	1,500,000	750,000	1,000,000	1,000,000	1,000,000	(433,046)	(23,726)	-	(26,655)
Net change in fund balances	(1,263,282)	542,056	(676,502)	378,494	(578,526)	128,790	(336,884)	(190,116)	231,578	(285,922)
Fund balance - beginning	2,260,909	997,627	1,539,683	863,181	1,241,675	663,149	791,939	455,055	264,939	496,517
Fund balance - ending	$ 997,627	$ 1,539,683	$ 863,181	$ 1,241,675	$ 663,149	$ 791,939	$ 455,055	$ 264,939	$ 496,517	$ 210,595

CITY OF LYNCHBURG, VIRGINIA

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
STORM WATER FUND
CURRENT FISCAL YEAR

		2013
Operating revenues:		
Charges for services and other operating revenues	$	3,355,267
Intergovernmental		650,000
Total operating revenues		4,005,267
Operating expenses:		
Personal services and benefits		281,160
Operation and maintenance		651,189
Supplies and materials		50,358
Administration		1,109,817
Other charges		4,804
Total operating expenses		2,097,328
Operating income		1,907,939
Nonoperating revenue:		
Miscellaneous		1
Total nonoperating revenue		1
Change in net position		1,907,940
Total net position - beginning		-
Ending net position:		
Net investment in capital assets		99,062
Unrestricted		1,808,878
Total net position - ending	$	1,907,940

The Stormwater Fund was created in FY 2013.

CITY OF LYNCHBURG, VIRGINIA

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
AIRPORT FUND
LAST TEN FISCAL YEARS

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues:										
Charges for services and other operating revenues	$1,480,514	$1,637,730	$1,762,826	$1,848,109	$1,839,685	$1,967,871	$2,152,132	$2,093,668	$2,011,159	$2,124,073
Intergovernmental	32,588	71,309	146,198	129,582	132,487	178,948	179,276	168,209	158,129	135,566
Total operating revenues	1,513,102	1,709,039	1,909,024	1,977,691	1,972,172	2,146,819	2,331,408	2,261,877	2,169,288	2,259,639
Operating expenses: [2]										
Personal services and benefits	-	1,009,935	795,052	867,626	954,186	912,723	940,547	962,868	917,266	942,087
Operation and maintenance	1,665,851	424,166	695,575	751,314	710,025	825,665	962,156	993,088	979,812	1,008,265
Supplies and materials	-	88,525	111,521	96,152	117,270	99,852	107,755	118,586	122,848	113,371
Administration	558,515	191,387	231,161	235,657	231,223	203,813	242,702	233,300	263,522	243,385
Other charges	-	19,803	17,678	16,004	15,683	17,935	20,088	15,794	21,416	18,000
Depreciation	1,492,120	1,546,691	1,545,339	1,568,656	1,720,304	1,911,836	1,964,051	1,969,925	2,035,816	1,782,786
Total operating expenses	3,716,486	3,280,507	3,396,326	3,535,409	3,748,691	3,971,824	4,237,299	4,293,561	4,340,680	4,107,894
Operating loss	(2,203,384)	(1,571,468)	(1,487,302)	(1,557,718)	(1,776,519)	(1,825,005)	(1,905,891)	(2,031,684)	(2,171,392)	(1,848,255)
Nonoperating revenues (expenses):										
Interest income	5,487	16,873	63,986	106,412	33,985	15,788	3,198	2,672	2,658	3,659
Governmental grants	-	1,726	26,969	29,033	30,960	-	24,383	34,495	-	
Passenger facility charges [3]	230,179	256,800	246,981	223,331	185,815	319,360	377,504	350,002	321,031	-
Miscellaneous	96,961	5,523	6,646	12,260	8,162	11,508	4,249	44,092	12,388	16,697
Gain (Loss) on disposition of assets	(2,203)	-	-	117,431	-	-	-	(17,651)	-	137,762
Interest on long-term debt	(120,904)	(107,691)	(89,365)	(103,910)	(108,456)	(86,964)	(73,265)	(64,581)	(54,416)	(45,020)
Total nonoperating revenues (expenses)	209,520	173,231	255,217	384,557	150,466	259,692	336,069	349,029	281,661	113,098
Loss before contributions and transfers	(1,993,864)	(1,398,237)	(1,232,085)	(1,173,161)	(1,626,053)	(1,565,313)	(1,569,822)	(1,682,655)	(1,889,731)	(1,735,157)
Capital contributions	2,491,843	1,245,460	1,285,354	7,928,973	5,094,296	422,853	2,184,294	1,685,180	961,868	2,452,072
Passenger facility charges [3]	-	-	-	-	-	-	-	-	-	335,209
Transfers in	490,831	419,980	398,485	367,337	359,364	295,850	261,260	259,950	421,362	336,330
Change in net position	988,810	267,203	451,754	7,123,149	3,827,607	(846,610)	875,732	262,475	(506,501)	1,388,454
Total net position - beginning - as restated [1]	22,033,667	23,022,477	23,289,680	23,741,434	30,864,583	34,692,190	33,845,580	34,721,312	35,003,927	34,497,426
Ending net position:										
Net investment in capital assets	22,231,939	22,022,931	21,640,700	29,582,661	34,351,746	33,350,032	33,807,415	33,495,323	32,131,518	33,305,694
Restricted	-	-	312,049	1,765	4,708	8,786	5,213	10,312	119,534	25,193
Unrestricted	790,538	1,266,749	1,788,685	1,280,157	335,736	486,762	908,684	1,478,152	2,246,374	2,554,993
Total net position - ending	$23,022,477	$23,289,680	$23,741,434	$30,864,583	$34,692,190	$33,845,580	$34,721,312	$34,983,787	$34,497,426	$35,885,880

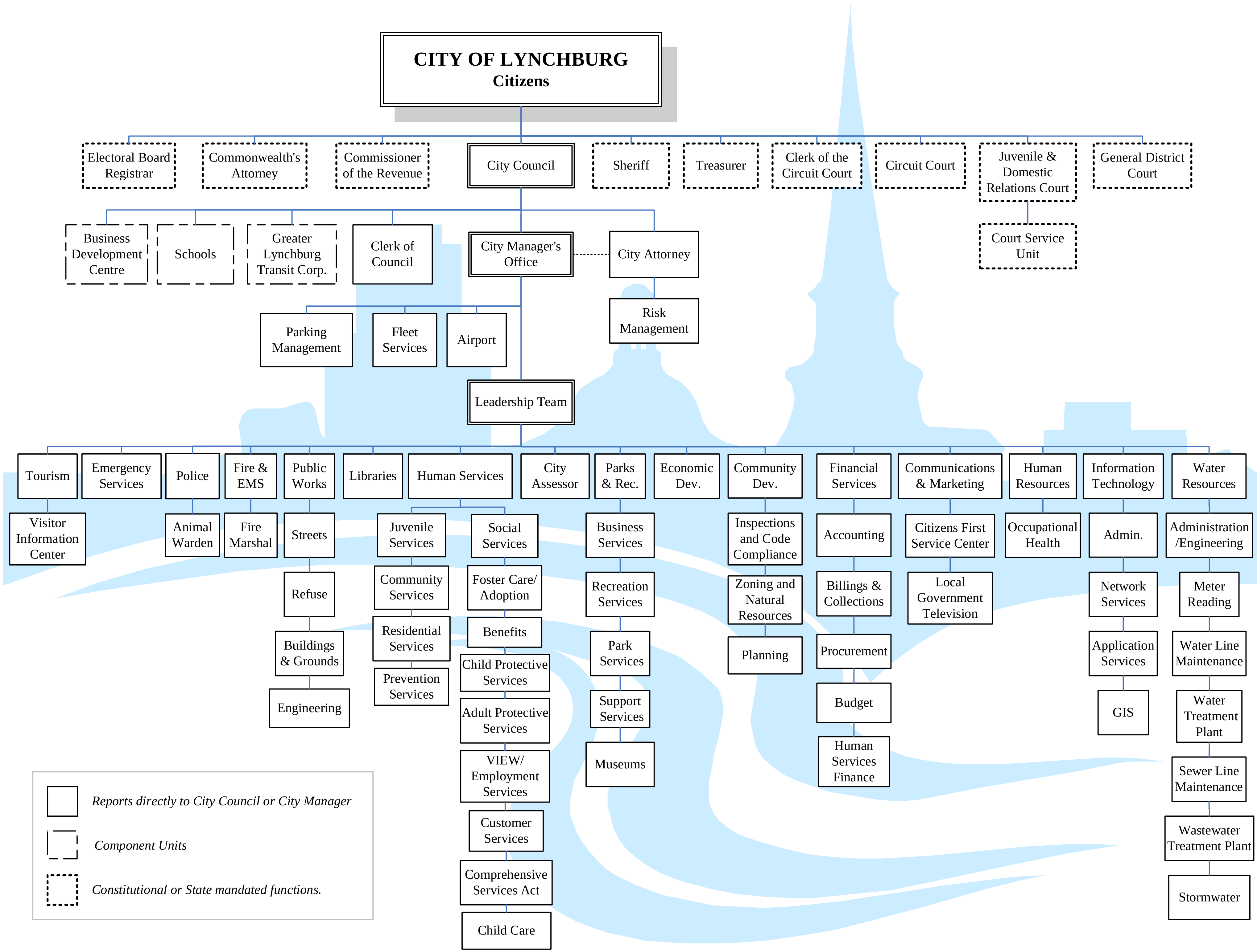
[1] Total net position - beginning, was restated as of June 30, 2011. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report for FY 2012 for an explanation.
[2] Beginning in FY 2005, operation and maintenance expenses reported in more detail.
[3] Beginning in FY 2013, Passenger facility charges are reported with capital contributions and transfers.

[This Page Intentionally Left Blank]

APPENDIX B

CITY OF LYNCHBURG, VIRGINIA
ORGANIZATIONAL STRUCTURE

[This Page Intentionally Left Blank]



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
Juvenile & Domestic Relations 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
Parking Management
Fleet Services
Airport
Leadership Team
Tourism
Visitor Information Center
Emergency Services
Police
Animal Warden
Fire & EMS
Fire Marshal
Public Works
Streets
Refuse
Buildings & Grounds
Engineering
Libraries
Human Services
Juvenile Services
Community Services
Residential Services
Prevention Services
Social Services
Foster Care/ Adoption
Benefits
Child Protective Services
Adult Protective Services
VIEW/ Employment Services
Customer Services
Comprehensive Services Act
Child Care
City Assessor
Parks & Rec.
Business Services
Recreation Services
Park Services
Support Services
Museums
Economic Dev.
Community Dev.
Inspections and Code Compliance
Zoning and Natural Resources
Planning
Financial Services
Accounting
Billings & Collections
Procurement
Budget
Human Services Finance
Communications & Marketing
Citizens First Service Center
Local Government Television
Human Resources
Occupational Health
Information Technology
Admin.
Network Services
Application Services
GIS
Water Resources
Administration /Engineering
Meter Reading
Water Line Maintenance
Water Treatment Plant
Sewer Line Maintenance
Wastewater Treatment Plant
Stormwater
Reports directly to City Council or City Manager
Component Units
Constitutional or State mandated functions.

[This Page Intentionally Left Blank]

APPENDIX C

CITY OF LYNCHBURG, VIRGINIA
FINANCIAL STATEMENTS OF THE CITY OF LYNCHBURG, VIRGINIA, FOR THE FISCAL YEAR ENDED JUNE 30, 2013

[This Page Intentionally Left Blank]

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council and the City Manager
City of Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit referred to as the Business Development Centre, Inc., whose statements reflect total assets of $1,782,761 as of June 30, 2013, and total revenues of $311,966 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us; and our opinion, insofar as it relates to the amounts included for the Business Development Centre, Inc., as of June 30, 2013 and for the year then ended is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements, the non-major funds budgetary comparison statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. In addition, the accompanying schedules of passenger facility charges and expenditures of passenger facility charges are presented for purposes of additional analysis as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are not required part of the basic financial statements.

The combining and individual non-major fund financial statements, the non-major funds budgetary comparison schedules, the schedule of expenditures of federal awards, and the schedules of passenger facility charges and expenditures of passenger facility charges are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements, the non-major funds budgetary comparison schedules, the schedule of expenditures of federal awards, and the schedules of passenger facility charges and expenditures of passenger facility charges are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 12, 2013

CITY OF LYNCHBURG, VIRGINIA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the City of Lynchburg's (City) financial statements offers readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2013. The Lynchburg City Schools (Schools) component unit is included in this narrative also. The information presented here should be considered in conjunction with additional information provided in the Letter of Transmittal.

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of resources of the City exceeded its total liabilities and deferred inflows of resources at June 30, 2013 by $475.1 million (net position). Unrestricted net position of $93.7 million was available to meet future obligations. This represented $73.9 million for governmental activities, which included the general fund, and $19.8 million for business-type activities, which included the enterprise funds (water, sewer, stormwater, and airport).

- The general fund's unassigned fund balance of $31.7 million was 18.7% of total general fund revenues, which were $169.3 million. This was $14.8 million more than the City Council adopted unassigned fund balance policy requirement of 10%, or $16.9 million.

- In comparison with the prior fiscal year, the City's total net position increased 3.4%, or $15.4 million, from FY 2012. Net position of governmental activities increased 3.3%, or $8.5 million, from FY 2012; and, net position of business-type activities increased 3.4%, or $6.9 million. The Schools' total net position increased 11%, or $0.3 million, from FY 2012.

- The City's total revenues of $230.5 million increased 7.0%, or $15.2 million, and total expenses of $215.1 million increased 4.0%, or $8.1 million, from FY 2012. General revenues and transfers of $131.6 million were $15.4 million more than the expenses net of program revenues of $116.2 million.

- The City began the stormwater enterprise fund in FY 2013 to provide the required resources for stormwater management across the City and for maintaining compliance with federal and state regulations. These include development of plans to meet water quality requirements, education and outreach, and perform operation and maintenance activities that ensure roadways and ditches drain properly. Several hundred miles of pipes and culverts are maintained and replaced as needed.

- For the current fiscal year, the City's total liabilities of $345.8 million decreased 4.9% or $17.9 million from FY 2012.

- Total new debt of $9.2 million was issued, of which $4.1 million was for governmental activities, and $5.1 million was for business-type activities. In fall 2011, the City issued a five-year General Obligation Bond Anticipation Note for a bank qualified line of credit up to $10 million to interim finance capital improvements. New debt included $5.1 million for the line of credit for water capital projects and $4.1 million from a general obligation public improvement refunding bond to refinance a capital lease. In fall 2013, the City issued a $10 million General Obligation Public Improvement Bond for general government transportation and school capital projects and fire public safety capital equipment. In fall 2010, two recalibrated ratings were maintained as Aa2 from Moody's Investors Services and AA+ from Fitch Ratings, while Standard and Poor's Ratings Services upgraded the City's credit rating from AA to AA+. In summer 2012, Fitch Ratings reaffirmed their AA+ rating for the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the City of Lynchburg's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities report the City's net position and changes in net position. One can think of the City's net position – the difference between assets, liabilities, and deferred inflows/outflows of resources – as a way to measure the City's financial health, or financial position. Over time, increases or decreases in net position help determine whether the City's financial position is improving or deteriorating.

In the Statement of Net Position and the Statement of Activities, the City is divided into the following:

<u>Governmental activities</u> - The City's basic services are reported here: general government, police, fire, public works, juvenile and social services, parks and recreation, community development, and fleet internal services. Property taxes, other taxes, and intergovernmental revenue are the primary sources that finance these activities.

<u>Business-type activities</u> - The financial information for the water, sewer, stormwater, and airport activities are reported here. The City charges a fee to customers to fund all or most of the cost of services provided by these activities.

<u>Component units</u> - The City also includes three separate legal entities in its report – the Lynchburg City Schools, the Greater Lynchburg Transit Company, and the Business Development Centre, Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. As described in the following information, the City uses governmental, proprietary, and fiduciary fund financial statements to provide detailed information regarding its most significant funds.

Governmental Funds

Governmental funds report most of the City's basic services. The funds focus on cash and other financial resources that can be readily converted to cash flows in and out, and balances left at year-end that are available for future spending. Consequently, the governmental funds statements provide a near or short-term view of the City's finances that helps the reader determine whether there are greater or fewer financial resources available in the near future to finance City programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

Proprietary Funds

Proprietary funds report the same functions that are presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as enterprise or internal service funds. An enterprise fund reports any activity for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains the accounting for four enterprise funds: water, sewer, stormwater, and airport operations; and, an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits and other post employment benefits to its employees.

The combining and individual fund statements and schedules for all nonmajor funds include the governmental, special revenue, and capital projects funds. Budget to actual statements are provided for governmental and special revenue funds with legally adopted budgets.

The Schools' and the City's financial statements are included in one Comprehensive Annual Financial Report. The Greater Lynchburg Transit Company and the Business Development Centre, Inc. issue separate reports.

Other Supplementary Information for the City and Schools' includes a Statistical Section, Schedule of Expenditures of Federal Awards, and Schedules of Passenger Facility Charges Revenues and Expenditures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The following table reflects condensed information for the City's net position. Percentage changes in the table below were rounded for the following narrative.

Summary of Statement of Net Position
As of June 30, 2013/2012
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government		Percent Change	Component Unit Schools	
	2013	2012	2013	2012	2013	2012	2013-2012%	2013	2012
Current and other assets	$ 130.2	$ 130.3	$ 37.4	$ 51.2	$ 167.6	$ 181.5	-8%	$ 13.7	$ 17.0
Capital assets	289.4	291.0	367.9	350.9	657.3	641.9	2%	4.5	3.3
Total assets	419.6	421.3	405.3	402.1	824.9	823.4	0%	18.2	20.3
Total deferred outflows of resources*	2.7	-	1.9	-	4.6	-	0%	-	-
Long-term liabilities	129.5	140.7	190.8	194.9	320.3	335.6	-5%	3.7	3.1
Other liabilities	18.3	23.2	7.2	4.9	25.5	28.1	-9%	11.5	14.5
Total liabilities	147.8	163.9	198.0	199.8	345.8	363.7	-5%	15.2	17.6
Total deferred inflows of resources*	8.6	-	-	-	8.6	-	0%	-	-
Net Position									
Net investment in capital assets	175.2	166.9	189.4	182.8	364.6	349.7	4%	4.3	3.1
Restricted for Capital projects	15.5	17.5	-	-	15.5	17.5	-11%	-	-
Restricted for Grants and other	1.3	1.2	-	0.1	1.3	1.3	0%	-	-
Unrestricted	73.9	71.8	19.8	19.4	93.7	91.2	3%	(1.3)	(0.4)
Total net position	$ 265.9	$ 257.4	$ 209.2	$ 202.3	$ 475.1	$ 459.7	3%	$ 3.0	$ 2.7

*Note: The City implemented GASB 63 and GASB 65 in FY 2013. Prior year information is not available.

The City's total net position of $475.1 million increased 3.4%, or $15.4 million, from FY 2012.

Net investment in capital assets of $364.6 million was 76.7 % of total net position and increased 4.3%, or $14.9 million. Net position invested in capital assets was not available for future expenses because the assets are facilities, equipment, and infrastructure, etc. utilized to provide services. Please refer to Notes 8 and 9 of this report and the MD&A's capital assets and long-term debt sections.

The City has a strong financial position with 19.7%, or $93.7 million, of unrestricted net position, which is comprised of 79%, or $73.9 million, for governmental activities, and 21%, or $19.8 million, for business-type activities. Unrestricted net position available for providing services to the citizens increased 2.7%, or $2.5 million from FY 2012. Restricted net position of $16.8

million is comprised of $15.5 million of grant funds restricted for transportation projects and $1.3 million of grant funds restricted mainly for public safety and comprehensive services for at risk youth.

The Schools' component unit total net position of $3.0 million increased 11%, or $0.3 million from FY 2012. Unrestricted net position of $(1.3) million decreased by $0.9 million.

Statement of Activities

The City's total revenues and expenses for governmental activities, business-type activities, and the Schools' component unit are reflected in the following table. Percentage changes in the table below were rounded for the following narrative.

Summary of Changes in Net Position
For Fiscal Years Ended June 30, 2013/2012
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
Revenues:	2013	2012	2013	2012	2013	2012	2013-2012	2013	2012
Program Revenues:									
Charges for services	$ 13.5	$ 11.7	$ 37.4	$ 32.9	$ 50.9	$ 44.6	14%	$ 2.7	$ 2.8
Operating grants/contributions	39.9	30.2	1.0	0.1	40.9	30.3	35%	56.8	59.1
Capital grants/contributions	4.3	11.5	2.8	2.0	7.1	13.5	-47%	-	-
General Revenues:									
Property taxes	74.4	70.1	-	-	74.4	70.1	6%	-	-
Other taxes	47.5	48.2	-	-	47.5	48.2	-1%	-	-
Unrestricted intergovernmental	6.0	5.9	-	-	6.0	5.9	2%	-	-
Interest	0.2	0.4	0.1	0.2	0.3	0.6	-50%	-	-
IRS Subsidy Build America Bonds	0.3	0.3	0.3	0.3	0.6	0.6	0%	-	-
Miscellaneous	1.6	1.2	-	0.2	1.6	1.4	14%	0.8	1.3
Gain on sale of assets	1.0	0.1	0.2	-	1.2	0.1	1100%	-	-
City appropriation	-	-	-	-	-	-	-	35.3	31.7
Total Revenues	188.7	179.6	41.8	35.7	230.5	215.3	7%	95.6	94.9
Expenses:									
General government	15.1	14.2	-	-	15.1	14.2	6%	-	-
Judicial	6.4	6.6	-	-	6.4	6.6	-3%	-	-
Public safety	47.4	44.7	-	-	47.4	44.7	6%	-	-
Public works	26.5	25.5	-	-	26.5	25.5	4%	-	-
Health and human services	25.3	24.6	-	-	25.3	24.6	3%	-	-
Cultural and recreational	8.5	8.4	-	-	8.5	8.4	1%	-	-
Community development	5.1	7.8	-	-	5.1	7.8	-35%	-	-
Education	40.6	36.7	-	-	40.6	36.7	11%	95.3	94.3
Interest & other fiscal charges	5.0	5.5	-	-	5.0	5.5	-9%	-	-
Stormwater	-	-	2.0	-	2.0	-	0%	-	-
Airport	-	-	4.2	4.4	4.2	4.4	-5%	-	-
Water	-	-	12.8	11.9	12.8	11.9	8%	-	-
Sewer	-	-	16.2	16.7	16.2	16.7	-3%	-	-
Total Expenses	179.9	174.0	35.2	33.0	215.1	207.0	4%	95.3	94.3
Increase in net position before transfers	8.8	5.6	6.6	2.7	15.4	8.3	86%	0.3	0.6
Transfers	(0.3)	(0.4)	0.3	0.4	-	-	-	-	-
Increase in net position	8.5	5.2	6.9	3.1	15.4	8.3	86%	0.3	0.6
Net position beginning	257.4	252.2	202.3	199.2	459.7	451.4	2%	2.7	2.1
Net position ending	$265.9	$257.4	$209.2	$202.3	$475.1	$459.7	3%	$ 3.0	$ 2.7

Governmental Activities

The City's governmental activities are comprised of the general fund, fleet internal services fund, special revenue funds, and capital projects funds. Total net position of $265.9 million increased 3.3%, or $8.5 million from FY 2012.

Revenue highlights:

Revenues from governmental activities of $188.7 million increased 5.0%, or $9.1 million from FY 2012.

