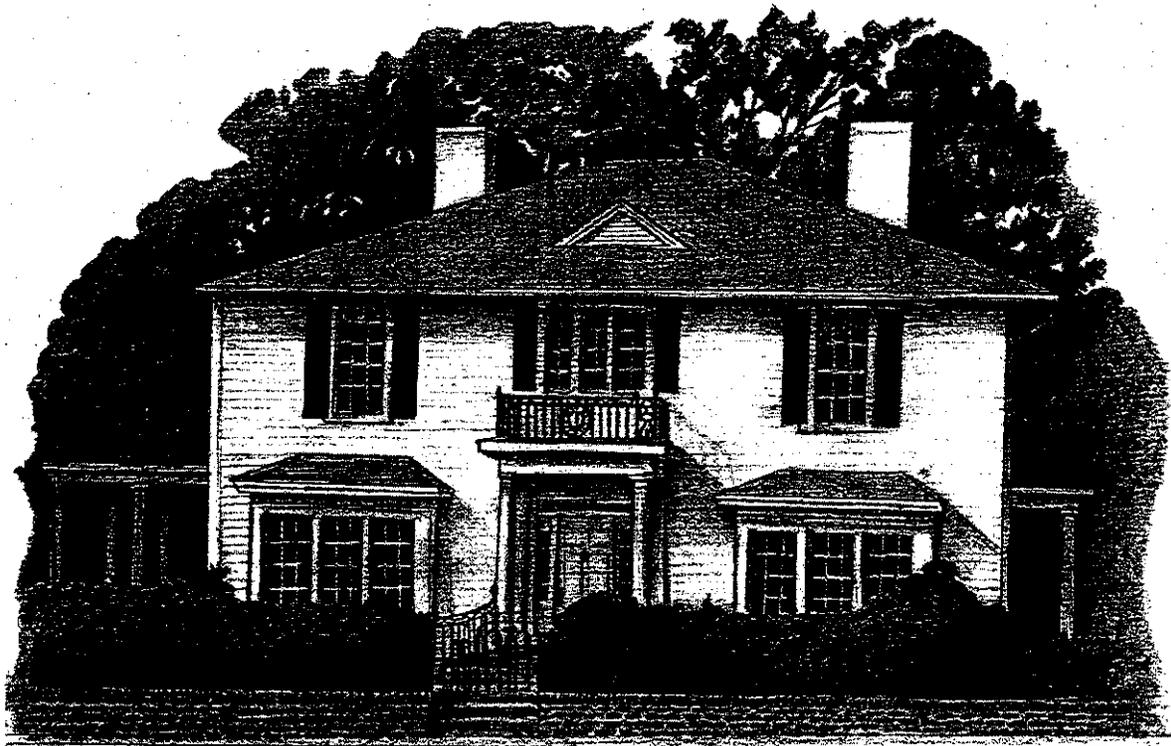


TOWN OF LEXINGTON SOUTH CAROLINA

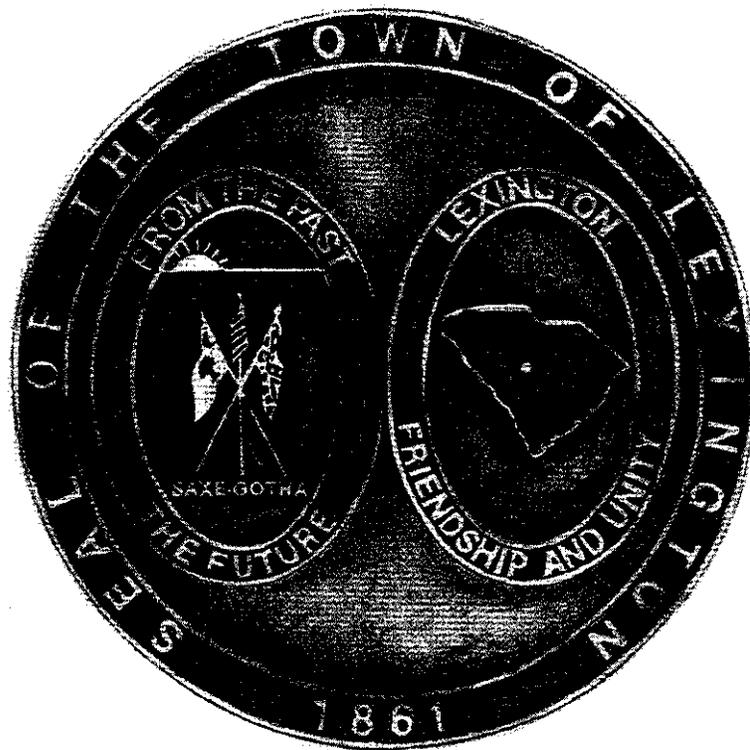


**COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2003**

TOWN OF LEXINGTON, SOUTH CAROLINA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2003



Prepared by: Finance Department

L. C. Greene, Town Administrator
Stuart W. Ford, CPA, Finance Director

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2003

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TOWN OF LEXINGTON, SOUTH CAROLINA

Daniel P. Breazeale, Sr.
MAYOR

COUNCIL

Linda W. Bryant-MAYOR PRO TEM
Constance Flemming
T. Randall Halfacre
James M. Lowman
Richard D. Thompson
Hazel Leggett-Tyndall

ADMINISTRATOR

L. C. Greene

ASSISTANT ADMINISTRATOR

James W. Duckett

MUNICIPAL CLERK

Becky Hildebrand



Donna Smith-Economic Development

951-4649

Joe Boles - Building/Zoning

951-4655

Stuart W. Ford, CPA - Finance

951-4637

Cherry Jackson - Clerk of Court

951-4634

Dan Walker - Parks & Appearance

359-1027

Chief Mike Roth - Police

359-6260

Hammond Edwards - Engineering &

Planning

951-4695

Allen Lutz - Utilities

359-2434

**TOWN OF LEXINGTON, SOUTH CAROLINA
LETTER OF TRANSMITTAL
DECEMBER 1, 2003**

**To the Honorable Daniel P. Breazeale, Sr., Mayor, Members of Town Council, and the
Citizens of the Town of Lexington, South Carolina**

The Comprehensive Annual Financial Report (CAFR) for the Town of Lexington for the year ended June 30, 2003, is hereby submitted as mandated by both local ordinances and polices and state statutes. This report, in its entirety, was prepared by the staff of the Town's Finance Department and with the helpful assistance of our independent auditors. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

Contained in this report is information for the use of all those interested in the Town's finances, including the taxpayers and citizens, members of Town Council, and potential investors and creditors that will have, or have had, a relationship with the Town of Lexington. The organization, form, and content of this report, and the accompanying financial reports and statistical tables, were formulated according to the principles prescribed by the Governmental Accounting Standards Board and the Government Finance Officers Association.

For the convenience of readers, the report is divided into three distinct sections as follows:

- The Introductory Section contains this letter of transmittal, a list of Town officials and an organizational chart of the Town Government and Finance Department.

- The Financial section includes the General Purpose Financial Statements and the combining and account group financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules.
- The Statistical section, which is unaudited, includes selected financial and demographic information, presented on a multi-year basis.
- The Single Audit section includes the schedule of expenditures of federal awards, schedule of finding and questioned costs, and auditors' reports on the internal control over financial reporting and compliance and the Town's compliance with applicable laws, regulations and internal controls. The Town is required to undergo an annual single audit in conformity with the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