Program revenues, specifically charges for services of $13.5 million had an overall increase of $1.8 million due to the following: $1.1 million increase in payments from the new stormwater fund for services provided by public works and community development, $0.3 million increase in ambulance service fees, $0.3 million increase in police off duty fees, and $0.1 million increase in court collection fees.

Operating grants and contributions increased $9.7 million. The increase is mainly attributed to a reclassification of street and highway maintenance funds of $9.5 million from capital grants to operating grants to more accurately report the use of these funds for operational and maintenance needs. The remaining increase of $0.2 million is attributed to a net gain between the receipt of new grants as well as the reduction in prior year grants. Public safety received $0.7 million in new grants for fire and EMS staffing, paramedic training, and self-contained breathing apparatus (SCBA) equipment. Comprehensive Services Act (CSA) funds increased $0.3 million, Community Development Block grant (CDBG) funds increased $0.3 million and House Bill 599 funding for the Law Enforcement Assistance Grant increased $0.5 million for a total increase in grants of $1.8 million. Decreases in grants of $1.6 million are comprised of the following: $0.5 million decrease for Home Investment Trust funds, $0.1 million decrease in State funds for the commonwealth attorney, and $1.0 million decrease in funds from the Federal Emergency Management Agency and the Virginia Department of Emergency Management.

Capital grants and contributions decreased $7.2 million. Included in the decrease is $10.0 million in street and highway maintenance funds received in FY 2012. As discussed above, these funds are now reported as operating grants and contributions. The remaining $2.8 million increase is mainly attributed to the following: $0.4 million decrease in stimulus funds from the Energy Efficiency and Conservation Block grant program; $0.4 million increase in reimbursements from the Virginia Department of Transportation (VDOT) revenue sharing program, $2.7 million increase in reimbursements from VDOT federal reimbursement grants, $0.2 million increase in Federal Highway Safety Improvement Program funds for the Wards Road pedestrian crossing, $0.1 million increase in contributions to the City for City Hall improvements, $0.1 million increase in miscellaneous state reimbursements, and $0.3 million decrease in funds from the Schools for capital projects.

General revenues, specifically property taxes of $74.4 million, increased $4.3 million. Property taxes are comprised mainly of real property and personal property taxes. Real property taxes increased $3.7 million. The City's general reassessment of real property occurs biennially and is effective on July 1 of the fiscal year. The City's biennial reassessment occurred July 1, 2011 and resulted in a nominal increase in assessed value of taxable real property. Personal property taxes increased $0.6 million.

Other taxes revenue of $47.5 million decreased $0.7 million. Other taxes are comprised mainly of revenue from local sales, meals, consumer utilities, business licenses, motor vehicle licenses, and communications sales and use taxes. The decrease is mainly attributable to decreases in motor vehicle license, meals and lodging taxes.

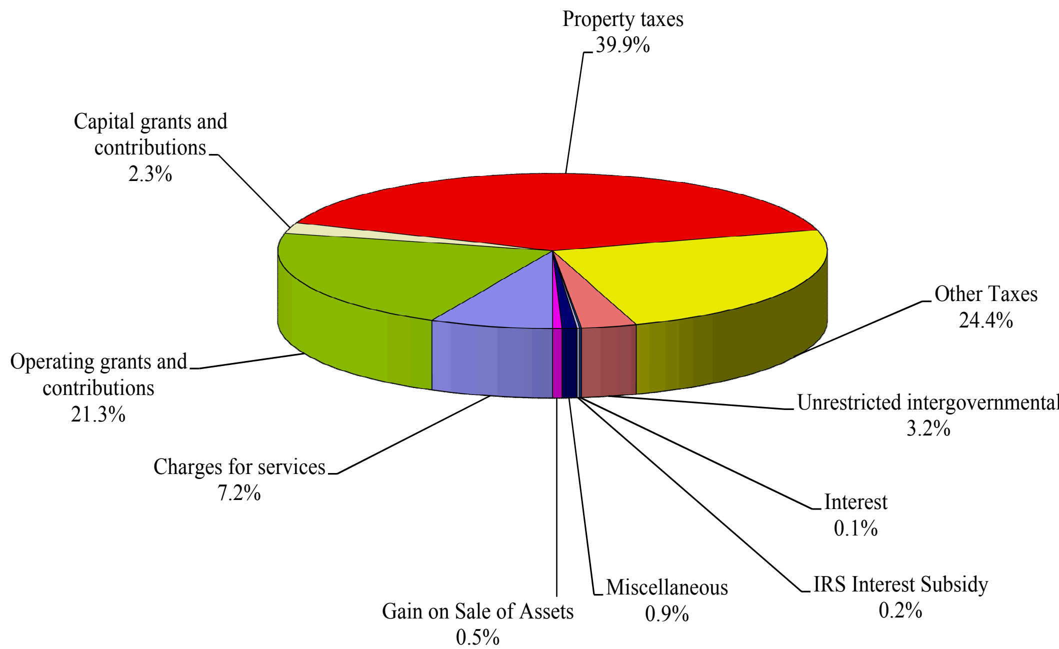
Investment earnings of $0.2 million decreased $0.2 million due to lower interest rates and a decrease in funds available for investment. In accordance with the issuance of Build America Bonds, the City received $0.3 million for IRS Subsidy.

Miscellaneous income increased $0.4 million primarily due to increases in profit sharing proceeds from the Regional Services Authority and the Lynchburg Baseball Corporation along with insurance proceeds for damages to a City parking deck.

Gain on sale of assets increased $0.9 million primarily due to the sale of property at 3901 Old Forest Road. This property had been acquired with transportation funds and transferred to the City from the Virginia Department of Transportation. Proceeds will be used for transportation projects.

The following chart reflects the governmental activities distribution of revenues by source.

Revenue by Source-Governmental Activities



Expense highlights:

Governmental activities expenses of $179.9 million increased 3.4%, or $5.9 million from FY 2012.

During FY 2013, Virginia General Assembly action required locality employees to contribute 5% toward their Virginia Retirement System (VRS) benefit. Previously, the 5% had been contributed by the City. In an effort to offset the impact to employees, City Council approved a 5.6% salary increase. Additionally, the VRS group life insurance costs increased from .28% to 1.32%.

General government expenses increased $0.9 million primarily due to increases in salaries, benefits, and health care costs.

Judicial expenses overall decreased $0.2 million primarily due to decreased grant expenditures over the prior year.

Public safety expenses increased $2.7 million primarily due to increase in salaries and related benefits for VRS and an additional salary increase of 1.5% to enhance public safety recruitment and reduce turnover. Other increases included $0.3 million for payments to the Region 2000 Radio Communications Board, $0.1 million for rescue vehicles and equipment, $0.2 million for contributions to the Lynchburg Humane Society, and $0.7 million for self-contained breathing apparatus (SCBA) equipment. Decreases included $0.4 million for the contribution to the Blue Ridge Regional Jail and $0.2 million for workers compensation and compensated absence expense.

Public works expenses increased $1.0 million due to a combination of increases and decreases in expenses as follows: $0.3 million increase in salaries, $0.1 million increase in software purchases, $0.2 million increase in electricity costs, $0.2 million increase in payments to the Region 2000 Services Authority, $0.2 million increase in building maintenance, $0.2 million increase in traffic maintenance supplies, $0.1 million decrease in highway and street repairs, and $0.1 million decrease in contractual services for the derecho cleanup.

Health and human services expenses increased $0.7 million primarily due to increases in salaries, benefits and health care costs.

Cultural and recreational expenses increased $0.1 million primarily due to increases in salaries, benefits and health care costs.

Community development expenses decreased $2.7 million primarily due to the following: $0.1 million increase in contributions to the Lynchburg Regional Chamber of Commerce for the tourism program, $0.5 million decrease in contributions to the Greater Lynchburg Transit Company, $1.5 million decrease for the return of unearned Governor's Opportunity Grant funds to the State of Virginia, $0.1 million decrease for Governor's Opportunity Grant funds disbursed, $0.4 million decrease for a contribution to the City's Economic Development Authority, $0.1 million increase in the disbursement of enterprise and technology zone credits, and $0.4 million decrease for miscellaneous contractual services for the HOME Investment Trust Fund.

Education expenses increased $3.9 million due to the following: $3.6 million increase in local funding to the Schools, $0.1 million increase in depreciation, and $0.2 million increase in building repairs and maintenance.

The following table indicates the total cost of services and net cost of services for governmental activities.

Net Cost of Governmental Activities
For Fiscal Years Ended FY 2013/2012
(in millions)

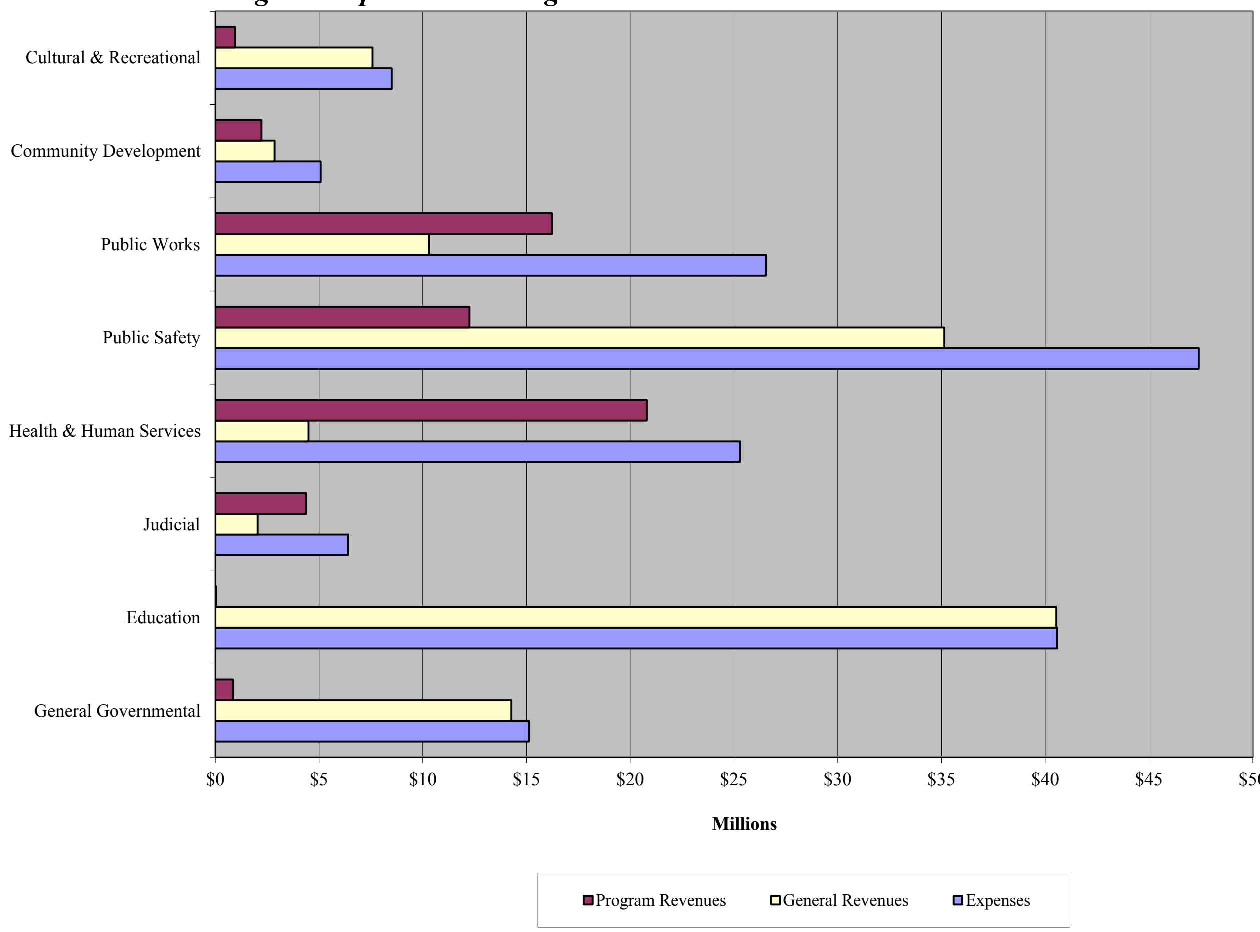
Governmental Activity	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2013	2012	2013-2012	2013	2012	2013-2012
General government	$ 15.1	$ 14.2	6%	$ 14.3	$ 13.4	7%
Judicial	6.4	6.6	-3%	2.0	1.9	5%
Public safety	47.4	44.7	6%	35.1	33.8	4%
Public works	26.5	25.5	4%	10.3	11.9	-13%
Health and human services	25.3	24.6	3%	4.5	4.9	-8%
Cultural and recreational	8.5	8.4	1%	7.6	7.6	0%
Community development	5.1	7.8	-35%	2.9	5.3	-45%
Education	40.6	36.7	11%	40.5	36.3	12%
Interest payments & other fiscal charges	5.0	5.5	-9%	5.0	5.5	-9%
Total Governmental Activities	$ 179.9	$ 174.0	3.4%	$ 122.2	$ 120.6	1%

The four largest funded programs were public safety at 26.3%, or $47.4 million; local support for education at 22.6%, or $40.6 million; public works at 14.7%, or $26.5 million; and health and human services at 14.1%, or $25.3 million. Education and public safety continued to be high priorities for the City.

The governmental activities total cost of services increased 3.4% from the prior year with a 1% increase in the net cost of services. The Statement of Activities shows that the $179.9 million in governmental activities program expenses were financed by $13.5 million from those receiving services, $39.9 million from operating grants and contributions, $4.3 million from capital grants and contributions and $122.2 million from general revenues. Overall, general revenues and transfers of $130.7 million were $8.5 million more than the $122.2 million of expenses net of program revenues.

The following graph compares governmental activities program expenses and program revenues along with general revenues funding required for each program.

Program Expenses and Program Revenues - Governmental Activities



Business-type Activities

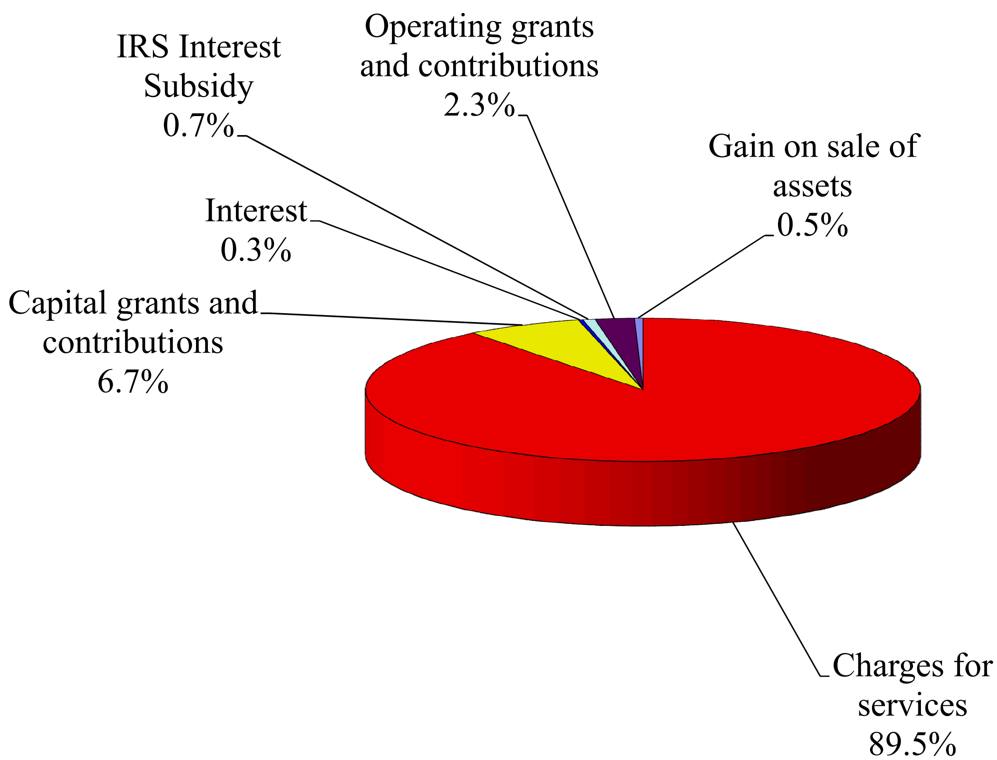
The business-type activities are comprised of enterprise funds for water, sewer, stormwater, and airport operations. Total net position of $209.2 million increased 3.4%, or $6.9 million from FY 2012.

Revenue highlights:

Business-type activities revenues of $41.8 million increased $6.1 million from the prior year. This was primarily due to the addition of the stormwater fund which brought in $3.4 million in charges for services and $0.6 million in operating grants, and a 4% rate increase in the water fund. The airport fund had an overall increase in capital grants of $1.5 million.

The following chart reflects the business-type activities distribution of revenues by source.

Revenues by Source - Business-type Activities



Expense highlights:

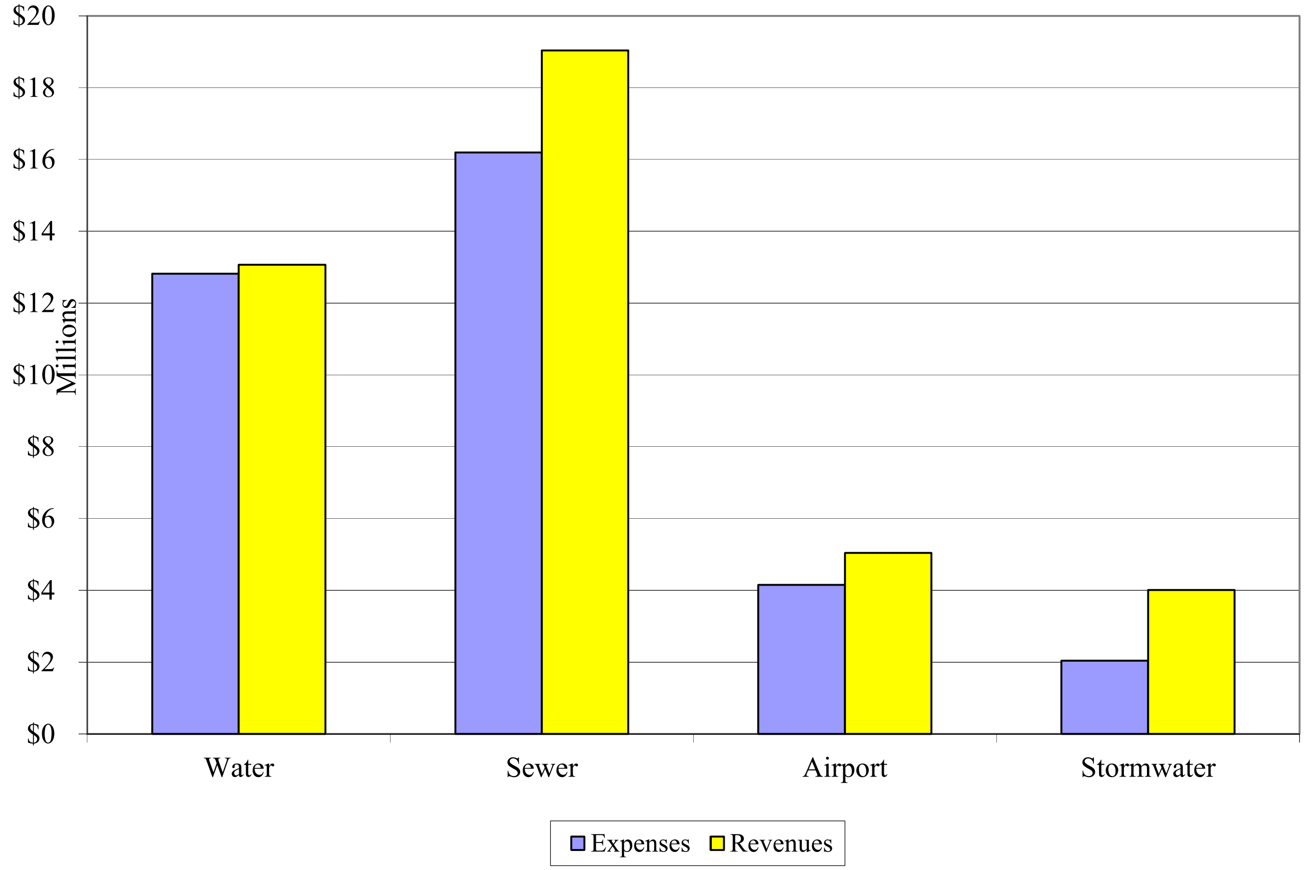
Business-type activities expenses of $35.2 million increased 6.7%, or $2.2 million, from the prior year. The increase was primarily due to the addition of the stormwater fund.

Overall, business-type activities revenues of $41.8 million were $6.6 million more than expenses of $35.2 million.

The proprietary funds provide the same type of information reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to the MD&A's section on Financial Analysis of the Fund Financial Statements-proprietary funds for detailed analysis of the business-type activities major funds.

The following graph compares the business-type activities program expenses and program revenues.

Program Expenses and Program Revenues - Business-type Activities



Component Unit – Schools

The Schools' total net position of $3.0 million increased 11%, or $0.3 million, from FY 2012. This was primarily due to an increase in net investment in capital assets of 38.7%, or $1.2 million and a decrease in unrestricted net position of $0.9 million from FY 2012.

Revenue highlights:

Total revenues of $95.4 million increased 0.6%, or $0.6 million in comparison with the prior year fund financial statements, primarily due to increases in revenues from the City government. For FY 2013, 47.3%, or $45.1 million, of total revenues were received from the Commonwealth of Virginia as compared to $42.4 million received in the prior year. State sales tax receipts were $8.7 million for FY 2013. The City government contributed 37.0%, or $35.3 million, to education. Federal revenues of 12.0% or $11.5 million, included $4.2 million from Title I funds to provide educational services to economically disadvantaged students. School Nutrition revenues of $3.7 million included $2.9 million from the federal government for the operation of the breakfast and lunch programs. Other revenue sources of 3.7%, or $3.5 million, included the following: school meals sales; tuition paid by participating school divisions to the Central Virginia Governor's School for Science and Technology; and other miscellaneous sources.

Expense highlights:

Total expenses of $95.8 million increased 0.8%, or $0.8 million, from the prior year fund financial statements primarily due to increases in capital outlay costs, along with increases in administration, attendance, health, pupil transportation, and operations and maintenance costs. For FY 2013, 69.8%, or $66.9 million, of total expenses related directly to providing instruction to 8,108 students and 14.3%, or $13.7 million, supported maintenance and operations of school division facilities including the School Nutrition Program. Transportation costs for students were 4.9%, or $4.7 million, while administration for the schools and attendance and health services for students were 4.4%, or $4.2 million. Technology costs were 2.1% or $2.0 million. Capital outlays in the fund financial statements of $4.0 million included the acquisition of equipment.

FUND FINANCIAL ANALYSIS

Governmental Funds

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

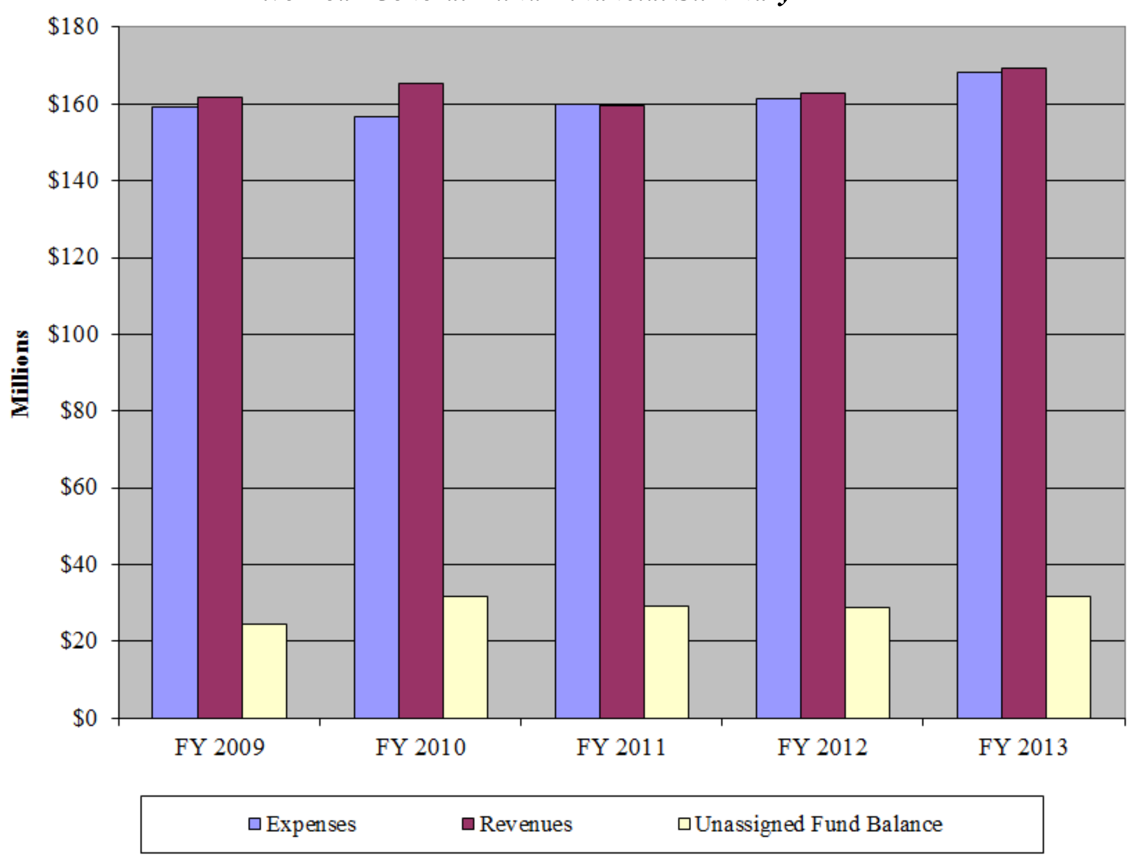
- For FY 2013, the City's governmental funds reported combined fund balances of $84.3 million, a decrease of $4.7 million from FY 2012. Of that amount, $0.5 million was nonspendable, $16.8 million was restricted, $32.4 million was committed, $3.2 million was assigned, and $31.4 million was unassigned. The general fund's increase in fund balance was $1.0 million. The city capital projects fund's decrease in fund balance was $7.1 million. Special revenue funds increase in fund balance was $0.1 million and school capital projects fund increase in fund balance was $1.2 million.

- As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 20.0% of total general fund expenditures, while total fund balance represents 31.2% of that same amount.

General Fund

The general fund is the chief operating fund of the City. The following graph and table present a five-year summary of financial information for expenditures, revenues, and unassigned fund balance as well as a FY 2013 summarized comparison of amended budget versus actual information. In accordance with the implementation of GASB 54, the technology fund is utilized for internal reporting purposes only. For financial statement reporting, the technology fund is collapsed into the general fund. The five year summary includes the technology fund while the budget comparison does not. See further information in Note 1 to the Financial Statements.

Five-Year General Fund Financial Summary



General Fund Budgetary Highlights
For Fiscal Year Ended June 30, 2013
(in millions)

	General Fund Budgetary Highlights			
Description	Original Budget	Amended Budget	Actual	Amended versus Actual
Revenues & Other Financing Sources				
Taxes	$ 118.3	$ 118.3	$ 122.4	$ 4.1
Intergovernmental	30.9	33.4	33.7	0.3
Other	12.6	12.7	13.2	0.5
Total	161.8	164.4	169.3	4.9
Expenditures & Other Financing Uses				
Expenditures	161.1	164.8	157.8	7.0
Transfers	6.3	10.5	10.5	-
Total	167.4	175.3	168.3	7.0
Change in Fund Balance	$ (5.6)	$ (10.9)	$ 1.0	$ 11.9

Actual expenditures and other financing uses of $168.3 million was less than revenues and other financing sources of $169.3 million by $1.0 million, which resulted in a positive change in fund balance that was more than the amended budget projected decrease of $10.9 million. The FY 2013 adopted and amended budgets included the use of $5.6 million and $10.9 million, respectively, of the FY 2012 general fund's unassigned fund balance primarily to resource a planned $4.3 million transfer out for general government capital projects and a $1.0 million transfer out for school capital projects. This was in accordance with City Council's adopted Fund Balance Policy (revised FY 2011, and re-adopted in FY 2013), which states that funds in excess of the targeted fund balance of ten percent (10%) of general fund revenues may be considered to supplement "pay-as-you-go" capital outlay expenditures. In summary, actual revenues were above the amended budget by $4.9 million and actual expenditures were below the amended budget by $7.0 million, resulting in a $1.0 million increase in fund balance for FY 2013.

Actual revenues were greater than estimated and within 3.0%, or $4.9 million, of the amended budget. Personal property, local sales, business license, meals, motor vehicle, delinquent, and other local taxes were above the amended budget for FY 2013. Intergovernmental revenue was on pace with the amended budget. The other revenue category was $0.5 million more than the amended budget due in part to increases in regulatory licenses, permits and privilege fees, and miscellaneous revenue.

Actual expenditures and transfers were $7.0 million less than the FY 2013 amended budget and mostly attributable to the following unexpended appropriations:

- $1.5 million for general government
- $0.4 million for cultural and recreational
- $1.0 million for public safety
- $0.8 million for health and human services
- $0.6 million for community development
- $0.5 million for education
- $2.2 million for principal retirements

Expenditures for public works were approximately $0.4 million over the amended budget, primarily due to the windstorm that impacted the City at the end of June 2012.

Consistent with Financial Policies, City Council appropriated $1.2 million for a General Fund Reserve for Contingencies. City Council authorized 35.0%, or $0.4 million in expenditures. The remaining 65.0%, or $0.8 million, reverted to unassigned fund balance.

From the original budget of $167.4 million, City Council approved budget amendments to increase the budget 4.7%, or $7.9 million, resulting in an amended budget of $175.3 million. The budget amendments were primarily for the following purposes:

- $2.5 million net increase for third quarter budget amendment requests. Each fiscal year, management reviews current year expenditures and revenue collection patterns and presents to City Council a third quarter budget amendment. The FY 2013 amendment was comprised primarily of $0.6 million for public works, and $1.8 million for health and human services programs.
- $1.7 million increase to the budget for prior year unexpended items requested to be re-appropriated in the current year to continue programs.
- $3.5 million increase for the design and architectural work for Heritage High School.

City Capital Projects Fund

The city capital projects fund accounts for the major construction projects of the City other than those financed by proprietary funds or the school capital projects fund. Annually, the City adopts a five year capital project plan. Year one of the plan is appropriated for current year expenditures. The fund balance of $29.4 million decreased 19.5%, or $7.1 million, from FY 2012. Revenues and transfers of $12.9 million increased 16.2%, or $1.8 million. The increase is attributable to the following:

- $0.6 million increase in Highway Maintenance Reimbursement
- $0.5 million increase in State funds for Northwest Expressway Drainage, Timberlake Road at Logans Lane, Main Street Retaining Wall, and Intersection Improvements at Lakeside/Park/Memorial
- $2.9 million increase in Virginia Department of Transportation funds for federal reimbursements
- $1.2 million increase from proceeds received from the sale of property
- $3.2 million decrease in transfers from the general fund
- $0.2 million decrease from a transfer to the comprehensive services act fund

Expenditures, capital outlay, and capital contributions of $20.0 million increased 77.0%, or $8.7 million primarily due to the following:

- $4.7 million increase in capital contributions for Miller Center Renovations
- $0.1 million decrease in Animal Shelter contributions
- $0.3 million increase for Street Overlay
- $0.1 million increase for Wards Road at Candlers Mountain Road Bridge
- $0.3 million increase for Bridge Maintenance
- $0.2 million increase for Building Repairs
- $0.2 million increase in contributions for Public Transportation
- $0.4 million decrease in contributions for the Lynchburg Industrial Development Authority
- $4.0 million increase for Midtown Connector
- $0.3 million decrease for Florida Avenue Bridge Replacement
- $0.3 million decrease for Lower Bluffwalk

Proprietary Funds

The proprietary funds are comprised of water, sewer, stormwater, airport, and fleet services. The City accounts for the water, sewer, stormwater, and airport as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators, fund balance and debt coverage ratios, found in financial policies adopted by City Council to ensure the enterprise funds' financial stability. At the fund level, fund balance is defined as total cash and cash equivalents less unexpended bond proceeds and resources dedicated to capital projects. The fund balance ratio compares fund balance to operating expenses and debt service less depreciation. The debt coverage ratio compares operating income adjusted for depreciation, interest income and miscellaneous income compared to total debt service.

Water Fund

The water fund's total net position of $36.5 million increased 1.4%, or $0.5 million, from FY 2012. Net investment in capital assets of $27.8 million decreased 1.4%, or $0.4 million, and was 76.0% of total net position. This was primarily due to an increase in debt used to finance capital projects. Unrestricted net position available to fund future expenses increased by 11.5% or $0.9 million. Unrestricted net position was 24.0%, or $8.7 million, of total net position. Operating revenues totaled $13.0 million, and increased 5.7%, or $0.7 million, primarily due to a rate increase of 4% effective July 1, 2012 and administrative expense reimbursements from the stormwater fund that started July 1, 2012. Operating expenses totaled $11.0 million and increased 7.8%. Investment earnings decreased $0.04 million. For FY 2013 the fund balance ratio was 51%, which compared favorably to City Council's financial policy target of 40%. The debt coverage ratio was 1.42, which compared favorably to City Council's adopted financial policy target of 1.2.

Sewer Fund

The sewer fund's total net position of $138.9 million increased 2.3%, or $3.1 million, from FY 2012. Net investment in capital assets of $128.3 million increased 4.7%, or $5.8 million, due to completion of Combined Sewer Overflow (CSO) projects and the Waste Water Treatment Plant Upgrade. Net investment in capital assets was 92.4% of total net position. Unrestricted net position available to fund future expenses decreased by 20.3%, or $2.7 million primarily due to infrastructure replacements and plant upgrades. Unrestricted net position was 7.6%, or $10.6 million, of total net position. Operating revenues totaled $18.9 million and increased 2.2%, or $0.4 million. Operating expenses totaled $14.7 million and decreased 4.5%, or $0.7 million. Investment earnings decreased $0.07 million. For FY 2013 the fund balance ratio was 30.7% as compared to the financial policy target of 25%. The debt coverage ratio was 1.34, as compared to the financial policy target of 1.2 and was in compliance with the CSO Order requirements. Please refer to the Statistical Section of this report for details.

Stormwater Fund

The stormwater fund began July 1, 2012 and thus there is no comparative financial information for the prior fiscal year. The stormwater fund's total net position was $1.9 million. Net investment in capital assets was 5.3% of total net position. Net investment in capital assets of $0.1 million represents capital projects that were uncompleted. Unrestricted net position was 94.7% or $1.8 million of total net position. Operating revenues totaled $4.0 million and operating expenses totaled $2.1 million.

Airport Fund

The airport fund's total net position of $35.9 million increased 4.0%, or $1.4 million, from FY 2012. Net investment in capital assets, of $33.3 million, increased 3.7%, or $1.2 million. Net investment in capital assets was 92.8% of total net position. Net position, unrestricted, increased 18.2%, or $0.4 million, due to accumulation of state entitlement funds for future projects. Net position, unrestricted, was 7.2%, or $2.6 million, of net position. Operating revenues totaled $2.3 million, which represents a 4.5% increase from FY 2012. Operating expenses totaled $4.1 million, which represents a 4.7% decrease. Capital contributions totaled $2.5 million, an increase of 150.0%, or $1.5 million, which represents increased federal contributions towards airport capital projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of depreciation, were $657.3 million as reflected in the following schedule. The Schools had $4.5 million in capital assets exclusive of buildings and facilities, which were capitalized as the City's assets.

Capital Assets
As of June 30, 2013/2012
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2013	2012	2013	2012	2013	2012	2013-2012	2013	2012
Capital assets, not being depreciated:									
Land	$ 16.8	$ 16.6	$ 5.0	$ 5.0	$ 21.8	$ 21.6	1%	$ -	$ -
Construction in progress	18.5	13.2	37.1	51.5	55.6	64.7	-14%	-	-
Capital assets, being depreciated:									
Land improvements	24.6	23.8	12.4	12.4	37.0	36.2	2%	-	-
Buildings and improvements	233.8	230.3	56.5	56.9	290.3	287.2	1%	-	-
Infrastructure	230.3	226.5	391.3	360.4	621.6	586.9	6%	-	-
Machinery and equipment	42.8	40.3	20.4	11.4	63.2	51.7	22%	10.9	9.6
Less: Accumulated depreciation	(277.4)	(259.7)	(154.8)	(146.8)	(432.2)	(406.5)	6%	(6.4)	(6.3)
Total Capital Assets	$ 289.4	$ 291.0	$ 367.9	$ 350.8	$ 657.3	$ 641.8	2%	$ 4.5	$ 3.3

During FY 2013, the City's net increase in capital assets was 2% or $15.5 million. Major capital asset events included the following (in millions):

Construction-in-progress converted to capital assets:

Completion of several Combined Sewer Overflow (CSO) replacement projects; financed by a combination of Virginia Revolving Loan Program funds, State and federal CSO grants and general obligation bonds.	$30.1
Completion of Waste Water Treatment Plant Secondary Treatment Process Upgrade; financed by state Virginia Clean Water Revolving Loan Fund.	9.5
Completion of Jefferson Street South; financed by general obligation bonds and local pay-as-you-go capital monies.	2.2
Completion of North West Expressway Drainage Improvements; financed by state revenue sharing, and local pay-as-you-go capital monies.	.7
Completion of Heritage High School Curtain Wall; financed by general obligation bonds, and local pay-as-you-go capital monies.	.7
Completion of Hood Street Water Main Replacement; financed by general obligation bonds and local pay-as-you-go capital monies.	.6
Completion of Library HVAC (Heating, Ventilation and Air Conditioning) System financed by the Energy Efficiency and Conservation Block grant program, a federal stimulus grant.	.6
Completion of Wards Ferry Road Culvert; financed by local pay-as-you-go capital monies.	.5
Total construction-in-progress converted to capital assets	$44.9
Donation of land to the City (Land & Playground Equipment)	.3
On-going replacement of the vehicle fleet, financed through local operating monies.	2.6
Total major asset events	$47.8

Construction-in-progress at the end of FY 2013 includes additional CSO abatement projects, additional James River Interceptor CSO projects, Wards Road Pedestrian Improvements, Lower Bluff-Walk Phase 1 & 2, Airport Terminal Apron Rehabilitation and Heritage High School Renovations. Sewer projects include Blue Ridge Farms Water System Improvements Phase 1 & 2 and Sanitary Sewer Evaluation Survey. Additional information on the City's capital assets can be found in Note 8 of this report.

Long-term Debt

Total outstanding debt was $304.1 million with $188 million of business-type activities debt supported by the individual funds, resulting in net bonded debt for governmental activities of $116.1 million. Liabilities for compensated absences and workers' compensation of $6.7 million and other post-employment benefits liability of $4.1 million were excluded.

Long-term Debt Obligations
As of June 30, 2013/2012
(in millions)

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total Primary Government 2013	Total Primary Government 2012	Percentage Change 2013-2012
General Obligation Bonds	$ 114.2	$ 120.1	$ 59.9	$ 63.9	$ 174.1	$ 184.0	-5%
Revenue Bonds	-	-	122.9	128.0	122.9	128.0	-4%
General Obligation Notes	-	-	5.2	0.1	5.2	0.1	100%
Note Payable	1.9	2.0	-	-	1.9	2.0	-5%
Capital Lease	-	4.3	-	-	-	4.3	-100%
Total	$ 116.1	$ 126.4	$ 188.0	$ 192.0	$ 304.1	$ 318.4	-4%

Total new debt of $9.2 million was issued, of which $4.1 million was for governmental activities, and $5.1 million was for business-type activities. It consisted of $4.1 million from a general obligation public improvement refunding bond to refinance a capital lease; and, $5.1 million from a bond anticipation note bank qualified line of credit for water capital projects.

The City retired $23.5 million of outstanding principal, all of which were planned retirements with the exception of the $4.1 million refunding bond to refinance the capital lease. The governmental activities principal retirements were $14.4 million and the business-type activities principal retirements were $9.1 million.

The City's general obligation bonds continued to maintain an Aa2 rating from Moody's Investors Service dated September 27, 2010, and an AA+ rating from Fitch Ratings dated September 22, 2010. Standard & Poor's Ratings Services upgraded the City's rating one level from an AA to an AA+, dated September 23, 2010. This rating increase is based on the City's "ongoing economic development and redevelopment, which continues to diversify the economy and expand the property tax base." Also, factored into the upgrade is the City's "historically solid financial position with very strong reserves, which has remained constant through various economic cycles." Standard & Poor's continued utilization of their Financial Management Assessment (FMA) model resulted in a second "strong" ranking for the City's management practices. These credit ratings were related to the City's issuance of the October 20, 2010, General Obligation Public Improvement Refunding Bonds, Series 2010 of $29,655,000. On August 22, 2012, Fitch Ratings reaffirmed their AA+ rating for the City.

On November 8, 2011, the City issued a five-year General Obligation Bond Anticipation Note and concurrently entered into a bank qualified line of credit Financing Agreement with Carter Bank & Trust for up to $10,000,000 to provide interim financing for qualifying capital improvements. Interest on the unpaid principal is two percent (2%) per annum and payable on May 1 and November 1 each year. Final maturity of the Note is November 1, 2016.

On December 19, 2012, the City issued $4,129,625.08 of General Obligation Public Improvement Refunding Bonds, Series 2012 to current refund the Lynchburg Redevelopment and Housing Authority Lease Revenue Bond, Series 2003, dated August 29, 2003 for the J. W. Ould Building renovation project. The City of Lynchburg and the Lynchburg Redevelopment and Housing Authority had entered into a capital lease arrangement for the use of the J. W. Ould Building for the City's Social Services office. The refunding bond proceeds were utilized to pay off the lease revenue bond with SunTrust Bank in the amount of $4,129,625.08: and, the capital lease was terminated as the deed to the property was transferred to the City.

On October 23, 2013 the City issued $10,000,000 of General Obligation Public Improvement Bonds, Series 2013 dated October 23, 2013 through a proposal process resulting in a private placement of these bonds with Banc of America Preferred Funding Corporation. The proceeds will be used to fund governmental activities as follows: $7 million of transportation capital projects, $1 million of school capital projects; and, $2 million for fire public safety capital equipment, which included two pumper engines and a ladder truck. The final maturity date is December 1, 2028 with a 2.75% fixed interest rate and ten year call option.

The City Council adopted Debt Management Policy was amended in December 2006 and limited tax-supported debt not to exceed 4.5% of net assessed valuation of taxable property in the City. As of the end of FY 2013, outstanding tax-supported debt was 1.95% of net assessed valuation. In addition, the City Council adopted Budget Policy was amended in December 2006. It established that pay-as-you-go funding, as a percentage of the City's Five Year Capital Improvement Program, shall not be less than 10%, and it set a goal of 15%. Both policies were reaffirmed by City Council on November 23, 2010 with one Debt Management Policy revision to debt service payments for revenue supported debt from twenty to thirty years. Most recently, on February 26, 2013, City Council amended the Debt Management Policy to revise the 10-Year Principal Payout Ratio. The revision included the following provision for the Capital Improvement Program. "The 10-Year Principal Payout Ratio shall not be less than 60% at the end of each adopted five-year Capital Improvement Program for Tax-Supported General Obligation Indebtedness." Detailed information on the City's long-term debt is included in Note 9 of this report.

ECONOMIC FACTORS

The City's unemployment rate decreased from 8.9% in June 2012 to 8.4% in June 2013. This decrease of 0.5% reflects the slight growth in the economy. The City's unemployment rate typically trends above the State rate, which was 5.9% in June 2013. The City's unemployment rate also typically trends below the National rate, which was 7.8% for the same period. The City's unemployment rate was actually slightly higher than the National rate for this period due to the high student population in the City. The diversity of employers and the continued growth in college and university enrollments in the City makes the unemployment rate trend differently than the State and National rates.

Although still an important sector, manufacturing no longer dominates the Lynchburg economy as it did in the past. AEP, the region's electric utility provider, remains the City's largest property taxpayer with a 2.6% increase in taxable assessed value over FY 2012. Genworth Financial, Inc., a predominant employer in the City, also saw a 1.2% increase in taxable assessed value over FY 2012. Even though the ten principal property taxpayers, as a whole, realized a 4% decrease in taxable assessed value, the total assessed valuation for the City increased slightly by .6% when compared to FY 2012. The City remains the retail hub for the region and has seen significant growth in the medical services, engineering, and higher education sectors. Other important sectors of the Lynchburg economy include wireless technology, finance, retail, and tourism.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, 900 Church Street, Lynchburg, VA, 24504, or via telephone at 434-455-3968. This report, the FY 2013 Operating and Capital Budgets, and FY 2013-2017 Capital Improvement Program are on the City's web site at www.lynchburgva.gov.

THIS PAGE INTENTIONALLY BLANK

BASIC FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2013

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units: Lynchburg City Schools	Component Units: Other	Total Reporting Unit
Assets						
Cash and cash equivalents	$ 28,825,530	$ 13,413,724	$ 42,239,254	$ 7,770,725	$ 1,520,002	$ 51,529,981
Investments	59,126,385	8,406,995	67,533,380	-	-	67,533,380
Receivables, net of allowance	21,447,462	4,787,494	26,234,956	530,816	1,273,802	28,039,574
Internal balances	3,854,761	(3,854,761)	-	-	-	-
Due from other governments	7,307,827	9,682,981	16,990,808	5,141,154	912,173	23,044,135
Due from component units	1,659,029	-	1,659,029	-	-	1,659,029
Inventory	87,102	391,695	478,797	118,869	175,380	773,046
Prepaids and other assets	6,666,129	-	6,666,129	176,336	77,660	6,920,125
Restricted assets:						
Cash and cash equivalents	497,710	652,518	1,150,228	-	-	1,150,228
Due from other governments	-	3,880,667	3,880,667	-	-	3,880,667
Issuance discounts	746,324	-	746,324	-	-	746,324
Capital assets, net of accumulated depreciation	289,373,355	367,948,386	657,321,741	4,451,218	20,181,933	681,954,892
Total assets	419,591,614	405,309,699	824,901,313	18,189,118	24,140,950	867,231,381
Deferred Outflows of Resources						
Deferred charge on refunding	2,763,306	1,918,281	4,681,587	-	-	4,681,587
Total deferred outflows of resources	2,763,306	1,918,281	4,681,587	-	-	4,681,587
Liabilities						
Accounts payable and other liabilities	7,782,675	5,365,449	13,148,124	707,683	1,218,158	15,073,965
Accrued payroll and related liabilities	4,162,153	255,913	4,418,066	10,002,043	-	14,420,109
Accrued interest payable	1,457,792	899,943	2,357,735	-	-	2,357,735
Due to other governments	4,869,381	32,000	4,901,381	-	1,202,000	6,103,381
Due to primary government	-	-	-	787,305	871,724	1,659,029
Deposits payable from restricted assets	82,162	627,325	709,487	-	-	709,487
Noncurrent liabilities:						
Due within one year	10,591,623	9,457,332	20,048,955	678,630	-	20,727,585
Due in more than one year	118,870,663	181,343,408	300,214,071	3,018,660	151,318	303,384,049
Total liabilities	147,816,449	197,981,370	345,797,819	15,194,321	3,443,200	364,435,340
Deferred Inflows of Resources						
Property taxes	8,604,922	-	8,604,922	-	-	8,604,922
Total deferred inflows of resources	8,604,922	-	8,604,922	-	-	8,604,922
Net Position						
Net investment in capital assets	175,165,215	189,456,676	364,621,891	4,341,865	20,181,933	389,145,689
Restricted for:						
Capital projects	15,469,573	-	15,469,573	-	-	15,469,573
Grants and other purposes	1,335,752	25,193	1,360,945	-	-	1,360,945
Unrestricted	73,963,009	19,764,741	93,727,750	(1,347,068)	515,817	92,896,499
Total net position	$ 265,933,549	$ 209,246,610	$ 475,180,159	$ 2,994,797	$ 20,697,750	$ 498,872,706

The Notes to the Financial Statements are an integral part of this statement.