THE TOWN AND ITS ORGANIZATION

In 1733, the colonists of South Carolina created the Congaree District as an inland buffer to protect Charleston. This was a large tract of land along the Congaree River now known as the Midlands. In 1735, the developers of the district changed the name to *Saxe Gotha* in an attempt to lure the Swiss and Germans to the area. The name was given in honor of the marriage of the British Prince of Wales to the Princess Augusta of the German state of Saxe Gotha. After the Revolutionary War, patriotism was high, so in 1785, the name of the district was changed to Lexington in honor of the Colonial victory over the British at Lexington, Massachusetts. Shortly thereafter, the state of South Carolina began changing districts to counties and created Lexington County from the old Lexington district and a portion of the Orangeburg district. The state moved the courthouse to Granby (now the City of Cayce), but malaria was common in the swampy lowland area along the Congaree River. On January 20, 1829, the state bought land at the northwest corner of what is now U.S. #1 and S.C. 6 in the county's central highlands and the county seat was moved from Granby. Although a small, rural community began to grow around the new courthouse, the Town of Lexington was not incorporated until January 28, 1861. In 1927, the municipal water system began operation, followed soon afterward by a sewer system, to serve residents of the one square mile area.

On August 31, 1976, the Council form of government was officially adopted by the Town under the Home Rule Act. The Town Council consists of seven elected officials that are responsible for enacting the ordinances and resolutions that govern the town. All six council members and the mayor are elected to staggered terms in at large elections that are held in even years. Town Council appoints the Town Administrator, Town Attorney, Municipal Judge, Municipal Clerk, and all department directors. The department directors are responsible for the enforcement of all resolutions and ordinances passed by Town Council.

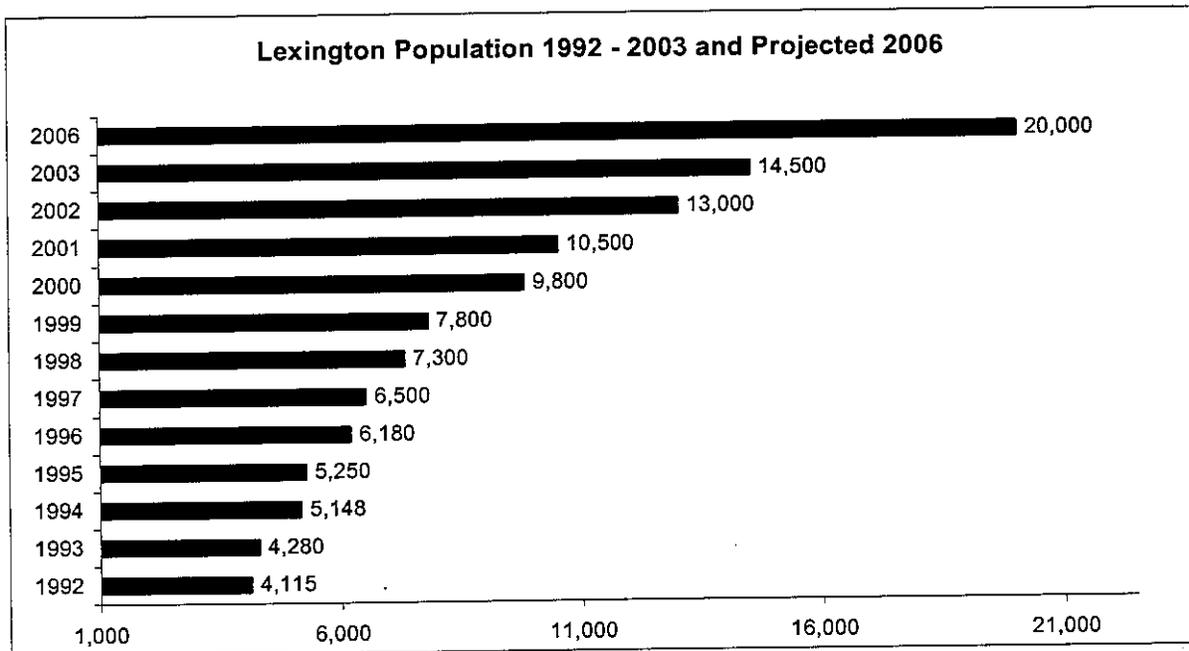
The Town of Lexington is the county seat for Lexington County and is considered a suburb of the City of Columbia. Lexington is located 12 miles from downtown Columbia and is easily accessible to I-20, I-26, and I-77. Because of its location, award winning school system, and small-town flavor, Lexington has grown at a rapid pace. According to the 2000 Census, Lexington County is the 5th largest county (by population) in the state and the 3rd fastest growing county in the state. The town, along with the surrounding area (approximately a 5-mile radius),

has experienced phenomenal growth over the last several years and all indicators show that this trend should continue into the future.