Statement of Activities
For the Year Ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
					Primary Government			Component Units		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Lynchburg City Schools**	**Other**	**Total Reporting Unit**
Primary government:										
Governmental activities:										
General government	$ 15,116,426	$ 530,988	$ 311,607	$ -	$ (14,273,831)	$ -	$ (14,273,831)	$ -	$ -	$ (14,273,831)
Judicial	6,406,888	917,900	3,451,490	-	(2,037,498)	-	(2,037,498)	-	-	(2,037,498)
Public safety	47,390,090	6,090,401	6,158,687	-	(35,141,002)	-	(35,141,002)	-	-	(35,141,002)
Public works	26,539,357	1,711,835	10,277,070	4,236,186	(10,314,266)	-	(10,314,266)	-	-	(10,314,266)
Health and human services	25,274,269	2,631,082	18,155,911	-	(4,487,276)	-	(4,487,276)	-	-	(4,487,276)
Cultural and recreational	8,503,945	660,626	216,635	55,000	(7,571,684)	-	(7,571,684)	-	-	(7,571,684)
Community development	5,076,676	936,595	1,279,981	-	(2,860,100)	-	(2,860,100)	-	-	(2,860,100)
Education	40,568,308	-	-	29,284	(40,539,024)	-	(40,539,024)	-	-	(40,539,024)
Interest payments and other fiscal charges	5,005,302	-	-	-	(5,005,302)	-	(5,005,302)	-	-	(5,005,302)
Issuance costs	29,815	-	-	-	(29,815)	-	(29,815)	-	-	(29,815)
Total governmental activities	179,911,076	13,479,427	39,851,381	4,320,470	(122,259,798)	-	(122,259,798)	-	-	(122,259,798)
Business-type activities:										
Stormwater	2,038,265	3,355,267	650,000	-	-	1,967,002	1,967,002	-	-	1,967,002
Airport	4,151,032	2,124,073	135,566	2,787,281	-	895,888	895,888	-	-	895,888
Water	12,822,767	12,985,275	72,289	9,500	-	244,297	244,297	-	-	244,297
Sewer	16,195,043	18,913,651	93,667	31,025	-	2,843,300	2,843,300	-	-	2,843,300
Total business-type activities	35,207,107	37,378,266	951,522	2,827,806	-	5,950,487	5,950,487	-	-	5,950,487
Total primary government	$ 215,118,183	$ 50,857,693	$ 40,802,903	$ 7,148,276	(122,259,798)	5,950,487	(116,309,311)	-	-	(116,309,311)
Component units:										
Lynchburg City Schools	$ 95,302,076	$ 2,718,030	$ 56,760,586	$ -	-	-	-	(35,823,460)	-	(35,823,460)
Greater Lynchburg Transit Company	8,521,832	1,188,120	5,123,750	2,791,049	-	-	-	-	581,087	581,087
Business Development Centre	285,063	232,020	79,946	-	-	-	-	-	26,903	26,903
Total component units	$ 104,108,971	$ 4,138,170	$ 61,964,282	$ 2,791,049	-	-	-	(35,823,460)	607,990	(35,215,470)
General revenues:										
Property taxes					74,446,360	-	74,446,360	-	-	74,446,360
Local sales and use tax					13,589,747	-	13,589,747	-	-	13,589,747
Meals taxes					11,916,522	-	11,916,522	-	-	11,916,522
Consumer utility taxes					4,628,647	-	4,628,647	-	-	4,628,647
Business license taxes					8,057,554	-	8,057,554	-	-	8,057,554
Communications sales and use tax					3,471,805	-	3,471,805	-	-	3,471,805
Other taxes					5,823,989	-	5,823,989	-	-	5,823,989
Unrestricted intergovernmental					6,052,604	-	6,052,604	-	-	6,052,604
Interest					201,735	108,977	310,712	-	-	310,712
IRS interest subsidy - Build America Bonds					293,680	297,550	591,230	-	-	591,230
Miscellaneous					1,606,926	45,232	1,652,158	804,761	-	2,456,919
Gain on sale of assets					1,024,231	209,250	1,233,481	-	15,078	1,248,559
City appropriation					-	-	-	35,272,769	-	35,272,769
Transfers					(336,330)	336,330	-	-	-	-
Total general revenues and transfers					130,777,470	997,339	131,774,809	36,077,530	15,078	167,867,417
Changes in net position					8,517,672	6,947,826	15,465,498	254,070	623,068	16,342,636
Net position - beginning					257,415,877	202,298,784	459,714,661	2,740,727	20,074,682	482,530,070
Net position - ending					$ 265,933,549	$ 209,246,610	$ 475,180,159	$ 2,994,797	$ 20,697,750	$ 498,872,706

The Notes to the Financial Statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	City Capital Projects	Other Governmental	Total Governmental
Assets				
Cash and cash equivalents	$ 16,169,154	$ 8,529,845	$ 2,906,494	$ 27,605,493
Investments	29,333,703	25,786,166	2,699,441	57,819,310
Receivables, net of allowance:				
Taxes excluding penalties	13,145,038	-	-	13,145,038
Accounts	4,846,479	-	-	4,846,479
Other	1,020,578	450,000	444,293	1,914,871
Due from other funds	873,072	257,944	266,597	1,397,613
Due from other governments	3,781,902	1,577,216	1,948,709	7,307,827
Due from component units	1,534,029	-	125,000	1,659,029
Other assets	-	-	213	213
Restricted assets:				
Cash and cash equivalents	82,162	-	415,548	497,710
Total assets	$ 70,786,117	$ 36,601,171	$ 8,806,295	$ 116,193,583
Liabilities				
Accounts payable and other liabilities	$ 2,407,585	$ 2,453,290	$ 1,548,078	$ 6,408,953
Accrued payroll and related liabilities	4,259,715	1,981	124,233	4,385,929
Due to other funds	444,205	-	1,131,016	1,575,221
Due to other governments	-	4,725,916	143,465	4,869,381
Deposits payable from restricted assets	82,162	-	-	82,162
Total liabilities	7,193,667	7,181,187	2,946,792	17,321,646
Deferred Inflows of Resources				
Unavailable/unearned revenue	14,178,305	-	420,537	14,598,842
Total deferred inflows of resources	14,178,305	-	420,537	14,598,842
Fund Balances				
Nonspendable	-	450,000	-	450,000
Restricted	-	15,469,573	1,335,752	16,805,325
Committed	14,610,825	13,500,411	4,261,159	32,372,395
Assigned	3,128,072	-	100,000	3,228,072
Unassigned	31,675,248	-	(257,945)	31,417,303
Total fund balances	49,414,145	29,419,984	5,438,966	84,273,095
Total liabilities, deferred inflows of resources, and fund balances	$ 70,786,117	$ 36,601,171	$ 8,806,295	$ 116,193,583

The Notes to the Financial Statements are
an integral part of this statement.

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

Amounts reported for governmental activities in the Statement of Net Position are different because:		
Ending fund balance - governmental funds		$ 84,273,095
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	289,373,355	
Less: Internal service capital assets	(12,190,780)	
		277,182,575
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		5,993,920
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds		1,940,000
Certain receivables are not available to pay for current-period expenditures and, therefore, are not reported in the funds		5,014,390
Internal service fund activity that has been allocated to the user departments.		4,021,782
Internal service fund is used by management to charge the costs of vehicle maintenance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Assets.		11,726,947
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Bonds payable	(114,208,140)	
Accrued interest payable	(1,457,792)	
Notes payable	(1,940,000)	
Compensated absences	(3,990,845)	
Workers' compensation	(1,784,447)	
Other postemployment benefits obligation	(3,785,890)	
	(127,167,114)	
Add back: Internal Service bonds payable	2,818,440	
Add back: Internal Service accrued interest payable	48,375	
Add back: Internal Service compensated absences	46,155	
Add back: Internal Service other postemployment benefits obligation	34,984	(124,219,160)
Net position of governmental activities		$ 265,933,549

The Notes to the Financial Statements are
an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General	City Capital Projects	Other Governmental	Total Governmental
Revenues				
Taxes	$ 122,436,720	$ -	$ -	$ 122,436,720
Regulatory licenses, permits, and privilege fees	991,098	-	-	991,098
Intergovernmental	33,669,141	6,620,226	9,956,347	50,245,714
Fines and forfeitures	726,438	-	-	726,438
Revenue from use of money and property	437,531	33,839	34,660	506,030
Charges for services	9,949,886	-	3,737,481	13,687,367
Miscellaneous	1,097,217	1,312,138	454,198	2,863,553
Total revenues	169,308,031	7,966,203	14,182,686	191,456,920
Expenditures				
Current operating expenditures:				
General government	16,408,318	-	25,518	16,433,836
Judicial	4,650,024	-	1,117,911	5,767,935
Public safety	42,026,411	75,000	4,774,058	46,875,469
Public works	15,547,537	3,641,261	155,933	19,344,731
Health and human services	18,905,329	-	6,210,852	25,116,181
Cultural and recreational	7,560,762	112,128	-	7,672,890
Community development	3,504,251	500,295	1,068,011	5,072,557
Education	35,308,205	-	283,872	35,592,077
Capital outlay:				
Capital general government	-	10,918,746	3,259,529	14,178,275
Debt service:				
Principal retirements	9,693,099	-	410,135	10,103,234
Interest payments and other fiscal charges	4,829,728	-	156,147	4,985,875
Issuance costs	29,815	-	-	29,815
Total expenditures	158,463,479	15,247,430	17,461,966	191,172,875
Excess (deficiency) of revenues over expenditures	10,844,552	(7,281,227)	(3,279,280)	284,045
Other financing sources (uses)				
Issuance of refunding bonds	4,129,625	-	-	4,129,625
Payments to escrow agent	(4,129,625)	-	-	(4,129,625)
Capital contribution	-	(4,725,916)	-	(4,725,916)
Transfers in	18,524	4,950,827	4,591,456	9,560,807
Transfers out	(9,851,795)	-	(45,342)	(9,897,137)
Total other financing sources (uses)	(9,833,271)	224,911	4,546,114	(5,062,246)
Net changes in fund balances	1,011,281	(7,056,316)	1,266,834	(4,778,201)
Fund balances - beginning	48,402,864	36,476,300	4,172,132	89,051,296
Fund balances - ending	$ 49,414,145	$ 29,419,984	$ 5,438,966	$ 84,273,095

The Notes to the Financial Statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balances - total governmental funds	$ (4,778,201)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.	
Capital outlay	14,864,174
Depreciation expense	(16,594,344)
The net effect of various transactions involving capital assets (sales, reduction in construction in progress, donated assets) is to decrease net assets.	(105,985)
Contributions that consumed current financial resources in the capital projects fund resulted in a long-term receivable for the rights to the future improvement of City owned facilities under a tax credit arrangement.	4,725,916
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(535,342)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	9,914,637
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	716,861
The net loss of certain activities of the internal service fund is reported with governmental activities.	309,956
Change in net position of governmental activities.	$ 8,517,672

The Notes to the Financial Statements are
an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Taxes	$ 118,284,431	$ 118,284,431	$ 122,436,720	$ 4,152,289
Regulatory licenses, permits, and privilege fees	631,700	631,700	991,098	359,398
Intergovernmental	30,955,179	33,438,882	33,669,141	230,259
Fines and forfeitures	566,000	566,000	726,438	160,438
Revenue from use of money and property	643,566	643,566	432,688	(210,878)
Charges for services	10,227,461	10,227,461	9,949,886	(277,575)
Miscellaneous	497,349	623,840	1,089,763	465,923
Total revenues	161,805,686	164,415,880	169,295,734	4,879,854
Expenditures				
Current operating expenditures:				
General government	18,628,173	17,353,974	15,788,794	1,565,180
Judicial	4,597,055	4,728,843	4,650,024	78,819
Public safety	42,087,595	43,008,902	42,026,411	982,491
Public works	13,596,338	15,176,195	15,547,537	(371,342)
Health and human services	17,826,960	19,730,523	18,905,329	825,194
Cultural and recreational	7,823,805	7,942,504	7,560,762	381,742
Community development	4,011,398	4,124,392	3,504,251	620,141
Education	35,670,457	35,820,282	35,308,205	512,077
Debt service:				
Principal retirements	11,922,900	11,922,900	9,693,099	2,229,801
Interest payments and other fiscal charges	4,984,614	4,984,516	4,829,728	154,788
Issuance costs	-	42,000	29,815	12,185
Total expenditures	161,149,295	164,835,031	157,843,955	6,991,076
Excess (deficiency) of revenues over expenditures	656,391	(419,151)	11,451,779	11,870,930
Other financing sources (uses)				
Issuance of refunding bonds	-	4,129,625	4,129,625	-
Payments to escrow agent	-	(4,129,625)	(4,129,625)	-
Transfers in	-	18,524	18,524	-
Transfers out	(6,284,916)	(10,533,232)	(10,530,392)	2,840
Total other financing sources (uses)	(6,284,916)	(10,514,708)	(10,511,868)	2,840
Net changes in fund balances	(5,628,525)	(10,933,859)	939,911	11,873,770
Fund balances - beginning	45,807,592	45,807,592	45,807,592	-
Fund balances - ending	$ 40,179,067	$ 34,873,733	$ 46,747,503	$ 11,873,770

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Position
Proprietary Funds
June 30, 2013

	Enterprise Funds					
	Water	Sewer	Stormwater	Airport	Total	Internal Service
Assets						
Current assets:						
Cash and cash equivalents	$ 3,174,330	$ 5,993,960	$ 1,419,613	$ 2,825,821	$ 13,413,724	$ 1,220,037
Investments	5,509,758	2,897,237	-	-	8,406,995	1,307,075
Receivables, net of allowance:						
Accounts	1,522,958	2,595,797	454,184	46,579	4,619,518	-
Other	671	114,625	-	52,680	167,976	56,546
Due from other funds	81,421	41,812	32,303	11,485	167,021	10,587
Due from other governments	44,627	93,667	-	172,063	310,357	-
Inventory	391,695	-	-	-	391,695	87,102
Restricted assets:						
Due from members - Regional Sewage Treatment Plant	-	433,024	-	-	433,024	-
Total current assets	10,725,460	12,170,122	1,906,100	3,108,628	27,910,310	2,681,347
Noncurrent assets:						
Due from other governments	-	9,372,624	-	-	9,372,624	-
Restricted assets:						
Due from members - Regional Sewage Treatment Plant	-	3,447,643	-	-	3,447,643	-
Cash and cash equivalents	627,325	-	-	25,193	652,518	-
Capital assets, net of accumulated depreciation:	68,494,899	265,056,726	99,062	34,297,699	367,948,386	12,190,780
Total noncurrent assets	69,122,224	277,876,993	99,062	34,322,892	381,421,171	12,190,780
Total assets	79,847,684	290,047,115	2,005,162	37,431,520	409,331,481	14,872,127
Deferred Outflows of Resources						
Deferred charge on refunding	900,869	989,346	-	28,066	1,918,281	45,451
Total deferred outflows of resources	900,869	989,346	-	28,066	1,918,281	45,451
Liabilities						
Current liabilities:						
Accounts payable and other liabilities	670,430	4,284,163	44,094	366,762	5,365,449	177,668
Accrued payroll and related liabilities	178,306	110,889	10,563	35,010	334,768	25,097
Accrued interest payable	603,699	281,935	-	14,309	899,943	48,375
Due to other governments	-	-	32,000	-	32,000	-
Current portion of general obligation bonds	1,755,694	1,860,166	-	164,651	3,780,511	180,156
Current portion of public utility revenue bonds	-	5,597,966	-	-	5,597,966	-
Total current liabilities	3,208,129	12,135,119	86,657	580,732	16,010,637	431,296
Noncurrent liabilities:						
Deposits payable from restricted assets	627,325	-	-	-	627,325	-
Self insurance claims	97,977	46,825	-	-	144,802	-
Compensated absences	231,038	141,013	12,168	49,262	433,481	40,616
Other postemployment benefits obligation	171,843	102,455	(1,603)	88,292	360,987	34,984
Notes payable	5,193,865	-	-	-	5,193,865	-
General obligation bonds	34,658,414	22,418,411	-	855,420	57,932,245	2,683,735
Public utility revenue bonds	-	117,278,028	-	-	117,278,028	-
Total noncurrent liabilities	40,980,462	139,986,732	10,565	992,974	181,970,733	2,759,335
Total liabilities	44,188,591	152,121,851	97,222	1,573,706	197,981,370	3,190,631
Net Position						
Net investment in capital assets	27,787,795	128,264,125	99,062	33,305,694	189,456,676	9,372,340
Restricted for:						
Grants and other purposes	-	-	-	25,193	25,193	-
Unrestricted	8,772,167	10,650,485	1,808,878	2,554,993	23,786,523	2,354,607
Total net position	$ 36,559,962	$ 138,914,610	$ 1,907,940	$ 35,885,880	213,268,392	$ 11,726,947
Reconciliation with business-type activities in the statement of net position:						
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(4,021,782)	
Total net position of business-type activities					$ 209,246,610	

The Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Enterprise Funds					
	Water	Sewer	Stormwater	Airport	Total	Internal Service
Operating revenues						
Charges for services and other operating revenues	$ 12,985,275	$ 18,913,651	$ 3,355,267	$ 2,124,073	$ 37,378,266	$ 5,795,014
Intergovernmental	-	-	650,000	135,566	785,566	-
Total operating revenues	12,985,275	18,913,651	4,005,267	2,259,639	38,163,832	5,795,014
Operating expenses						
Personal services and benefits	4,385,357	2,731,139	281,160	942,087	8,339,743	666,214
Operation and maintenance	1,460,251	2,493,078	651,189	1,008,265	5,612,783	2,509,460
Supplies and materials	1,220,000	1,040,125	50,358	113,371	2,423,854	37,509
Administration	1,220,437	2,273,339	1,109,817	243,385	4,846,978	1,153
Other charges	65,424	33,447	4,804	18,000	121,675	22,246
Depreciation	2,711,581	6,147,918	-	1,782,786	10,642,285	2,372,081
Total operating expenses	11,063,050	14,719,046	2,097,328	4,107,894	31,987,318	5,608,663
Operating income (loss)	1,922,225	4,194,605	1,907,939	(1,848,255)	6,176,514	186,351
Nonoperating revenues (expenses)						
Interest income (expense)	2,729	102,589	-	3,659	108,977	(260)
Governmental grants	72,289	93,667	-	-	165,956	-
Miscellaneous	16,535	11,999	1	16,697	45,232	124,144
Gain (loss) on disposition of assets	-	(160,294)	-	137,762	(22,532)	167,576
Interest on long-term debt	(1,751,114)	(1,234,971)	-	(45,020)	(3,031,105)	(124,757)
IRS interest subsidy - Build America Bonds	251,598	45,952	-	-	297,550	-
Total nonoperating revenues (expenses)	(1,407,963)	(1,141,058)	1	113,098	(2,435,922)	166,703
Income (loss) before contributions and transfers	514,262	3,053,547	1,907,940	(1,735,157)	3,740,592	353,054
Capital contributions	9,500	31,025	-	2,452,072	2,492,597	-
Passenger facility charges	-	-	-	335,209	335,209	-
Transfers in	-	-	-	336,330	336,330	-
Change in net position	523,762	3,084,572	1,907,940	1,388,454	6,904,728	353,054
Total net position - beginning	36,036,200	135,830,038	-	34,497,426	206,363,664	11,373,893
Total net position - ending	$ 36,559,962	$ 138,914,610	$ 1,907,940	$ 35,885,880	$ 213,268,392	$ 11,726,947

Reconciliation with business-type activities in the statement of activities:

Change in net position - enterprise funds reported in this statement	$ 6,904,728
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments	43,098
Change in net position of business-type activities:	$ 6,947,826

The Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Enterprise Funds					
	Water	Sewer	Stormwater	Airport	Total	Internal Service
Operating activities						
Cash received from operations	$ 13,000,529	$ 19,033,184	$ 3,551,083	$ 2,244,873	$ 37,829,669	$ 5,795,014
Cash paid to employees	(4,179,004)	(2,708,671)	(264,345)	(947,664)	(8,099,684)	(655,020)
Cash paid to suppliers	(3,951,286)	(5,873,396)	(1,788,844)	(1,400,857)	(13,014,383)	(2,662,679)
Net cash provided by (used in) operating activities	4,870,239	10,451,117	1,497,894	(103,648)	16,715,602	2,477,315
Noncapital financing activities						
Transfers in	-	-	-	336,330	336,330	-
Net cash provided by noncapital financing activities	-	-	-	336,330	336,330	-
Capital and related financing activities						
Proceeds from issuance of long-term debt:						
Notes payable	5,114,160	-	-	-	5,114,160	-
Payment of long-term debt:						
General obligation bonds	(1,803,777)	(2,053,469)	-	(215,335)	(4,072,581)	(230,922)
Revenue bonds	-	(5,096,949)	-	-	(5,096,949)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	14,495,045	-	-	14,495,045	-
Payment of interest on long-term debt	(1,813,110)	(1,261,448)	-	(47,847)	(3,122,405)	(129,891)
Capital contributions received	-	31,025	-	2,644,376	2,675,401	-
Passenger facility charges collected	-	-	-	337,814	337,814	-
Proceeds from sale of capital assets	-	71,000	-	138,250	209,250	198,566
Additions to capital assets	(5,516,739)	(17,671,906)	(78,282)	(2,508,480)	(25,775,407)	(2,082,819)
Proceeds from other governments	9,500	449,896	-	16,697	476,093	-
Proceeds from other organizations	19,175	91,439	1	-	110,615	129,519
Net cash provided by (used in) capital and related financing activities	(3,990,791)	(10,945,367)	(78,281)	365,475	(14,648,964)	(2,115,547)
Investing activities						
Net sales (purchases) of investments	(362,982)	831,556	-	502,490	971,064	(107,653)
Net, interest income	254,327	148,541	-	3,659	406,527	(260)
Net cash provided by (used in) investing activities	(108,655)	980,097	-	506,149	1,377,591	(107,913)
Net increase in cash and cash equivalents	770,793	485,847	1,419,613	1,104,306	3,780,559	253,855
Cash and cash equivalents						
Beginning	3,030,862	5,508,113	-	1,746,708	10,285,683	966,182
Ending	$ 3,801,655	$ 5,993,960	$ 1,419,613	$ 2,851,014	$ 14,066,242	$ 1,220,037
Reconciliation to Statement of Net Position						
Current Assets	$ 3,174,330	$ 5,993,960	$ 1,419,613	$ 2,825,821	$ 13,413,724	$ 1,220,037
Restricted Assets	627,325	-	-	25,193	652,518	-
	$ 3,801,655	$ 5,993,960	$ 1,419,613	$ 2,851,014	$ 14,066,242	$ 1,220,037

(Continued)

The Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Enterprise Funds					
	Water	**Sewer**	**Stormwater**	**Airport**	**Total**	**Internal Service**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	$ 1,922,225	$ 4,194,605	$ 1,907,939	$ (1,848,255)	$ 6,176,514	$ 186,351
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	2,711,581	6,147,918	-	1,782,786	10,642,285	2,372,081
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(148,812)	119,533	(454,184)	(14,766)	(498,229)	-
Decrease (increase) in due from other funds	83,762	65,504	(32,303)	17,095	134,058	11,633
Decrease (increase) in inventory	7,883	-	-	-	7,883	(29,158)
Increase (decrease) in accounts payable	6,943	(33,407)	23,314	(34,931)	(38,081)	(63,153)
Increase (decrease) in accrued liabilities	122,591	(43,036)	21,128	(5,577)	95,106	(439)
Increase in due to other governments	-	-	32,000	-	32,000	-
Increase in deposits payable	164,066	-	-	-	164,066	-
Net cash provided by (used in) operating activities	$ 4,870,239	$ 10,451,117	$ 1,497,894	$ (103,648)	$ 16,715,602	$ 2,477,315
Supplemental cash flow information						
Non-cash transactions						
Capitalized interest	$ 53,558	$ -	$ -	$ -	$ 53,558	$ -
Capital asset additions financed by retainage payable	$ 151,567	$ 548,794	$ -	$ 222,727	$ 923,088	$ -
Capital asset additions financed by accounts payable	$ 400,315	$ 3,518,958	$ 20,780	$ 75,416	$ 4,015,469	$ 46,723
Undrawn public utility revenue bond proceeds	$ -	$ 9,372,624	$ -	$ -	$ 9,372,624	$ -
Amortization of debt related items	$ 5,818	$ 175	$ -	$ 1,096	$ 7,089	$ (1,728)

The Notes to the Financial Statements are
an integral part of this statement.

Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2013

Assets	
Cash and cash equivalents	$ 105,930
Total assets	$ 105,930
Liabilities	
Accounts payable	$ 2,691
Amounts held for others	103,239
Total liabilities	$ 105,930

The Notes to the Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786 and incorporated as a town on January 10, 1805 and received independent City status in 1852. The City operates on a Council-Manager form of Government and provides municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, eleven elementary schools, three middle schools, and two high schools in the City. The Schools are fiscally dependent on the City and are prohibited from issuing bonded debt without approval of City Council.

Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. As part of the operating agreement with the Centre, the City agrees to advance operating funds to the Centre to cover working capital needs. The City has agreed to provide local matching funds under the revolving loan fund program.

Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") was created in 1974 to serve the greater Lynchburg area with public bus and paratransit transportation. GLTC is organized as a not-for-profit stock corporation with the City of Lynchburg as the sole stockholder. The capital for the purchase of the Company's assets has been provided by federal, state, and local grants, and GLTC is dependent on various operating grants to subsidize operations. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits and through annual appropriations for the GLTC operating budget. In accordance with the Memorandum of Understanding signed in FY2013, when GLTC has an operating surplus, the City will establish a Special Reserve to support transit operations. The reserve will be used to cover unplanned cash shortfalls in the annual budget.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the addresses listed below. The Lynchburg City Schools financial statements are not separately prepared, but are included in this financial report.

Business Development Centre, Inc.	Greater Lynchburg Transit Company
147 Mill Ridge Road	Post Office Box 797
Lynchburg, Virginia 24502	Lynchburg, Virginia 24505-0797

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority (the "Authority") was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities, and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Amherst, Appomattox, Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Blue Ridge Regional Jail Authority: *(Continued)*

The City sold its existing jail facilities to the Authority during FY1997. A new central jail facility was constructed in Lynchburg and opened in FY2000. 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 an adjustment at the end of each fiscal year. During FY2013, the City paid $5,453,628 to the Authority.

Horizon Behavioral Health (formerly Central Virginia Community Services Board): The City, in conjunction with the counties of Amherst, Appomattox, Bedford, and Campbell and the City of Bedford participate in Horizon Behavioral Health, which is composed of two members from each of the participating localities. The City appropriated $444,003 for an operating contribution in FY2013.

Regional Commission 2000: The City serves as the Local Workforce Investment Area grant recipient on behalf of the Regional Commission 2000/Central Virginia Local Workforce Investment Area VII. According to the requirements, grant funds are used to provide employment and training activities for adults and dislocated workers and to provide services for eligible youth. During FY2013, the Regional Commission 2000 received $1,246,911 in grant funds.

Region 2000 Services Authority: During 2008, the City, in conjunction with the Counties of Campbell and Nelson and the City of Bedford, created the Region 2000 Services Authority (the "Authority"). The Authority commenced operations on July 1, 2008. The Authority operates two landfills. Each member jurisdiction pays a per-ton disposal charge for all waste transferred to the Authority. 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-ton charge is based upon an assumed number of tons and is subject to adjustment at the end of each year. The governing board is composed of one member from each of the participating localities. In accordance with the member use agreement, the City provided the authority $300,000 in initial start up costs. During FY2013, the City paid $884,249 to the Authority.

Region 2000 Radio Communications Board: During 2012, the Central Virginia Regional Radio Communications Board was dissolved and replaced by the Region 2000 Radio Communications Board (the "Board"). Since the current regional radio system was in need of significant upgrade and replacement before July 1, 2014, the Board was formed in order to manage the project operations and maintenance, including the issuance of debt to finance the upgrades and replacements in an efficient and cost effective manner. The Board consists of representatives from Amherst County, Bedford County, the City of Bedford, the City of Lynchburg, collectively the "Member Jurisdictions" and Virginia's Region 2000 Local Government Council ("Council"). The Member Jurisdictions and the Council entered into a Cooperative Agreement which requires each Member Jurisdiction to contribute their pro rata share for annual capital costs, operational costs, and any annual deficit. The City's pro rata share is 33.1% effective through July 1, 2013. In accordance with the Cooperative Agreement, the City transferred the title to all 1996 Assets to the Council. An intangible asset in the amount of $199,354 is shown in the governmental activities capital assets, net of accumulated amortization representing the City's portion of the 1996 assets. Once the new system is in place, the City will record an intangible asset in the governmental activities capital assets in accordance with the City's pro rata share. The City made the final debt payment of $135,629 for the 1996 assets during 2012. The Council issued debt of $13,100,000 in May 2012 to finance the upgrade and replacement of the existing radio system. Each Member Jurisdiction contributes toward the debt service payments made by the Council through their pro rata share of capital costs. The City's pro rata share of capital costs is 30.1%. Should the Council fail to make debt service payments, the Member Jurisdictions have a moral non-binding obligation to pay the debt service. During FY2013, the City paid $631,247 to the Board. The City's scheduled capital cost payment for FY14 is $606,814.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the *Code of Virginia* ("*Code*"), the Commonwealth of Virginia ("Commonwealth") created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. In April 1956, City Council activated the Lynchburg Redevelopment and Housing Authority (the "LRHA") which owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA. During FY2013, the City appropriated $211,655 to the LRHA from the Community Development Block Grant Fund.

Economic Development Authority of the City of Lynchburg: Under the *Code*, 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; however, City Council is not financially accountable for the IDA. In 2008 City Council changed the name from the Industrial Development Authority (IDA) to the Economic Development Authority (EDA) to more accurately reflect the work of the Authority beyond the focus of industrial development. During FY2013, the City paid $250,000 to the Economic Development Authority.

Other Boards and Commissions: City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

B. Basis of Presentation

The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable.

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflow of resources, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

The City reports the following major governmental funds:

General Fund: The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund.

City Capital Projects Fund: The City Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds and the School Capital Projects Fund.

The City reports the following non-major governmental funds:

Special Revenue Funds: Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Lynchburg Business Development Centre, Forfeited Assets, Comprehensive Services Act, Lynchburg Expressway Appearance, Home Investment Trust, and Lynchburg Regional Juvenile Detention Center.

School Capital Projects: The School Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for capital outlays approved by the School Board for educational purposes.

Proprietary Fund Types:

The City reports the following major proprietary funds:

Enterprise Funds: Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Stormwater, and Airport Funds.

The Water fund operates the water distribution system for the City and three surrounding counties. The Sewer Fund operates a regional wastewater treatment plant, a combined sewer system, and cleans, monitors, and repairs the wastewater collection system for the City and three surrounding counties. The Stormwater Fund performs the operations and maintenance of the storm sewer collection system, manages the City's Small Municipal Separate Storm Sewer System [MS4] General Permit requirements that incorporates water quality compliance goals established by Total Maximum Daily Loads [TMDLs] which include the Chesapeake Bay and the James River Basin TMDLs. The Airport Fund accounts for the administration of the Lynchburg Regional Airport.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The total enterprise funds columns in the proprietary fund statements of net position and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity.

Additionally, the City reports the following fund types:

Internal Service Fund: Internal Service Fund accounts for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A Fleet Services Fund has been established to account for the operation and maintenance of City vehicles.

Fiduciary Fund Types:

Agency Funds: Agency Funds account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare and Central Virginia Regional Radio Board Funds.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

C. Measurement Focus and Basis of Accounting

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both “measurable” and “available.” Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most non-grant revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met and are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. **Measurement Focus and Basis of Accounting (Continued)**

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

Agency funds are unlike all other fund types, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency fund utilizes the accrual basis of accounting to recognize receivables and payables.

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

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

D. Budgets and Budgetary Accounting

All governmental and proprietary funds have legally adopted budgets. The Lynchburg Business Development Centre Fund and the Lynchburg Expressway Appearance Fund do not adopt a legal annual budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Typically, in early March, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing July 1 and ending June 30 of the following year. 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 1, the City Manager prepares and distributes the adopted budget.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

- The City prepares a five-year Capital Improvement Program (CIP) for the City Capital Projects, School Capital Projects, Water, Sewer, Stormwater and Airport. 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. Project budgets are utilized in the capital projects funds. Appropriations for the capital projects funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed.
- Budgets for the General, Water, Sewer, Stormwater, Airport, Capital Projects, and all Special Revenue Funds are prepared in accordance with the City Charter on the modified accrual basis of accounting. Encumbrances are treated as committed and/or assigned fund balance and reappropriated in the next fiscal year. Revenues, expenditures, and transfers related to internal service type functions are included for budget purposes. The budget for the Lynchburg City Schools (School Operating Fund) is prepared on the modified accrual basis of accounting.
- The City Manager 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* requires that City Council approve any amendment. If the total of the proposed amendment exceeds 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 Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- All operating budget appropriations 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.
- Prior to the implementation of GASB 54, the City's special revenue funds included the Technology Fund which has a separate legally adopted budget. With the implementation of GASB 54, the Technology Fund is utilized for internal reporting purposes only. For financial statement reporting (GAAP-basis), the Technology Fund is collapsed into the General Fund. For budgetary basis reporting, the Technology Fund is not included with the General Fund.

The following is a reconciliation of the results of operations for the year on the budgetary basis to the GAAP basis.

	General Fund
Net change in fund balance (non-GAAP budgetary basis)	$ 939,911
Add: Net change in fund balance for Technology Fund	71,370
Net change in fund balance (GAAP basis)	$ 1,011,281

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

- **Cash and Cash Equivalents**

  The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

- **Investments**

  Investments for the government as well as for its component units are reported at fair value. Interest earned by certain funds of the Schools and City Capital Projects Fund are allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Receivables**

The City calculates its allowance for uncollectible accounts using historical collection data, and specific account analysis. Receivables are presented net of allowance for doubtful accounts. The allowance is composed of the following:

General Fund, property taxes, and other receivables	$	2,721,555
General Fund, ambulance receivables	$	2,273,668
Enterprise Funds	$	199,613

- **Inventory**

Inventory in the Water and Internal Service Funds is valued at cost using the first-in, first-out (FIFO) method. This inventory consists principally of spare parts and fuel held for consumption. The cost is recorded as an expense at the time individual inventory items are withdrawn for use. Inventory in the Lynchburg City School Nutrition program is valued at cost using the first in, first-out (FIFO) method. This inventory consists of purchased foods, USDA Foods (donated commodities) as well as kitchen supplies. An expense adjustment is made annually after the year-end inventory is counted and valued.

- **Capital Assets**

Governmental funds: Capital outlays are recorded as expenditures on the fund basis and as assets on the government-wide financial statements to the extent the City's capitalization thresholds of $5,000 for equipment and $20,000 for buildings, infrastructure, and land improvements are met. Infrastructure has been capitalized retroactively to 1980. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their fair market value on the date donated. Schools' buildings and other facilities are capital assets for the City government and not for the component unit.

Works of art, historical treasures, and similar assets have not been capitalized because they are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. The collection is protected, kept unencumbered, cared for, and preserved. The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Proprietary Funds: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of enterprise funds' capital assets. During FY2013, the enterprise funds incurred interest costs of $3,084,663 of which $53,558 was capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Land improvements	15-20
Buildings and improvements:	
New construction	30-40
Improvements	15-20
Infrastructure	30-50
Machinery and equipment	5-10

- **Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two types of items. One item occurs only under a modified accrual basis of accounting. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year-end and property taxes levied to fund future years. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the premium on bond refunding reported in the government-wide statement of net position and in the proprietary funds statement of net position. The premium on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- **Compensated Absences**

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are recorded as liabilities in the governmental fund financial statements when they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits as earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Arbitrage Rebate Liability**

  The U.S. Treasury has issued regulations on calculating the rebate due the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the City temporarily invests the proceeds of tax exempt debt in securities with higher yields. The City treats the estimated rebate payable as a reduction of available financial resources in the fund that earned the arbitrage profit. Accordingly, interest earnings are reduced by the amount of the increase in the estimated rebate payable and a liability is reported in the appropriate fund.

- **Net Position/Fund Equity**

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

  In accordance with Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaids or they are legally or contractually required to be maintained intact.

- Restricted fund balance includes amounts that have constraints placed on their use by external sources such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision making authority - City Council. Formal Council action includes the annual adoption of the City's Budget Ordinance/Resolution, Council Resolutions appropriating funds and/or resources, Budget amendments appropriating funds, and resources from third quarter adjustments and Budget amendments to carry forward appropriations that were unexpended at fiscal year end.

- Assigned fund balance includes amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. Fund Balance may be assigned either through the encumbrance process as a result of normal purchasing activity (which includes the issuance of a purchase order), or by the City Manager or his designee.

- Unassigned fund balance is the positive fund balance within the General fund which has not been classified as Restricted, Committed, or Assigned and negative fund balances in other governmental funds.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

The City considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balance are available unless prohibited by legal documents or contracts. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the City considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

F. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures, and expenses. Actual results could differ.

Note 2. Cash and Investments

Deposits:

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

Investments:

Investment Policy:

In accordance with the *Code* and other applicable law, including regulations, the City's Investment Policy (Policy) permits investments in Treasury Securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of $1 per share). The Investment Policy specifies that no investment may have a maturity greater than one year from the date of purchase, unless matched to a specific cash flow.

Credit Risk:

As required by state statute or by the City, the Policy requires that commercial paper have a short-term debt rating of P-1 or higher by Moody's Investors Service and A-1 or higher by Standard & Poor's Ratings Services, 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. Banker's acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Open-end investment funds must be 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. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated A or better by Moody's and Standard & Poor's.

(Continued)

Note 2. Cash and Investments (Continued)

Investments: (Continued)

Credit Risk: (Continued)

As of June 30, 57% of the portfolio was invested in "Aaa" rated obligations; 4% was invested in "Aa1" Municipal Obligations; 5% was invested in "Aa2" Municipal Obligations; 1% was invested in "Aa3" rated Certificate of Deposits; 2% was invested in "A1" rated Commercial Paper; 4% was invested in "A2" rated Commercial Paper; and 27% was invested in an "AAAm" rated LGIP fund. The "Aaa" rated portion of the total portfolio included 8% of obligations guaranteed by the U.S. Government; 42% of Federal Agencies; and 7% of Municipal Obligations (percentages are based on the total portfolio). On August 5, 2011, Standard & Poor's downgraded the long-term sovereign credit rating of the United States of America from "AAA" to "AA+" and affirmed the "A-1+" short-term rating. This downgrade relates to 57% of the City's portfolio previously noted as "Aaa" by Moody's Investors Service. All credit ratings presented in this paragraph are either Moody's or Standard & Poor's.

Concentration of Credit Risk:

The Policy's intent is for the City to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity. The Policy places a limit on the amount the City may invest in any single financial institution at no more than 50% of the City's total investments.

As of June 30, investment types that equal or exceed 5% of the portfolio were as follow:

Investment Type	% of Portfolio
Municipal Bonds	16%
Federal Home Loan Mortgage Corporation	11%
Federal Home Loan Bank	11%
Federal Farm Credit Bank	12%
Federal National Mortgage Association	9%
Commercial Paper	7%

Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. Agency securities must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase and banker's acceptances must mature within 180 days of the date of purchase.

As of June 30, the carrying values and weighted average maturity were as follows:

Investment Type	Fair Value	Weighted Average Maturity*
Money Market Funds – LGIP	$ 24,464,060	-
U.S. Treasury Bills	1,799,802	93
U.S. Treasury Notes	5,315,349	197
Federal Home Loan Mortgage Corporation	9,999,855	26
Federal National Mortgage Association	8,017,875	165
Federal Farm Credit Bank	10,637,792	189
Federal Home Loan Bank	10,284,117	139
Commercial Paper	6,199,182	79
Certificate of Deposits	902,708	2
Municipal Bonds	14,376,700	1,104
Total investments	$ 91,997,440	
Portfolio weighted average maturity		246

* Weighted average maturity in days.

(Continued)

Note 2. Cash and Investments (Continued)

Investments: (Continued)

Custodial Credit Risk:

The Policy requires that all investment securities shall be held in safekeeping by a third-party and evidenced by safekeeping receipts. As required by the *Code*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all investments are held in a bank's trust department in the City's name.

Restricted cash and temporary cash investments of the General, Special Revenue, and Enterprise Funds include certain deposits, grant advances, and amounts related to the Passenger Facility Charge program. The Schools Component Unit's restricted cash and temporary cash investments consist of capital lease proceeds restricted for the purpose of acquiring school equipment.

The above items are reflected in the statements as follows:

	Primary Government	School Board Component Unit
Deposits and investments:		
Cash on hand	$ 16,600	$ 500
Deposits	26,222,212	562,765
Funds held in trust by others	-	165,975
Investments	84,789,980	7,207,460
	$ 111,028,792	$ 7,936,700
Statement of net position:		
Cash and cash equivalents	$ 42,239,254	$ 7,770,725
Investments	67,533,380	-
Restricted cash and cash equivalents	1,150,228	-
Fiduciary fund cash and cash equivalents	105,930	165,975
	$ 111,028,792	$ 7,936,700

Note 3. Property Taxes

Real Estate taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Supplemental billings are processed through the current tax year to ensure timely recordation. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15.

Personal property taxes are levied on property owned as of January 1, and are payable in two equal installments on June 5 and December 5. Additional billings for personal property acquisitions are due March 5 and September 5.

A penalty of 10% for late payment is assessed on the day after the due date and interest at the rate of 10% is assessed on unpaid balances beginning with the first day of the month following the due date. The City bills and collects its own property taxes.

(Continued)

Note 4. Interfund Receivables, Payables and Transfers

Interfund balances at June 30, 2013 were as follows:

	Interfund Receivables	Interfund Payables
Major Fund:		
General	$ 873,072	$ 444,205
Major Capital Projects Fund:		
City Capital Projects	257,944	-
Non-major Special Revenue Funds:		
City Federal/State Aid	263,741	995,453
Community Development Block Grant	-	75,598
Comprehensive Services Act	731	-
Home Investment Trust	-	18,840
Lynchburg Regional Juvenile Detention Center	2,125	41,125
Major Proprietary Funds:		
Airport	11,485	-
Sewer	41,812	-
Water	81,421	-
Stormwater	32,303	-
Internal Service	10,587	-
	$ 1,575,221	$ 1,575,221

Interfund receivables for governmental funds primarily represent advances to special revenue funds and proprietary funds to be repaid with future grant revenues. Interfund receivables for proprietary funds mainly represent the reallocation of health benefits at year end.

Interfund transfers were as follows:

	To	From
Major Fund:		
General	$ 18,524	$ 9,851,795
Non-major Special Revenue Funds:		
City Federal/State Aid	136,456	36,342
Community Development Block Grant	-	9,000
Major Fund – Capital Projects		
City Capital Projects	4,950,827	-
Non- major Fund – Capital Projects		
School Capital Projects	4,455,000	-
Major Proprietary Funds:		
Airport	336,330	-
	$ 9,897,137	$ 9,897,137

Transfers between major funds (general, city capital projects, and proprietary) and other non-major governmental funds were primarily to support capital projects, operations and the purchase of fleet vehicles and equipment.

(Continued)

Note 5. Due From/To Primary Government and Component Units

Due from/to balances between the City and its component units at June 30, were as follows:

	Due From	Due To
Primary Government:		
Major Fund:		
General Fund	$ 1,534,029	$ -
Nonmajor Special Revenue Fund:		
Lynchburg Business Development Centre Fund	125,000	-
	$ 1,659,029	$ -
Component Units:		
Lynchburg City Schools	$ -	$ 787,305
Business Development Centre, Inc.	-	125,000
Greater Lynchburg Transit Company	-	746,724
	$ -	$ 1,659,029

Note 6. Due From Other Governments

Amounts due from other governments at June 30 were as follows:

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Schools	Others
Various federal and state grants	$ 7,307,827	$ 310,357	$ 5,141,154	$ 912,173
Virginia Revolving Loan	-	9,372,624	-	-
Members of Regional Sewage Treatment Plant	-	3,880,667	-	-
	$ 7,307,827	$ 13,563,648	$ 5,141,154	$ 912,173

Due from members of the Regional Sewage Treatment Plant:

Amounts due from members of the Regional Sewage Treatment Plant represent amounts due from Amherst County, the Bedford County Public Service Authority, and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities under a 1974 agreement (the “Agreement”). Effective July 1, 2013, the amount due from the Bedford County Public Service Authority was transferred to the Bedford Regional Water Authority. These Joint-Use Facilities are defined as the City’s Regional Waste Water Treatment Plant and its immediately related treatment facilities used jointly by the City and one or more of the members in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each member and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each member shall have the option of paying its proportionate share of the cost of projects either in cash or on a deferred payment schedule coinciding with the period over which the City’s bonds are amortized, plus interest at the rate equivalent to the net interest cost to the City. Future payments to be received are as follows:

Amount receivable within 1 year	$ 433,024
Amount receivable 2 to 5 years	1,687,200
Amount receivable beyond 5 years	1,760,443
	$ 3,880,667

(Continued)

Note 7. Receivables

Receivables as of June 30, net of allowances for uncollectible accounts, are as follows:

	Taxes	Accounts	Other	Total
Major funds:				
General	$ 13,145,038	$ 4,846,479	$ 1,020,578	$ 19,012,095
City Capital Projects	-	-	450,000	450,000
Water	-	1,522,958	671	1,523,629
Sewer	-	2,595,797	114,625	2,710,422
Stormwater	-	454,184	-	454,184
Airport	-	46,579	52,680	99,259
Internal Service	-	-	56,546	56,546
Non major Governmental Funds	-	-	444,293	444,293
	$ 13,145,038	$ 9,465,997	$ 2,139,393	$ 24,750,428

(Continued)

Note 8. Capital Assets

Primary Government:

A summary of the changes in the City's capital assets for governmental activities is as follows:

Governmental Activities	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, not being depreciated:				
Land	$ 16,589,808	$ 599,908	$ (343,200)	$ 16,846,516
Construction in progress	13,248,884	14,186,282	(8,935,792)	18,499,374
Total capital assets, not being depreciated	29,838,692	14,786,190	(9,278,992)	35,345,890
Capital assets, being depreciated:				
Land improvements	23,834,990	759,534	-	24,594,524
Accumulated depreciation	(8,542,999)	(1,380,767)	-	(9,923,766)
Net land improvements	15,291,991	(621,233)	-	14,670,758
Buildings and improvements	230,293,547	3,477,465	-	233,771,012
Accumulated depreciation	(110,561,731)	(6,910,200)	-	(117,471,931)
Net buildings and improvements	119,731,816	(3,432,735)	-	116,299,081
Infrastructure	226,448,969	3,806,357	-	230,255,326
Accumulated depreciation	(116,556,280)	(6,893,467)	-	(123,449,747)
Net infrastructure	109,892,689	(3,087,110)	-	106,805,579
Machinery and equipment	40,370,110	3,796,848	(1,368,301)	42,798,657
Accumulated depreciation	(24,076,623)	(3,781,991)	1,312,004	(26,546,610)
Net machinery and equipment	16,293,487	14,857	(56,297)	16,252,047
Total capital assets being depreciated	520,947,616	11,840,204	(1,368,301)	531,419,519
Less: accumulated depreciation	(259,737,633)	(18,966,425)	1,312,004	(277,392,054)
Total capital assets, being depreciated	261,209,983	(7,126,221)	(56,297)	254,027,465
Capital assets, net	$ 291,048,675	$ 7,659,969	$ (9,335,289)	$ 289,373,355

There are no assets included above financed by capital leases as of June 30, 2013.