ECONOMIC CONDITIONS AND OUTLOOK

In July 2003, the U.S. Census Bureau again named the Town of Lexington the fastest growing municipality in South Carolina. The unprecedented growth and development that began in the early to mid-1990s continues in and around the Town. As of June 2003, the town estimates its population to be 14,500 which is a 48% increase over the 2000 Census. With current and proposed new housing subdivision starts, the town anticipates population to reach 20,000 by 2006. When the Town was incorporated in 1861, it literally covered one square mile, but since the 1970s, the Town's area has grown to about 10 square miles, with approximately 183 acres added during the current year.

The following chart depicts the rapid population growth experience by the Town of Lexington since 1992 and the projected growth through 2006.



One of the main reasons people move to Lexington is for our excellent school system. Lexington School District One is consistently rated as one of the top three school districts in the state and has been one of the fastest growing school districts for the past 10 years. Three schools are within the town limits: Lexington Elementary, Lexington Intermediate, and Lexington Middle School. Located just outside of the current town limits are Midway Elementary and Lexington High School. Families are not only attracted to the quality schools, but also to the small, hometown, community feel of Lexington that offers a quality of life that enhances the rearing of children.

The Town continues to develop water and wastewater infrastructure that has and will continue to enable the development of commercial, industrial and residential properties. The Town provides water and sewer service to areas both inside and outside of the town limits. The Town's sewer service area is approximately 100 square miles. The water and sewer system has 178 miles of sewer lines and 125 miles of water lines and serves approximately 4,950 water accounts and 6,500 sewer accounts (nearly 7,500 individual residential and commercial customers).

During the past year, approximately 50 new businesses opened in the Town of Lexington. Some of the most notable projects during the year were:

Completed within the past year:

- Kohl's Department Store (86,500 square feet)
- Office Depot
- Tire Kingdom (6,656 square feet)
- Lexington Place Shopping Center – Phase II (approximately 83,000 square feet)
- Hansen International (vehicle parts manufacturer)
- Uno's Pizzeria
- Lexington Town Center – Addition (6,000 square feet)
- Harbor Inn Seafood

Projects under construction:

- Howard B. Jones & Sons (headquarters)
- Palmetto Citizens Federal Credit Union
- Security Federal
- Walgreens
- Shoppes at Flight Deck – Phase III (6,000 square feet)

Numerous other restaurants, retail, service and suppliers and professional office developments were completed during the year. Construction of new houses also continued at a rapid pace with the start of 107 multi-family units and 206 single family dwellings. Commercial development also continued just outside the town limits along the major highways that serve the town. Several subdivisions also were under development with approximately 400 total units (both in town and out of town but on the water and sewer system).

In addition to these major commercial developments, local and regional governments made significant new investments in capital projects during the year. Lexington County continued construction on its \$28 Million Courthouse Complex (98,000 square feet) and expansion of the County Administration Building (upon completion the expanded building will be 91,000 square feet). The Town proceeded with its approximately 50,000 square foot expansion of Town Hall and substantially completed construction on the Main Street Streetscape. The Town also made significant roadway and sidewalk infrastructure investments.

MAJOR INITIATIVES

During Fiscal Year 2002 – 2003, the Town continued to address the effects of growth. The Town Council updated progress on the Strategic Plan that was adopted in Fiscal Year 2001 – 2002. The Plan, prepared by a committee comprised of elected officials, town staff, citizens, and business leaders, set forth the strategic direction of the Town for the coming decade.