(Continued)

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

Depreciation was charged to governmental functions as follows:

Governmental activities:		
General government	$	701,831
Education		4,977,486
Judicial		734,632
Health and human services		311,631
Public safety		2,173,545
Public works		8,750,970
Community development		20,587
Cultural and recreational		919,637
Total governmental activities		18,590,319
Business-type activities:		
Water		97,757
Sewer		250,970
Airport		27,379
Total business-type activities		376,106
Total depreciation	$	18,966,425

The Fleet Internal Services Fund, whose assets are reported as a part of the City's governmental assets, purchases vehicles that are used by the City's Enterprise Funds. Depreciation related to those vehicles is allocated to the Enterprise Funds. In prior years, the City Capital Projects fund, on occasion, would construct assets that were used primarily by the Enterprise Funds. Depreciation on these assets is also allocated to the Enterprise Funds. The $376,106 of business-type depreciation reflected above is the allocation of this depreciation and is not reflected on the business-type activities asset information reported below.

(Continued)

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

A summary of the changes in the City's capital assets for business-type activities is as follows:

Business-type Activities	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, not being depreciated:				
Land	$ 5,020,102	$ -	$ (488)	$ 5,019,614
Construction in progress	45,168,147	27,745,425	(42,226,852)	30,686,720
Total capital assets, not being depreciated	50,188,249	27,745,425	(42,227,340)	35,706,334
Capital assets, being depreciated:				
Land improvements	12,403,641	-	(24,520)	12,379,121
Accumulated depreciation	(11,704,050)	(78,042)	24,520	(11,757,572)
Net land improvements	699,591	(78,042)	-	621,549
Buildings and improvements	56,960,316	50,230	(469,001)	56,541,545
Accumulated depreciation	(22,255,048)	(1,836,237)	434,398	(23,656,887)
Net buildings and improvements	34,705,268	(1,786,007)	(34,603)	32,884,658
Infrastructure	360,411,725	32,137,644	(1,264,888)	391,284,481
Accumulated depreciation	(103,052,453)	(8,041,567)	1,264,888	(109,829,132)
Net infrastructure	257,359,272	24,096,077	-	281,455,349
Machinery and equipment	11,400,529	10,213,387	(1,164,002)	20,449,914
Accumulated depreciation	(8,162,514)	(560,289)	967,311	(7,755,492)
Net machinery and equipment	3,238,015	9,653,098	(196,691)	12,694,422
Capitalized interest	6,307,502	53,558	-	6,361,060
Accumulated depreciation	(1,648,836)	(126,150)	-	(1,774,986)
Net capitalized interest	4,658,666	(72,592)	-	4,586,074
Total capital assets being depreciated	447,483,713	42,454,819	(2,922,411)	487,016,121
Less: accumulated depreciation	(146,822,901)	(10,642,285)	2,691,117	(154,774,069)
Total capital assets, being depreciated	300,660,812	31,812,534	(231,294)	332,242,052
Capital assets, net	$ 350,849,061	$ 59,557,959	$ (42,458,634)	$ 367,948,386

(Continued)

Note 8. Capital Assets (Continued)

Component Units:

A summary of changes in the capital assets of the Schools is as follows:

Lynchburg City Schools	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, being depreciated:				
Equipment	$ 8,717,356	$ 1,623,419	$ 519,590	$ 9,821,185
Accumulated depreciation	(5,760,420)	(529,851)	(508,823)	(5,781,448)
Net equipment	2,956,936	1,093,568	10,767	4,039,737
Equipment – cafeteria	955,100	81,088	-	1,036,188
Accumulated depreciation	(574,839)	(49,868)	-	(624,707)
Net equipment – cafeteria	380,261	31,220	-	411,481
Total capital assets being depreciated	9,672,456	1,704,507	519,590	10,857,373
Less: accumulated depreciation	(6,335,259)	(579,719)	(508,823)	(6,406,155)
Capital assets, net	$ 3,337,197	$ 1,124,788	$ 10,767	$ 4,451,218

Included above is property with a cost and net book value of approximately $0.6 million and $0.3 million respectively, at June 30, financed by capital leases.

Details of capital assets of other component units are as follows:

Land, buildings, and improvements	$ 3,476,021
Construction in progress	3,727,091
Machinery and equipment	23,677,068
	30,880,180
Less accumulated depreciation	10,698,247
	$ 20,181,933

(Continued)

Note 9. Long-Term Liabilities

General Obligation Debt:

	Interest Rates (%)	Date Issued	Final Maturity	Original Issue	Primary Government: Public Improvements	Primary Government: School Facilities	Primary Government: Proprietary Funds	Total
Bond Anticipation Note								
Public Improvement- Line of Credit for Five Years	2.0 fixed	11/08/2011	2016	$ 10,000,000	$ -	$ -	$ 5,193,865	$ 5,193,865
Serial Bonds								
VA Resources Authority	0.00	03/24/1994	2027	3,976,369	-	-	1,686,523	1,686,523
VPSA General Obligation	6.10-6.60	11/22/1994	2015	2,100,362	-	263,155	-	263,155
VPSA General Obligation	3.10-5.10	11/15/2001	2022	3,473,329	-	1,677,695	-	1,677,695
VPSA General Obligation	2.35-4.85	11/07/2002	2023	6,513,732	-	3,440,125	-	3,440,125
Public Improvement Refunding	2.00-5.00	02/01/2003	2014	23,670,000	225,334	17,281	212,385	455,000
Public Improvement	3.00-5.00	06/01/2004	2034	28,160,000	1,050,000	810,000	560,000	2,420,000
Public Improvement Refunding	3.00-5.25	03/16/2005	2030	33,105,000	7,972,355	4,862,720	6,159,925	18,995,000
Taxable Refunding	3.90-4.86	03/16/2005	2014	3,810,000	-	615,000	-	615,000
VPSA General Obligation	4.60-5.10	11/10/2005	2026	6,411,957	-	4,375,901	-	4,375,901
Public Improvement	4.00-5.00	05/09/2006	2026	23,840,000	11,347,196	4,475,226	1,957,578	17,780,000
Public Improvement	4.00-5.00	08/02/2007	2038	33,300,000	11,373,685	-	16,291,315	27,665,000
Public Improvement Refunding	2.93	03/19/2008	2015	8,000,000	317,297	296,574	404,129	1,018,000
Public Improvement Series A Tax Exempt	1.00-5.00	08/13/2009	2022	17,230,000	3,740,000	5,310,000	4,320,000	13,370,000
Public Improvement Series B Taxable Build America Bonds (BABs)	5.05-6.61	08/13/2009	2040	27,420,000	4,399,395	9,450,605	13,570,000	27,420,000
Public Improvement Series C Refunding	2.00-4.00	08/13/2009	2023	12,800,000	3,007,126	1,651,201	5,306,673	9,965,000
VPSA Gen Obligation	0.00	11/13/2009	2027	10,255,000	-	9,640,000	-	9,640,000
Public Improvement Refunding	2.00-5.00	10/20/2010	2034	29,655,000	9,714,804	7,424,688	12,195,508	29,335,000
Public Improvement Refunding	3.80	12/19/2012	2023	4,129,625	3,950,943	-	-	3,950,943
					$ 57,098,135	$ 54,310,171	$ 67,857,901	$ 179,266,207

Bonds issued between 1992 and 2010 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds amounted to $47,393,043 at June 30, 2013.

The Constitution of Virginia, Article VII, Section 10(a) sets forth the City's legal debt limit at ten percent (10%) of its real estate assessed valuation for the City's issuance of any bonds or other interest-bearing obligations. As of June 30, the City's aggregate general obligation indebtedness was $179,266,207 and less than the state limit. In December 2006, City Council amended the Debt Management Policy, which limited tax-supported debt to four and a half percent (4.5%) of its net assessed valuation of taxable property. City Council reaffirmed the Debt Policy on November 23, 2010 with one revision to debt service payments for revenue supported debt from twenty to thirty years. City Council revised the Debt Policy on February 26, 2013 in the section entitled Tax-Supported Debt, Item 6. Previously, the Policy stated that the 10-Year Principal Payout Ratio shall not be less than 60%. With this revision, the Policy now states that the 10-Year Principal Payout Ratio shall not be less than 60% at the end of each adopted five-year Capital Improvement Program. The principal payout ratio for the year ended June 30 was 82.8%. As shown in the Supplementary Statistical Table 20, outstanding tax-supported debt was 1.95% of net assessed valuation of taxable property. There are no overlapping tax jurisdictions.

(Continued)

Note 9. Long-Term Liabilities (Continued)

Revenue Debt:

	Interest Rates %	Date Issued	Final Maturity	Original Issue	Sewer Fund
Virginia Resources Authority					
Public Utility Revenue Bonds	0.00	3/28/1995	2027	$ 6,571,207	$ 2,378,862
Public Utility Revenue Bonds	0.00	8/10/1995	2029	10,000,000	4,257,936
Public Utility Revenue Bonds	0.00	6/27/1996	2029	8,000,000	3,296,060
Public Utility Revenue Bonds	0.00	7/17/1997	2030	7,591,540	3,713,416
Public Utility Revenue Bonds	3.00	7/17/1997	2020	14,108,460	5,746,001
Public Utility Revenue Bonds	0.00	8/21/1998	2031	6,203,000	3,291,826
Public Utility Revenue Bonds	3.00	5/27/1999	2020	2,476,763	1,006,786
Public Utility Revenue Bonds	0.00	2/11/2000	2021	5,300,000	2,231,579
Public Utility Revenue Bonds	0.00	2/15/2001	2032	735,000	422,763
Public Utility Revenue Bonds	3.50	06/8/2001	2021	2,835,000	1,443,017
Public Utility Revenue Bonds	0.00	11/6/2001	2034	1,413,613	911,062
Public Utility Revenue Bonds	0.00	9/15/2003	2036	2,350,165	1,721,593
Public Utility Revenue Bonds	0.00	5/20/2004	2038	6,000,000	4,700,000
Public Utility Revenue Bonds	0.00	5/17/2005	2038	6,700,000	5,359,999
Public Utility Revenue Bonds	0.00	6/28/2006	2039	9,600,000	8,160,000
Public Utility Revenue Bonds	0.00	6/20/2007	2039	7,000,000	6,066,667
Public Utility Revenue Bonds	0.00	06/5/2008	2041	12,350,000	11,320,833
Public Utility Revenue Bonds	0.00	6/25/2009	2041	19,000,000	17,733,333
Public Utility Revenue Bonds	0.00	6/17/2010	2042	13,100,000	12,663,333
Public Utility Revenue Bonds	0.00	6/15/2011	2033	9,350,928	9,350,928
Public Utility Revenue Bonds	0.00	6/15/2011	2045	10,100,000	10,100,000
Public Utility Revenue Bonds	0.00	06/6/2012	2044	7,000,000	7,000,000
					$ 122,875,994

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund Revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer Fund equal to at least 1.15 of all debt service payments which exclude any refunded principal payments. As shown in the Supplementary Statistical Table 22, the debt coverage ratio for the year ended June 30 was 1.34.

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Governmental Activities					
General obligation bonds	$ 120,077,619	$ 4,129,625	$ 9,998,504	$ 114,208,740	$ 9,689,389
Notes payable*	2,120,000	-	180,000	1,940,000	180,000
Adjust for deferred amounts:					
Issuance discounts	(799,633)	-	(53,309)	(746,324)	-
Issuance premiums	3,806,242	-	297,212	3,509,030	-
Deferred Outflow-Refunding	(3,014,079)	-	(250,773)	(2,763,306)	-
Total bonds and notes	122,190,149	4,129,625	10,171,634	116,148,140	9,869,389
Workers' compensation**	2,131,759	583,044	687,022	2,027,781	243,334
Compensated absences**	4,213,955	2,964,387	3,187,497	3,990,845	478,900
Other post-employment benefits**	4,073,434	3,120,731	3,408,275	3,785,890	-
Capital lease obligations**	4,285,278	-	4,285,278	-	-
	$ 136,894,575	$ 10,797,787	$ 21,739,706	$ 125,952,656	$ 10,591,623

(Continued)

Note 9. Long-Term Liabilities (Continued)

Primary Government:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Business-Type Activities					
Bond anticipation notes	$ 79,705	$ 5,114,160	$ -	$ 5,193,865	$ -
General obligation bonds	63,936,183	-	4,072,581	59,863,602	3,780,511
Public utility revenue bonds	127,972,943	-	5,096,949	122,875,994	5,597,966
Adjust for deferred amounts:					
Issuance premiums	1,999,781	-	150,627	1,849,154	-
Deferred Outflow-Refunding	(2,061,819)	-	(143,538)	(1,918,281)	-
Total bonds and notes	191,926,793	5,114,160	9,176,619	187,864,334	9,378,477
Workers' compensation	100,400	143,561	79,414	164,547	19,745
Compensated absences	462,548	394,368	364,325	492,591	59,110
Other post-employment benefits	394,004	358,345	391,362	360,987	-
	$ 192,883,745	$ 6,010,434	$ 10,011,720	$ 188,882,459	$ 9,457,332

*A note receivable was obtained concurrent with the issuance of this note payable. Neither instrument constituted a source or a use of current financial resources; therefore, they are not reflected in the fund statements. The note receivable is included in prepaids and other assets on Exhibit 1.

**For governmental activities, a portion of the workers' compensation, compensated absences, and other postemployment benefits are liquidated by the Internal Service Fund. The remaining portion of the workers' compensation, compensated absences, and other postemployment benefits are liquidated by the General Fund. Capital leases are liquidated by the General Fund.

Debt Service to Maturity:

	Governmental Activities			
Year Ending	General Obligation		Note Payable	
June 30	Principal	Interest	Principal	Interest
2014	$ 9,689,389	$ 4,565,329	$ 180,000	$ 104,048
2015	8,936,843	4,176,636	180,000	94,805
2016	9,009,843	3,813,349	180,000	85,310
2017	8,892,151	3,469,591	180,000	75,554
2018	8,478,134	3,129,967	180,000	65,591
2019-2023	35,198,989	11,463,122	1,040,000	169,038
2024-2028	22,973,562	5,275,109	-	-
2029-2033	6,790,878	2,123,295	-	-
2034-2038	3,068,951	872,650	-	-
2039-2040	1,170,000	77,337	-	-
	$ 114,208,740	$ 38,966,385	$ 1,940,000	$ 594,346

(Continued)

Note 9. Long-Term Liabilities (Continued)

Debt Service to Maturity: (Continued)

	Business-Type Activities							
	General Obligation						Revenue Bonds	
Year Ending	Water Fund		Airport Fund		Sewer Fund		Sewer Fund	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 1,755,694	$ 1,703,297	$ 164,651	$ 41,214	$ 1,860,166	$ 908,430	$ 5,597,966	$ 244,593
2015	1,693,803	1,635,944	145,320	34,108	1,757,561	843,916	6,034,143	210,083
2016	1,741,654	1,566,362	112,479	27,675	1,772,254	777,282	6,238,058	174,501
2017	1,694,463	1,499,970	107,492	23,330	1,688,542	714,933	6,274,744	137,815
2018	1,610,944	1,431,819	100,078	21,336	1,570,788	653,562	6,312,571	99,989
2019-2023	6,358,109	6,315,206	223,606	61,465	5,340,298	2,632,954	26,971,785	87,108
2024-2028	6,001,886	4,891,686	136,115	13,129	3,846,119	1,758,673	23,243,647	-
2029-2033	6,243,518	3,317,960	-	-	2,967,014	1,005,029	18,770,738	-
2034-2038	6,637,019	1,547,317	-	-	2,364,029	374,684	14,774,841	-
2039-2043	1,740,000	116,336	-	-	230,000	15,203	7,919,167	-
2044-2045	-	-	-	-	-	-	738,334	-
	$ 35,477,090	$ 24,025,897	$ 989,741	$ 222,257	$ 23,396,771	$ 9,684,666	$ 122,875,994	$ 954,089

October 20, 2010 General Obligation Refunding Bond Issue - Advance Refunding of General Obligation Bond Issues, Series 2001, 2003A, and 2004:

On October 20, 2010, the City issued $29,655,000 of General Obligation Public Improvement Refunding Bonds, Series 2010 to advance refund the following general obligation public improvement bonds: $3,375,000 of Series 2001 (August 1, 2001); $9,415,000 of Series 2003A (February 1, 2003); and, $15,370,000 of Series 2004 (June 1, 2004). The refunding bond proceeds are in an irrevocable trust with an escrow agent and invested in U.S. Government securities maturing to fund the refunded bonds future debt service. As of June 30, 2013, the total outstanding principal of the in-substance defeased bonds was $15,370,000 (Series 2004).

November 8, 2011 General Obligation Public Improvement Bond Anticipation Note, Series 2011, Bank Qualified Line of Credit:

On November 8, 2011, the City issued a five-year General Obligation Bond Anticipation Note and concurrently entered into a bank qualified line of credit Financing Agreement with Carter Bank & Trust. The Agreement provided for borrowings of up to $10,000,000 to provide interim financing for qualifying capital improvements. Interest on the unpaid principal is two percent (2%) per annum and payable on May 1 and November 1 each year. Final maturity of the Note is November 1, 2016. As of June 30, 2013, $5,193,865 was outstanding for water capital projects only.

December 19, 2012 General Obligation Public Improvement Refunding Bond, Series 2012:

On December 19, 2012, the City issued a $4,129,625.08 General Obligation Public Improvement Refunding Bond, Series 2012 to current refund the Lynchburg Redevelopment and Housing Authority Lease Revenue Bond, Series 2003, dated August 29, 2003 for the J. W. Ould Building renovation project. The City of Lynchburg and the Lynchburg Redevelopment and Housing Authority had entered into a capital lease arrangement for the use of the J. W. Ould Building for the City's Social Services office. The refunding bond proceeds were utilized to pay off the lease revenue bond with SunTrust Bank in the amount of $4,129,625.08; and, the capital lease was terminated as the deed to the property was transferred to the City.

Note 9. Long-Term Liabilities (Continued)

October 23, 2013 General Obligation Public Improvement Bond, Series 2013

On October 23, 2013, the City issued a $10,000,000 General Obligation Public Improvement Bond, Series 2013 dated October 23, 2013 through a proposal process resulting in a private placement of these bonds with Banc of America Preferred Funding Corporation. The proceeds will be used to fund governmental activities as follows: $7 million of transportation capital projects, $1 million of school capital projects, and $2 million for fire public safety capital equipment, which included two pumper engines and a ladder truck. The final maturity date is December 1, 2028 with a 2.75% fixed interest rate and ten year call option.

Component Unit – Lynchburg City Schools:

The following is a summary of changes in other long-term liabilities:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences	$ 651,704	$ 734,466	$ 612,521	$ 773,649	$ 569,277
Capital lease obligations	374,284	-	264,931	109,353	109,353
Other postemployment benefits	2,146,476	1,005,860	338,048	2,814,288	-
	$ 3,172,464	$ 1,740,326	$ 1,215,500	$ 3,697,290	$ 678,630

School Capital Leases:

Interest Rates	Date Issued	Final Maturity	Original Issue	Balance
3.55%	12/2008	12/2013	$ 1,000,000	$ 109,353

Following is a summary of debt service to maturity:

	Capital Lease Obligations	
June 30	Principal	Interest
2014	$ 109,353	$ 1,122

Note 10. Fund Equity Balances

Fund Balance Policy:

- The City of Lynchburg's Unassigned General Fund Balance (UGFB) 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 UGFB to finance recurring operating expenditures.
- The City will maintain an 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 UGFB 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.

For FY2013, the City was in compliance with the Fund Balance Policy.

A schedule of City fund balances is on the following pages.

(Continued)

	MAJOR FUNDS		NON MAJOR SPECIAL REVENUE FUNDS				
	GENERAL FUND	CITY CAPITAL PROJECTS	CITY FEDERAL STATE AID	COMMUNITY DEVELOPMENT BLOCK GRANT	LYNCHBURG BUSINESS DEVELOPMENT CENTRE	FORFEITED ASSETS	COMPREHENSIVE SERVICES ACT
FUND BALANCES							
Nonspendable							
Advance to Lynchburg United Soccer	$ -	$ 450,000	$ -	$ -	$ -	$ -	$ -
Restricted for:							
Transportation projects	-	15,413,688	-	-	-	-	-
Building projects	-	55,885	-	-	-	-	-
Criminal Justice Academy	-	-	23,297	-	-	-	-
Litter Grant	-	-	11,383	-	-	-	-
Community Corrections	-	-	5,500	-	-	-	-
Fire Department	-	-	189,950	-	-	-	-
Police Department	-	-	360	-	-	-	-
Economic Development	-	-	5,016	-	-	-	-
Shelter Plus Care	-	-	10,000	-	-	-	-
Emergency Services	-	-	74,350	-	-	-	-
Registrar	-	-	2,119	-	-	-	-
Circuit Court	-	-	5,631	-	-	-	-
Grants	-	-	95,265	-	-	-	-
CDBG Projects	-	-	-	200	-	-	-
State Asset Forfeiture - Commonwealth Attorney	-	-	-	-	-	53,065	-
Federal Asset Forfeiture- Police	-	-	-	-	-	72,460	-
State Asset Forfeiture - Police	-	-	-	-	-	100,872	-
Health and Human Services	-	-	-	-	-	-	466,552
Lynchburg Expressway beautification	-	-	-	-	-	-	-
HOME projects	-	-	-	-	-	-	-
Committed to:							
Technology	2,699,756	-	-	-	-	-	-
Detention Home Workers Compensation	100,000	-	-	-	-	-	-
Health Insurance Reserve	677,017	-	-	-	-	-	-
Schools for Textbooks	1,432,254	-	-	-	-	-	-
Schools for Health Insurance Reserve	1,440,608	-	-	-	-	-	-
Schools for Future Expenditure Needs	75,908	-	-	-	-	-	-
Schools for Special Education Disprop	321,000	-	-	-	-	-	-
Other Post Employment Benefits	1,364,510	-	-	-	-	-	-
Solid Waste Debt Retirement	1,186,075	-	-	-	-	-	-
Debt Service CVRRA	5,929	-	-	-	-	-	-
Future Post Closure expenses	604,284	-	-	-	-	-	-
Heritage High School Debt Service	624,297	-	-	-	-	-	-
GLTC Special Reserve	746,724	-	-	-	-	-	-
Public Safety Compensation	13,968	-	-	-	-	-	-
Self Insurance	2,425,848	-	-	-	-	-	-
Community Development	147,667	-	-	-	-	-	-
Cultural and Recreational	9,668	-	-	-	-	-	-
General Government	351,069	-	-	-	-	-	-
Health and Welfare	14,875	-	-	-	-	-	-
Judicial	6,211	-	-	-	-	-	-
Public Safety	74,899	-	-	-	-	-	-
Public Works	288,258	-	-	-	-	-	-
Sale of downtown GEFA building	-	116,388	-	-	-	-	-
Building projects	-	4,603,059	-	-	-	-	-
Transportation projects	-	7,162,977	-	-	-	-	-
Economic Development projects	-	678,445	-	-	-	-	-
Public Safety projects	-	148,616	-	-	-	-	-
Parks and Recreation projects	-	540,926	-	-	-	-	-
Waste Management projects	-	250,000	-	-	-	-	-
Provision of loan funds for small businesses	-	-	-	-	125,384	-	-
Heritage High School	-	-	-	-	-	-	-
Hutcherson E.L.C.	-	-	-	-	-	-	-
HVAC repairs and maintenance	-	-	-	-	-	-	-
Roof replacement	-	-	-	-	-	-	-
Paving	-	-	-	-	-	-	-
E.C. Glass Tennis Court	-	-	-	-	-	-	-
Painting	-	-	-	-	-	-	-
IT Infrastructure	-	-	-	-	-	-	-
Security System upgrade	-	-	-	-	-	-	-
Other projects	-	-	-	-	-	-	-
Future projects	-	-	-	-	-	-	-
Assigned to:							
Return of School Fund Balance	787,305	-	-	-	-	-	-
Law Library	79,965	-	-	-	-	-	-
Museum	50,028	-	-	-	-	-	-
Recreation Programs	184,282	-	-	-	-	-	-
Pier Program	19,658	-	-	-	-	-	-
Dental Claims Reserve	150,000	-	-	-	-	-	-
Health Insurance Reserve	364,538	-	-	-	-	-	-
Future Post Closure expenses	204,438	-	-	-	-	-	-
Fire Equipment	100,000	-	-	-	-	-	-
Line of Duty Death Benefit	211,904	-	-	-	-	-	-
Line of Duty Health Claim Reserve	145,000	-	-	-	-	-	-
Parking Operations	69,560	-	-	-	-	-	-
Point of Honor	2,653	-	-	-	-	-	-
Police Range Operations	569	-	-	-	-	-	-
Health Management Plan	500,000	-	-	-	-	-	-
Public Works - Snow	34,498	-	-	-	-	-	-
Adopt-A-Bed	3,281	-	-	-	-	-	-
Community Development	2,900	-	-	-	-	-	-
General Government	3,150	-	-	-	-	-	-
Health and Welfare	12,108	-	-	-	-	-	-
Judicial	44	-	-	-	-	-	-
Public Safety	3,807	-	-	-	-	-	-
Public Works	198,384	-	-	-	-	-	-
Major Maintenance and Equipment replacement	-	-	-	-	-	-	-
Unassigned:	31,675,248	-	(257,945)	-	-	-	-
Total Fund Balance	$ 49,414,145	$ 29,419,984	$ 164,926	$ 200	$ 125,384	$ 226,397	$ 466,552

(Continued)

	NON MAJOR SPECIAL REVENUE FUNDS			NON MAJOR CAPITAL PROJECT FUNDS	
	LYNCHBURG EXPRESSWAY APPEARANCE	HOME INVESTMENT TRUST	LYNCHBURG REGIONAL JUVENILE DETENTION CENTER	SCHOOL CAPITAL PROJECTS	ALL FUNDS
FUND BALANCES					
Nonspendable					
Advance to Lynchburg United Soccer	$ -	$ -	$ -	$ -	$ 450,000
Restricted for:					
Transportation projects	-	-	-	-	15,413,688
Building projects	-	-	-	-	55,885
Criminal Justice Academy	-	-	-	-	23,297
Litter Grant	-	-	-	-	11,383
Community Corrections	-	-	-	-	5,500
Fire Department	-	-	-	-	189,950
Police Department	-	-	-	-	360
Economic Development	-	-	-	-	5,016
Shelter Plus Care	-	-	-	-	10,000
Emergency Services	-	-	-	-	74,350
Registrar	-	-	-	-	2,119
Circuit Court	-	-	-	-	5,631
Grants	-	-	-	-	95,265
CDBG Projects	-	-	-	-	200
State Asset Forfeiture - Commonwealth Attorney	-	-	-	-	53,065
Federal Asset Forfeiture- Police	-	-	-	-	72,460
State Asset Forfeiture - Police	-	-	-	-	100,872
Health and Human Services	-	-	-	-	466,552
Lynchburg Expressway beautification	193,485	-	-	-	193,485
HOME projects	-	26,247	-	-	26,247
Committed to:					
Technology	-	-	-	-	2,699,756
Detention Home Workers Compensation	-	-	-	-	100,000
Health Insurance Reserve	-	-	-	-	677,017
Schools for Textbooks	-	-	-	-	1,432,254
Schools for Health Insurance Reserve	-	-	-	-	1,440,608
Schools for Future Expenditure Needs	-	-	-	-	75,908
Schools for Special Education Disprop	-	-	-	-	321,000
Other Post Employment Benefits	-	-	-	-	1,364,510
Solid Waste Debt Retirement	-	-	-	-	1,186,075
Debt Service CVRRA	-	-	-	-	5,929
Future Post Closure expenses	-	-	-	-	604,284
Heritage High School Debt Service	-	-	-	-	624,297
GLTC Special Reserve	-	-	-	-	746,724
Public Safety Compensation	-	-	-	-	13,968
Self Insurance	-	-	-	-	2,425,848
Community Development	-	-	-	-	147,667
Cultural and Recreational	-	-	-	-	9,668
General Government	-	-	-	-	351,069
Health and Welfare	-	-	-	-	14,875
Judicial	-	-	-	-	6,211
Public Safety	-	-	-	-	74,899
Public Works	-	-	-	-	288,258
Sale of downtown GEFA building	-	-	-	-	116,388
Building projects	-	-	-	-	4,603,059
Transportation projects	-	-	-	-	7,162,977
Economic Development projects	-	-	-	-	678,445
Public Safety projects	-	-	-	-	148,616
Parks and Recreation projects	-	-	-	-	540,926
Waste Management projects	-	-	-	-	250,000
Provision of loan funds for small businesses	-	-	-	-	125,384
Heritage High School	-	-	-	2,332,473	2,332,473
Hutcherson E.L.C.	-	-	-	119,614	119,614
HVAC repairs and maintenance	-	-	-	109,976	109,976
Roof replacement	-	-	-	636,408	636,408
Paving	-	-	-	111,359	111,359
E.C. Glass Tennis Court	-	-	-	200,000	200,000
Painting	-	-	-	72,558	72,558
IT Infrastructure	-	-	-	75,000	75,000
Security System upgrade	-	-	-	28,169	28,169
Other projects	-	-	-	12,390	12,390
Future projects	-	-	-	437,828	437,828
Assigned to:					
Return of School Fund Balance	-	-	-	-	787,305
Law Library	-	-	-	-	79,965
Museum	-	-	-	-	50,028
Recreation Programs	-	-	-	-	184,282
Pier Program	-	-	-	-	19,658
Dental Claims Reserve	-	-	-	-	150,000
Health Insurance Reserve	-	-	-	-	364,538
Future Post Closure expenses	-	-	-	-	204,438
Fire Equipment	-	-	-	-	100,000
Line of Duty Death Benefit	-	-	-	-	211,904
Line of Duty Health Claim Reserve	-	-	-	-	145,000
Parking Operations	-	-	-	-	69,560
Point of Honor	-	-	-	-	2,653
Police Range Operations	-	-	-	-	569
Health Management Plan	-	-	-	-	500,000
Public Works - Snow	-	-	-	-	34,498
Adopt-A-Bed	-	-	-	-	3,281
Community Development	-	-	-	-	2,900
General Government	-	-	-	-	3,150
Health and Welfare	-	-	-	-	12,108
Judicial	-	-	-	-	44
Public Safety	-	-	-	-	3,807
Public Works	-	-	-	-	198,384
Major Maintenance and Equipment replacement	-	-	100,000	-	100,000
Unassigned:	-	-	-	-	31,417,303
Total Fund Balance	$ 193,485	$ 26,247	$ 100,000	$ 4,135,775	$ 84,273,095

(Continued)

Note 11. Employee Benefit Plans

Defined Benefit Pension Plan:

Plan Description: The City contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System ("the System"). In addition, professional and non-professional employees of the Schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least thirty years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least twenty five years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

For both Plan 1 and Plan 2, all full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. Participating local law enforcement officers, firefighters, and sheriffs may be eligible to receive a monthly benefit supplement if they retire prior to their unreduced Social Security eligibility age. The VRS also provides death and disability benefits.

Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded at their website, www.varetire.org/publications, or obtained by writing the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

(Continued)

***Note 11. Employee Benefit Plans* (Continued)**

Defined Benefit Pension Plan: (Continued)

Funding Policy: Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2013 was 25.89% of annual covered payroll. The Schools' contribution rates for the fiscal year ended 2013 were 16.66% for professional employees and 15.03% for non-professional employees. Both the City's and the School's contribution rates include the employee's share of 5.00%.

Annual Pension Cost: For 2013, the City's and Schools' annual pension costs of $10,380,289 and $5,871,687, respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.00% investment rate of return; (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a per year cost-of-living adjustment of 2.50% for Plan 1 employees and 2.25% for Plan 2 employees. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Trend Information for the City of Lynchburg			
June 30, 2013	$ 10,380,289	100%	None
June 30, 2012	$ 10,084,711	100%	None
June 30, 2011	$ 11,032,304	100%	None
Trend Information for the Lynchburg City Schools			
June 30, 2013	$ 5,871,687	100%	None
June 30, 2012	$ 5,676,277	100%	None
June 30, 2011	$ 4,769,117	100%	None

(Continued)

Note 11. Employee Benefit Plans (Continued)

Defined Benefit Pension Plan: (Continued)

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date for the City, the plan was 60.33% funded. The actuarial accrued liability for benefits was $326,424,240 and the actuarial value of assets was $196,945,220, resulting in an unfunded actuarial accrued liability (UAAL) of $129,479,020. The covered payroll (annual payroll of active employees covered by the plan) was $46,957,864, and the ratio of the UAAL to the covered payroll was 275.73%.

As of June 30, 2012, the most recent actuarial valuation date for the Schools, the plan was 78.37% funded. The actuarial accrued liability for benefits was $13,854,004 and the actuarial value of assets was $10,857,437 resulting in an unfunded actuarial accrued liability (UAAL) of $2,996,567. The covered payroll (annual payroll of active employees covered by the plan) was $3,493,026, and the ratio of the UAAL to the covered payroll was 85.79%.

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

Note 12. Other Postemployment Benefits

City of Lynchburg

Plan Description

The City provides certain benefits for retired employees through a single-employer defined benefit plan. The City may change, add or delete benefits with City Council approval. The plan does not grant retirees vested health or dental coverage benefits.

Benefits Provided

The City provides postemployment health and dental benefits to its retirees, through its self-insured health plan. Retirees may continue to participate in the group health and dental plans based upon the date of full-time hire in accordance with the provisions outlined below.

(1) Full-time Classified employees hired on or after July 1, 1996 are currently eligible to participate in the City's health and dental plans at the retiree's expense when they retire directly from the City with at least fifteen (15) years of full-time service with the City. The retiree must pay the current premium value of the medical coverage.

(2) Full-time Classified employees hired on or after July 1, 1990, but before July 1, 1996 are currently eligible to participate in the City's health and dental plans and receive City contributions for the coverage when they retire directly from the City with at least fifteen (15) years of full-time service with the City and the retiree worked for the City five (5) of the fifteen (15) years immediately preceding retirement.

(3) Full-time Classified employees hired prior to July 1, 1990 are currently eligible for health and dental plan participation and receive City contributions for their coverage when they retire directly from the City.

The City does not provide prescription coverage for Medicare eligible retirees.

Membership

The number of participants as of the most recent valuation, July 1, 2012, was as follows:

Actives	1,176
Retirees	376
Spouses	89
Total Participants	1,641

(Continued)

Note 12. Other Postemployment Benefits (Continued)

City of Lynchburg (Continued)

Funding Policy

The City currently funds postemployment health care benefits on a pay-as-you-go basis. During FY2013, the City added $33,279 interest earnings to the funds committed for the OPEB liability. Total funds committed for OPEB at June 30, 2013 including interest are $1,364,510. The City is exploring the possibility of developing a trust to accumulate and invest assets necessary to pay for the accumulated liability.

Annual Other Postemployment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2013, the City's Annual OPEB Cost (expense) was $3,479,076. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $2,968,466 for retirees, along with an Implicit Rate Subsidy of $831,171 resulted in a Net OPEB obligation of $4,146,877 for the year ended June 30, 2013.

Annual required contribution	$	3,521,173
Interest on net OPEB obligation		301,552
Adjustment to annual required contribution		(343,649)
Annual OPEB cost		3,479,076
Contributions made		(3,799,637)
Decrease in net OPEB obligation		(320,561)
Net OPEB obligation-beginning of year		4,467,438
Net OPEB obligation-end of year	$	4,146,877

The Implicit Rate Subsidy is the *de facto* subsidy of retirees by permitting them to pay lower than age-adjusted premiums through the use of a single common or blended premium for both retirees and active employees. Prior to FY2012, the Implicit Rate Subsidy was not included in the contribution total for the fiscal year; therefore the expense recorded each year was higher than necessary. Since the GASB allows employers to take this credit, the City has begun including Implicit Rate Subsidy amounts in the total contribution for the fiscal year.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY2011, FY2012 and FY2013 are as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2011	$4,084,022	72.0%	$3,823,689
06/30/2012	$4,025,764	84.0%	$4,467,438
06/30/2013	$3,479,076	109.0%	$4,146,877

Note 12. Other Post Employment Benefits (Continued)

City of Lynchburg (Continued)

Funded Status and Funding Progress

The funded status of the plan as of the most recent valuation, June 30, 2012, was as follows:

Actuarial Accrued Liability (AAL)	$ 60,963,806
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 60,963,806
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$ 48,564,229
UAAL as a Percentage of Covered Payroll	125.53%

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

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used to develop the AAL and the Normal Cost. Under this method, the postretirement health costs are assumed to be earned ratably from date of hire to the participant's full eligibility age (age 50 or older with 15 or more years of service). The actuarial assumptions used a 6.75% discount rate, a 2.5% inflation rate, and an initial annual healthcare cost trend of 10% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5.5%. The unfunded actuarial accrued liability is being amortized over 30 years using the Level Percentage of Pay method. The remaining closed amortization period at June 30, 2013 is 24 years.

Lynchburg City Schools

Plan Description

The Schools provide certain benefits for retired employees through a single-employer defined benefit plan. The Schools may change, add or delete benefits (including contributions required of retired employees) with School Board approval.

Benefits Provided

The Schools provide postemployment medical, dental, and vision benefits to its retirees and their eligible dependents that elect to stay in the plans. At retirement, retirees may stay in one of two PPO plans with an additional choice of prescription drug benefits and can continue coverage under all the benefits until age 65. The retiree pays the premium for these benefits.

Participants are eligible for the plan when they are eligible to retire under the provisions of the VRS and they have worked for Lynchburg City Schools for ten continuous years. The earliest retirement age is at age 50 with ten years of service, except for those eligible to elect the Early Retirement Incentive Plan as described below.

(Continued)

Note 12. Other Post Employment Benefits (Continued)

Lynchburg City Schools (Continued)

Early Retirement Incentive Plan

Under an early retirement incentive plan adopted by the School Board in April 2009, the Schools will pay the employer-only low option medical plan for an eligible retiree. Employees are eligible for this early retirement incentive plan upon reaching twenty-five (25) years of VRS service and ten (10) continuous years of employment with Lynchburg City Schools immediately preceding retirement. The benefit is payable for five (5) years or until age 65, whichever occurs first. This plan was offered only in FY2009, and is no longer available to new participants.

Membership

The number of participants at June 30, 2013 was as follows:

Active participants	1,141
Inactive participants	96
Total	1,237

Funding Policy

The Schools currently fund postemployment health care benefits on a pay-as-you-go basis. The Schools do not intend to establish a trust to pre-fund this liability.

Annual Other Postemployment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2013, the School's annual OPEB cost (expense) was $1,005,860. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $338,048 for retirees, resulted in a Net OPEB obligation of $2,814,288 for the year ended June 30, 2013.

Annual required contribution	$	1,039,356
Interest on net OPEB obligation		85,859
Adjustment to annual required contribution		(119,355)
Annual OPEB cost		1,005,860
Contributions made		(338,048)
Increase in net OPEB obligation		667,812
Net OPEB obligation-beginning of year		2,146,476
Net OPEB obligation-end of year	$	2,814,288

The School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY2011, FY2012 and FY2013 are as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2011	$721,777	32.9%	$1,653,147
06/30/2012	$979,200	49.6%	$2,146,476
06/30/2013	$1,005,860	33.6%	$2,814,288

(Continued)

Note 12. Other Post Employment Benefits (Continued)

Lynchburg City Schools (Continued)

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013 was as follows:

Actuarial Accrued Liability (AAL)	$	7,666,529
Actuarial Value of Plan Assets		-
Unfunded Actuarial Accrued Liability (UAAL)	$	7,666,529
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0%
Covered Payroll (Active Plan Members)	$	54,033,601
UAAL as a Percentage of Covered Payroll		14.19%

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

Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, future benefits are projected and their present value is determined. The present value is then allocated over the period from date of hire to the full eligibility date. The actuarial assumptions used a 4% discount rate, and an initial annual healthcare cost trend of 9% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5.0%. The unfunded actuarial accrued liability is being amortized over 30 years and is based on a closed group. The fresh start method of amortization for the unfunded actuarial accrued liability was used for each year.

(Continued)

Note 13. Leases

Lessee:

Operating leases have original terms from one month to 60 months and in certain instances allow cancellations if funds are not appropriated for each year's payments. At June 30, future minimum lease payments are as follows:

	Operating Leases	
Year Ending June 30	Primary Government	Component Unit – Schools
2014	$ 404,640	$ 407,242
2015	302,268	384,061
2016	75,180	354,429
2017	57,996	286,105
2018	57,996	232,241
2019-2023	130,491	-
	$ 1,028,571	$ 1,664,078

For 2013, the City incurred rental expenditures of $256,748 in the General Fund, $24,464 in the Special Revenue Funds, and $75,000 in the City Capital Project Funds. For 2013, the Schools incurred rental expenditures of $647,660.

Note 14. Risk Management

The Risk Management Programs of the City are as follows:

Workers' Compensation: The City is self-insured for workers' compensation claims. All settled claims are paid through the General Fund. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net position. Total claims paid for the year ended June 30 amounted to $766,436.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of approximately $438 million per occurrence. Other liability policies provide up to $60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a $500,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30 were $556,268. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30 would be insignificant.

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of $250,000 (after $50,000 aggregate claims cost) per covered individual per contract year. For the year ended June 30, total claims expense of $8,298,716 was incurred. Administrative fees and stop loss premiums for the year ended June 30 totaled $1,138,625. Estimated incurred, but not reported, claims at June 30 based on invoices received totaled approximately $400,000 and have been funded by the City.

(Continued)

Note 14. Risk Management (Continued)

Changes in aggregate liabilities were as follows:

		Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Workers' Compensation	2013	$ 2,232,159	$ 726,605	$ 766,436	$ 2,192,328
	2012	$ 2,336,944	$ 598,817	$ 703,602	$ 2,232,159
General/Automotive Liability	2013	$ -	$ 295,803	$ 295,803	$ -
	2012	$ -	$ 160,873	$ 160,873	$ -
Healthcare	2013	$ 710,271	$ 7,988,445	$ 8,298,716	$ 400,000
	2012	$ 900,000	$ 7,087,702	$ 7,277,431	$ 710,271

General/Automobile Liability and Healthcare are considered current liabilities and are included in accounts payable and accrued liabilities in the Statement of Net Assets. Workers' Compensation breakdown between current and noncurrent is shown in Note 9.

The Risk Management Programs of the Schools are as follows:

Workers' Compensation: The Schools is a member of the School System of Virginia for its workers' compensation claims. The membership is funded through the school operating budget.

General Liability and Other: The Schools carry commercial insurance for all risk of loss. Settled claims have not exceeded commercial insurance coverage and there have not been any significant reductions in insurance coverage over the previous year.

Healthcare: The Schools' professionally administered self-insurance program provides healthcare coverage for employees and retirees of the Schools on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the Schools. Under the program, the Schools are obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of $300,000 per covered individual per contract year. Total claims expense of $8,175,497 was incurred in the current year, and there were no claims above the per individual limit that would have been covered by the stop loss policy. Administrative fees and stop loss premiums for the current year totaled $612,781. Estimated incurred, but not reported, claims at June 30 based on prior experience totaled $679,143 and have been recorded as a liability by the Schools.

Changes in aggregate liabilities were as follows:

		Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Healthcare	2103	$ 1,557,448	$ 7,297,192	$ 8,175,497	$ 679,143
	2012	$ 588,573	$ 9,645,834	$ 8,676,959	$ 1,557,448

(Continued)

Note 15. Significant Transactions of the City and Discretely Presented Component Unit – Schools

Certain transactions between the City and Schools are explained here to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The Schools can neither levy taxes nor incur debt under Virginia law. Therefore, the City issues debt "on behalf" of the Schools. The debt obligation is recorded as a liability of the City's governmental activities. The proceeds from such debt are recorded in the City's General Fund. Funding in an amount equal to the proceeds is then provided to the Schools to pay for capital expenditures. Unspent funds at year-end are reported as deposits and investments of the City in the School Capital Projects Fund.
2. The City's budgeting process provides funding in the General Fund for Schools debt service payments. GAAP requires that debt issued "on behalf" of the Schools and related debt service payments be reported by the City for financial reporting purposes. Therefore, debt service payments for Schools' bonded debt is reported as part of the City for financial reporting purposes in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. Debt and related debt service for other than bonded debt is reported by the Schools.
3. If all economic resources associated with school activities were reported with the Schools, its total expenses/expenditures would be as follows:

Expenses of Schools – Component Unit (Exhibit 2)	$ 95,302,076
Principal and other debt service expenses included in City	6,897,714
Total expenses/expenditures for School activities	$ 102,199,790

Note 16. Commitments and Contingencies

Combined Sewer Overflow:

In 2000, the City completed an update of the Combined Sewer Overflow ("CSO") program developed in 1989. The purpose was to reevaluate the conclusions and recommendations of the original program, prioritize remaining work, and provide a current cost estimate for this work. After detailed evaluation of a wide variety of control alternatives, the update concluded that sewer separation remained the most cost-effective CSO control option. Total cost to complete the program was estimated to be $276,000,000 in 1999 dollars. Updated estimates, as of June 30, 2013-indicate that the total remaining cost of CSO control work, including related work such as sewer replacement/rehabilitation, waterline replacement and street paving will total approximately $273,600,000 in 2013 dollars. A proposal was submitted to Virginia Department of Environmental Quality ("VDEQ") in May, 2013 that would make significant modifications to the CSO Program Long-Term Control Plan that includes significant savings in costs and time to complete. The City and VDEQ are anticipated to have an agreement on the modified CSO long-term control plan in 2014.

In 1994, and with subsequent permit renewals, the VDEQ issued a sewage discharge permit and Special Order of Consent containing the terms and conditions that will govern implementation of the City's CSO program. The permit requires the City to implement the CSO long-term control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order established a project priority listing for implementation of the CSO control plan.

The Special Order does not contain a strict compliance schedule for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City's financial capability. The Special Order requires the City to meet several specific criteria such as: maintaining a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5; ensure sewer fund reserves equal no more than 25 percent of the subsequent years' budgeted operating expenditures; and to maintain an average residential, yearly sewer bill equal to 1.25% of the median household income based on 7 hcf (hundred cubic feet) of use per month. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the Special Order to submit an annual report by December 1 of each year, including independent rate consultant reports to VDEQ on its compliance with the order and its progress with CSO control plan implementation. The current CSO Annual Report can be found at www.Lynchburgva.gov/cso under the "status" link.

(Continued)

Note 16. Commitments and Contingencies (Continued)

Contribution Agreement:

During 2013, the City entered into agreements with the Lynchburg Economic Development Authority (EDA) and various limited liability companies (the "LLCs"). These agreements benefit the City through the use of historic tax credits for the rehabilitation of a structure. When sold, the credits will reduce the City's cost of rehabilitation.

In conjunction therewith, the City contributed $4,725,916 to the EDA, which the EDA will loan to the LLCs for the rehabilitation. The City may, from time to time, demand any loan repayments received by the EDA be contributed back to the City. The contribution of these funds to the EDA created a long-term receivable representing the City's right to future title to the rehabilitation improvements.

The EDA will lease the rehabilitated facility from the City for a term of 40 years and sublease the facility to the LLCs under similar terms. In addition, the LLCs will lease the facility to the City. Both leases are for a term of 35 years, starting when a certificate of occupancy for the rehabilitated structure is obtained. All leases include nominal annual rent payments.

The City also entered a co-development agreement with the LLCs under which it will provide various services and personnel for the project. As part of the co-development agreement, the City will be compensated approximately $966,500 for services provided during the rehabilitation project. This amount is payable, by the LLCs, from the proceeds of the sale of historic tax credits.

Environmental Protection Agency (EPA):

The EPA inspected the Municipal Separate Storm Sewer System (MS4) Program Implementation for stormwater discharges on March 5 and 6, 2012. As a settlement of the inspection findings, the EPA issued a Consent Agreement and Final Order on August 14, 2013. The City is required to complete the following administrative actions by January 8, 2014:

1. Develop and implement a plan to inspect all active construction sites with erosion and sediment controls on an established schedule and to pursue enforcement on active construction sites.

2. Develop and implement a plan to ensure the post-construction structural stormwater management facilities are inspected by the applicable owners and that proper enforcement measures are taken when necessary.

3. Develop and implement a plan to review, modify and implement Standard Operating Procedures (SOP) as necessary and provide training regarding SOP modifications for appropriate city employees to meet the pollution prevention/good housekeeping goals for municipal operations outlined in Lynchburg's MS4 Permit.

The City anticipates to complete all required actions prior to January 8, 2014.

Grant Programs:

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, related to such audits would not be material to the financial position of the City at June 30, 2013.

Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. As of June 30, 2013, the arbitrage rebate liability estimate was zero.

(Continued)

Note 16. Commitments and Contingencies (Continued)

Encumbrance Commitments:

The City had the following outstanding encumbrances as of June 30.

MAJOR FUNDS	
General Fund	$ 1,507,486
City Capital Projects Fund	18,226,015
Total Major Funds	**19,733,501**
NONMAJOR FUNDS	
City Federal State Aid	90,544
Lynchburg Expressway Appearance	4,000
Lynchburg Regional Juvenile Detention Center	5,045
School Capital Projects	3,097,189
Total Nonmajor Funds	**3,196,778**
TOTAL ENCUMBRANCES	**$22,930,279**

Construction Commitments:

Included in the encumbrances above are construction commitments of $18,226,015 in the City Capital Projects fund and $3,097,189 in the School Capital Projects fund. The City also had construction commitments of $1,594,765 in the Water fund; $6,160,985 in the Sewer fund and $1,006,812 in the Airport fund as of June 30, 2013.

Note 17. Subsequent Events

Loan Agreement:

In 2004, the City entered into a contract with the U.S. Department of Housing and Urban Development (HUD) whereas the City is the borrower and HUD is the guarantor of a Section 108 loan (Note 9). With the funds borrowed from HUD, the City entered into a loan agreement with Bluffwalk Center L.P. (Bluffwalk). The City loaned Bluffwalk $3,200,000 with payments required twice a year. Subsequent to year-end Bluffwalk did not pay the required August payment of $234,310. The City fulfilled its obligation to HUD by making the required payment, obtaining the remaining funds from the Community Development Block Grant (CDBG). The City expects to recover the funds for all missed payments from Bluffwalk. During FY2010, Bluffwalk entered into a payment arrangement with the City to repay, with interest, the funds the City has advanced to cover the missed payments. Subsequent to June 30, Bluffwalk began negotiations to refinance its outstanding debt and repay the City the total amount advanced including interest.

Note 18. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,* was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The Statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with *GASB Statement No. 34*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information **Exhibit 12**
Schedule of Funding Progress for Defined Benefit Pension Plan
As of June 30, 2013

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Lynchburg							
	June 30, 2012	$ 196,945,220	$ 326,424,240	$ 129,479,020	60.33%	$ 46,957,864	275.73%
	June 30, 2011	$ 200,045,493	$ 318,926,726	$ 118,881,233	62.72%	$ 47,222,852	251.75%
	June 30, 2010	$ 198,428,147	$ 311,470,329	$ 113,042,182	63.71%	$ 47,220,511	239.39%
	June 30, 2009	$ 202,019,421	$ 287,328,940	$ 85,309,519	70.31%	$ 50,210,090	169.91%
	June 30, 2008	$ 201,552,096	$ 270,546,947	$ 68,994,850	74.50%	$ 49,236,962	140.13%
	June 30, 2007	$ 184,515,996	$ 243,719,371	$ 59,203,375	75.71%	$ 43,077,273	137.44%
Lynchburg City Schools Non-professional Employees							
	June 30, 2012	$ 10,857,437	$ 13,854,004	$ 2,996,567	78.37%	$ 3,493,026	85.79%
	June 30, 2011	$ 10,964,882	$ 13,656,067	$ 2,691,185	80.29%	$ 3,449,053	78.03%
	June 30, 2010	$ 10,987,262	$ 13,462,847	$ 2,475,585	81.61%	$ 3,590,809	68.94%
	June 30, 2009	$ 11,098,240	$ 12,575,079	$ 1,476,839	88.26%	$ 4,117,768	35.87%
	June 30, 2008	$ 10,950,127	$ 11,705,572	$ 755,445	93.55%	$ 3,907,886	19.33%
	June 30, 2007	$ 9,948,359	$ 11,082,613	$ 1,134,254	89.77%	$ 3,668,492	30.92%

Required Supplemental Information **Exhibit 13**
Schedule of Funding Progress for Other Post Employment Benefits
As of June 30, 2013

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Lynchburg							
	June 30, 2012	$ -	$ 60,963,806	$ 60,963,806	0.00%	$ 48,564,229	125.53%
	June 30, 2010	$ -	$ 58,445,937	$ 58,445,937	0.00%	$ 47,102,629	124.08%
	June 30, 2008	$ -	$ 50,541,000	$ 50,541,000	0.00%	$ 50,839,048	99.41%
Lynchburg City Schools							
	June 30, 2013	$ -	$ 7,666,529	$ 7,666,529	0.00%	$ 54,033,601	14.19%
	June 30, 2012	$ -	$ 8,780,625	$ 8,780,625	0.00%	$ 58,331,131	15.05%
	June 30, 2011	$ -	$ 8,540,002	$ 8,540,002	0.00%	$ 52,698,154	16.21%

THIS PAGE INTENTIONALLY BLANK

APPENDIX D

CITY OF LYNCHBURG
FINANCIAL MANAGEMENT POLICIES

[This Page Intentionally Left Blank]

APPENDIX D

CITY OF LYNCHBURG
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** **Reaffirmed December 9, 2008** **Reaffirmed November 23, 2010** **Revised May 10, 2011** **Revised February 26, 2013**
Policy II	*Debt Management*	**Adopted August 10, 1999** **Reaffirmed November 14, 2000** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Revised December 12, 2006** **Revised December 9, 2008** **Revised November 23, 2010** **Revised February 26, 2013**
Policy III	*Budget*	**Adopted November 14, 2000** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Revised December 12, 2006** **Revised December 9, 2008** **Reaffirmed November 23, 2010** **Revised February 26, 2013**
Policy IV	*Investment*	**Adopted September 25, 2001** **Revised October 29, 2002** **Reaffirmed September 28, 2004** **Revised December 12, 2006** **Revised December 9, 2008** **Reaffirmed November 23, 2010** **Revised February 26, 2013**

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

Unassigned Fund Balance

- The City of Lynchburg's Unassigned 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 Unassigned General Fund Balance to finance recurring operating expenditures.

- The City will maintain an Unassigned 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 Unassigned 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.

Committed Fund Balance

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision making authority - City Council. Formal Council action includes the annual adoption of the City's Budget Resolution, Council Resolutions appropriating funds and/or resources, Budget amendments appropriating funds and resources from third quarter adjustments and Budget amendments to carry forward appropriations that were unexpended at fiscal year-end.

Assigned Fund Balance

- Assigned fund balance includes amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. Fund Balance may be assigned either through the encumbrance process as a result of normal purchasing activity (which includes the issuance of a purchase order), or by the City Manager or his designee.

Restricted Fund Balance

- Restricted fund balance includes amounts that have constraints placed on their use by external sources such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Non-Spendable Fund Balance

- Non-spendable Fund Balance includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaids or they are legally or contractually required to be maintained intact.

Policy on the order of spending resources

- The City considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balance are available unless prohibited by legal documents or contracts. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the City considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned 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.

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 City will never borrow more than it has the capacity to repay.

  2. 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.

  3. Annual debt service expenditures for tax-supported debt should not exceed 10% of total General Fund Expenditures plus School Component Unit Expenditures minus the General Fund Transfer to Schools.

  4. Total tax-supported debt will not exceed 4.50% of the net assessed valuation of taxable property in the City of Lynchburg.

  5. Total tax-supported debt per capita should be maintained at a reasonable level.

  6. The 10-Year Principal Payout Ratio shall not be less than 60% at the end of each adopted five-year Capital Improvement Program 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). 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 through the Virginia Revolving Loan Fund, annual debt service payments shall not exceed thirty 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 Adopted 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

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 and priorities established by 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) 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 resolution, 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 Program.

- 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 Program* (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 notes 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 shall not be less than 10% with a goal of 15% as a percentage of the City's 5-Year CIP.

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, Stormwater, Comprehensive Services Act, and Juvenile Detention 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 exceed one percent of the total expenditures shown in the currently adopted budget.

Policy IV – Investment

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. The City shall 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 category 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 category 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.

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.

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.

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 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.

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.

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 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-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-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.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[This Page Intentionally Left Blank]

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Council of the City of Lynchburg,
Virginia
Lynchburg, Virginia

Dear Councilmembers:

CITY OF LYNCHBURG, VIRGINIA,
GENERAL OBLIGATION PUBLIC IMPROVEMENT AND REFUNDING BONDS,
SERIES 2014, $115,190,000

At your request we have examined into the validity of an issue of One Hundred Fifteen Million One Hundred Ninety Thousand Dollars ($115,190,000) principal amount of General Obligation Public Improvement and Refunding Bonds, Series 2014 (the "Bonds"), of the City of Lynchburg, Virginia (the "City"). The Bonds are dated the date of their delivery, are issued in fully registered form in the denomination of $5,000 or any whole multiple thereof and are numbered from R-2014-1 upwards in order of issuance. The Bonds mature on June 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest from their date payable on December 1, 2014 and semiannually on each June 1 and December 1 thereafter at the rate per annum set forth opposite such year, to wit:

Year (June 1)	Principal Amount	Interest Rate	Year (June 1)	Principal Amount	Interest Rate
2015	$1,295,000	2.00%	2027	$ 4,000,000	5.00%
2016	1,065,000	5.00	2028	3,995,000	4.00
2017	2,635,000	5.00	2029	3,995,000	4.00
2018	2,990,000	5.00	2030	3,995,000	4.00
2019	4,245,000	5.00	2031	3,990,000	4.00
2020	4,800,000	5.00	2032	3,990,000	4.00
2021	5,565,000	5.00	2033	3,980,000	4.00
2022	5,600,000	5.00	2034	3,980,000	4.00
2023	5,670,000	5.00	2035	3,270,000	4.00
2024	5,510,000	5.00	2036	3,270,000	4.00
2025	5,585,000	5.00	2040	13,060,000	4.00
2026	5,660,000	5.00	2044	13,045,000	4.00

The Bonds maturing on and after June 1, 2025 are subject to redemption at the option of the City prior to their stated maturities on or after June 1, 2024 upon the terms and conditions and at the prices stated therein. The Bonds maturing on June 1, 2040 are subject to mandatory sinking fund redemption on June 1, 2037 and on each June 1 thereafter and to payment at maturity on June 1, 2040 upon the terms and conditions and at the prices set forth therein. The Bonds maturing on June 1, 2044 are subject to mandatory sinking fund redemption on June 1, 2041 and on each June 1 thereafter and to payment at maturity on June 1, 2044 upon the terms and conditions and at the prices set forth therein.

The Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991), the Charter of the City and resolutions and other proceedings of the Council of the City duly adopted and taken under the Public Finance Act of 1991, for the purpose of providing funds (i) to finance the costs of the acquisition and construction of various public improvement projects of and for the City, (ii) to pay the outstanding principal amount of a general obligation public improvement bond anticipation note issued for the purpose of providing funds to finance the costs of the acquisition and construction of various public improvement projects of and for the City and (iii) to refund and defease certain outstanding general obligation bonds of the City.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) the Charter of the City, (iii) certified copies of the aforementioned resolutions and other proceedings of the Council of the City in connection with the authorization, issuance, sale and delivery of the Bonds, (iv) such other papers, instruments, documents and proceedings as we have deemed to be necessary or advisable and (v) an executed and authenticated Bond of such issue.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia and constitute valid and legally binding obligations of the City, and the City Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for proposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

It is also our opinion that under the existing statutes of the Commonwealth of Virginia, such interest is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update our opinion after the issue date of the Bonds to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Very truly yours,

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

[This Page Intentionally Left Blank]

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Certificate"), dated July 10, 2014, is executed and delivered in connection with the issuance by the City of Lynchburg, Virginia (the "City"), of $115,190,000 principal amount of City of Lynchburg, Virginia, General Obligation Public Improvement and Refunding Bonds, Series 2014, dated July 10, 2014 (the "Bonds"), and pursuant to a resolution duly adopted by the City Council of the City on May 13, 2014 (the "Resolution"). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City agrees as follows:

ARTICLE I

Definitions

SECTION 1.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the City for each fiscal year of the type contained in Appendix A to the Official Statement under the headings "Government Services and Facilities — Water, Sewer and Stormwater Systems, including the subheadings "Water and Sewer Rates" and "Stormwater Fees" thereunder, " — Solid Waste Management", including the subheadings "Regional Solid Waste Management" and "Implementation of a Pay by the Bag Program" thereunder, "— Greater Lynchburg Transit Company", "— Lynchburg Regional Airport", " — Risk Management", " — Demographic and Economic Information — Taxable Retail Sales and Taxable Retail Sales Per Capita", " — Financial Information — General Fund Budgets For Fiscal Years 2014 and 2015", including the tables "Budgeted General Fund Revenues by Source", "Budgeted General Fund Expenditures by Function" and "Budgeted Comparison of Selected Major Funds" thereunder, " — Capital Improvements Program", including the tables "Adopted Capital Improvement Program FY 2015-2019 Proposed Expenditures" and "Adopted Capital Improvement Program FY 2015-2019 Sources of Funding Appropriations" thereunder, " — Pension Plan", " — Commitments and Contingent Liabilities", " — Other Post Employment Benefits (OPEB)", " — Debt Management", including the tables "Statement of General Obligation Long-Term Debt as of June 30, 2013", "Legal Debt Margin", "Ratio of Net Bonded Debt to Assessed Valuation and Net Bonded Debt Per Capita", "Ratio of Annual Debt Service Expenditures for General Fund Bonded Debt to Total General Fund Expenditures and Transfers Including Reserve Allocations or Schools Expenditures", "Debt Service Requirements on General Obligation Outstanding Debt as of June 30, 2013", "Tax Base Data Assessed Value of All Taxable Property", "Percentage of Total Locally Assessed Real Estate in Business and Industrial Use", "Certain Other Local Taxes", "Tax Rates", "Ten Largest Taxpayers — June 30, 2013" and "Tax Levies and Tax Collections" thereunder and " —Selected Financial Information", including the tables "Comparative Statement of Revenues, Expenditures and Changes in Net Assets General Fund — Last Ten Fiscal Years", "Fund Balances, Governmental Funds, Last Ten Fiscal Years", "Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets Water Fund — Last Ten Fiscal Years", "Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets Sewer Fund — Last Ten Fiscal Years", "Comparative Statement of Revenues, Expenditures and Changes in Fund Net Assets School Fund — Last Ten Fiscal Years", "Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets Stormwater Fund — Current Fiscal Year" and "Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets Regional Airport Fund — Last Ten Fiscal Years" thereunder, and information contained in Appendix C to the Official Statement ("Independent Auditors' Report" and "General Purpose Financial Statements of the City"); and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(d) and (e) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 1.1(1)(i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law and the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however,* that, pursuant to Sections 4.2(a) and (e) hereof, the City may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 4.2(a) hereof shall include a reference to the specific federal or State law or regulation requiring such accounting principles or other description thereof.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board or any successor to the duties and responsibilities of either of them.

(5) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934 or any successor thereto or to the functions of the MSRB contemplated by this Certificate.

(6) "Notice Event" means any of the following events with respect to the Bonds, whether relating to the City or otherwise:

(i) principal and interest payment delinquencies,

(ii) nonpayment related defaults, if material,

(iii) unscheduled draws on debt service reserves reflecting financial difficulties,

(iv) unscheduled draws on credit enhancements reflecting financial difficulties,

(v) substitution of credit or liquidity providers, or their failure to perform,

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds,

(vii) modifications to rights of Bondholders, if material,

(viii) Bond calls, if material, and tender offers,

(ix) defeasances,

(x) release, substitution or sale of property securing repayment of the Bonds, if material,

(xi) rating changes,

(xii) bankruptcy, insolvency, receivership or similar event of the City,

Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(xiii) the consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(7) "Official Statement" means the Official Statement, dated June 10, 2014, of the City relating to the Bonds.

(8) "Rule" means Rule 15c2 12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2 12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(9) "SEC" means the United States Securities and Exchange Commission.

(10) "State" means the Commonwealth of Virginia.

(11) "Unaudited Financial Statements" means the same as Audited Financial Statements, except the same shall not have been audited.

(12) "Underwriters" means the underwriters of the Bonds, for whom J.P. Morgan Securities LLC is serving as representative.

ARTICLE II

The Undertaking

SECTION 2.1. Purpose. This Certificate is being executed and delivered solely to assist the Underwriters in complying with paragraph (b)(5) of the Rule.

SECTION 2.2. Annual Financial Information. (a) The City shall provide Annual Financial Information for the City with respect to each fiscal year of the City, commencing with fiscal year beginning July 1, 2013, by no later than nine (9) months after the end of the respective fiscal year, to the MSRB.

(b) The City shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

SECTION 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to the MSRB.

SECTION 2.4. Notice Events. (a) If a Notice Event occurs, the City shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to the MSRB.

(b) Any such notice of a defeasance of the Bonds shall state whether the Bonds have been escrowed to maturity or to and earlier redemption date and the timing of such maturity or redemption.

SECTION 2.5. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City chooses to do so, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

SECTION 2.6. Additional Disclosure Obligations. The City acknowledges and understands that other federal and State laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

SECTION 2.7. No Previous Non-Compliance. The City represents that, in the past five previous years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III

Operating Rules

SECTION 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet website (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section 3.1 shall not apply to notice of Notice Events pursuant to Section 2.4 hereof.

SECTION 3.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

SECTION 3.3. Dissemination Agents. The City may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the City under this Certificate, and revoke or modify any such designation.

SECTION 3.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 3.5. Fiscal Year. (a) The City's current fiscal year is July 1 to June 30, and the City shall promptly notify the MSRB of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than twelve (12) calendar months.

ARTICLE IV

Effective Date, Termination, Amendment and Enforcement

SECTION 4.1. Effective Date; Termination. (a) This Certificate shall be effective upon the issuance of the Bonds.

(b) The City's obligations under this Certificate with respect to the Bonds shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Certificate, or any provision hereof, shall be null and void in the event that the City (i) shall have received an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require this Certificate, or such provision, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed or otherwise, as shall be specified in such opinion, and (ii) the City shall have delivered copies of such opinion to the MSRB.

SECTION 4.2. Amendment. (a) This Certificate may be amended, by written certificate of the City Manager of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby, (ii) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (iii) the City shall have received an opinion of Counsel addressed to the City, to the same effect as set forth in clause (ii) above, (iv) the City shall have received an opinion of Counsel, addressed to the City, or a determination by an entity, in each case unaffiliated with the City (such as Bond Counsel) and acceptable to the City to the effect that the amendment does not materially impair the interests of the holders of the Bonds, and (v) the City shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Certificate may be amended, by written certificate of the City Manager of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate, (ii) the City shall have received an opinion of Counsel to the effect that performance by the City under this Certificate as so amended will not result in a violation of the Rule and (iii) the City shall have delivered copies of such opinion and amendment to the MSRB.

(c) This Certificate may be amended by written certificate of the City Manager of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) the City shall have received an opinion of Counsel, addressed to the City, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of the Staff of the SEC and (ii) the City shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial

Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of financial information or operating data being provided.

(e) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the City in preparing financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of the Bonds shall be third-party beneficiaries of this Certificate. The provisions of this Certificate shall create no rights in any person or entity except as provided in this subsection (a) or subsection (b) of this Section 4.3.

(b) The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The rights of the holders of the Bonds to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of the Bonds pursuant to subsection (a) of this Section 4.3, beneficial owners shall be deemed to be holders of the Bonds for purposes of this subsection (b).

(c) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; *provided, however,* that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date first above written.

CITY OF LYNCHBURG, VIRGINIA

By: ______________________________
Title: City Manager

[This Page Intentionally Left Blank]

APPENDIX G

DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM

[This Page Intentionally Left Blank]

APPENDIX G

DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and interest on the Bonds to The Depository Trust Company ("DTC"), New York, New York, its nominee, Participants, defined below, or Beneficial Owners, defined below, confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and among DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued in the aggregate principal amount of each maturity of the Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in and the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s or such other DTC nominee's consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer (*i.e.*, the City) or the Registrar and Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer or the Registrar and Paying Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Registrar and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

The information in this Appendix G concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.