The Strategic Plan identified the Town's vision to be "A great place to live, work, play and visit in a clean, green, safe, thriving, economically sound, easily accessible and inviting community". Several goals were established to enable the Town to achieve its vision:

- Optimized traffic flow and roadways
- Enhanced infrastructure
- Increased funding
- Improved governmental cooperation
- Enhanced community development

Several initiatives during the year relate directly to the goals of the Strategic Plan:

Lexington Southern Beltway:

The Town continued to promote the concept of a southern beltway connecting U.S.#1 south of downtown to U.S. Highway 378 on the west side of town, including a new interchange on Interstate 20. The effort included promotion of the need for and benefits of the beltway to elected officials (local, state, and federal), the business community and citizens of the Town and surrounding areas. Traffic represents a major challenge to long term sustained growth within the town. The beltway concept represents an opportunity to provide commuters an alternate route around the town and to open new areas for development. Although the proposed \$80 million beltway is far from being approved and constructed, the Town continues to address traffic growth and the resulting effects on public safety, quality of life, and economic development.

Roadway Improvement Plan:

Based on the assessment of the approximately 26 miles of town owned roads conducted during Fiscal Year 2001 – 2002, the Town began major repairs and improvements to the most critically needed areas identify during the assessment. The study estimated the needed investment to be approximately \$500,000 annually over the next decade. General obligation bonds were issued in the previous fiscal year to provide initial funding of nearly \$800,000 for roadway improvements. Additionally, \$500,000 of General Fund - fund balance was designated for roadway improvements as part of the adopted 2003 budget.

Industrial Drive Sewer Extension:

The Town completed construction of a sewer line extension along Industrial Drive funded by a \$100,000 grant from the South Carolina Department of Commerce as part of the highly competitive tobacco settlement funding process. The project has enhanced the infrastructure necessary for the Industrial Drive area to realize its full potential an "industrial park".

In addition to the Industrial Drive project, the Town continued to solidify the infrastructure needs of this growing suburban area. In 1997, The Town of Lexington began to develop a regional

sewer system for Lexington and the surrounding areas. The system includes, in part, the 24-mile 12/14 Mile Creek project which was completed in 1999 and the approximately 27-mile Highway 378 Sewer line purchased and connected to the regional system in fiscal year 2000. During Fiscal Year 2002 – 2003, the Town completed the expansion of lines connecting to the regional system and refined its capital improvements plan to ensure maximum access to the system.

The Town's commitment to provide adequate infrastructure will help sustain the growth rates that have been attained in the recent years and which have made Lexington, South Carolina one of the State's fastest growing municipalities.

Main Street Streetscape Project:

The Town substantially completed the streetscape project during the year. The project is an example of cooperation among local, state and federal governments, the business community, and citizens. The project, along the business block of Main Street, consists of new sidewalks, rebuilt roadway, trees and landscaping, underground utilities, and decorative lighting and curbs. The Town invested approximately \$1,700,000 in local funding for this and related projects through the proceeds of general obligation bonds issued in Fiscal Year 2001 - 2002. The project was approved in 1999 by the Central Midlands Council of Governments and the South Carolina Department of Transportation. A \$271,000 grant was awarded for the project under the provisions of the federal transportation enhancement program, Transportation Equity Act for the 21st Century ("TEA-21"). The Town's franchise agreement with SCANA provided matching funds for the installation of underground utilities. Local businesses and citizens have contributed by enduring the inconveniences of a project of this magnitude and seeking to promote the project as a centerpiece of an overall revitalization of Lexington's historic downtown.

Town Hall Expansion:

Construction continued on the 56,000 square foot expansion of Town Hall. The Public Safety Building was completed during early 2003. The remainder of the project will be completed in the late summer of 2004. The expanded Town Hall will, when completed, include a 1,600 square foot atrium overlooking Virginia Hylton Park, a 4,600 square foot multi-purpose meeting and banquet facility with a catering kitchen, and sufficient office space to accommodate projected needs for the next two decades.

Park Improvements:

During Fiscal Year 2002 - 2003, the Town continued efforts to improve its park system through acquisition of property and facility upgrades. The Corley Street Park improvement project continued to gain momentum during the year with formulation of preliminary plans for a water park and overall revitalization of the Park including restoration and preservation of an historic graveyard and a monument to fallen soldiers buried under the waters of Lake Murray. Also, the Town entered into an agreement to purchase property adjacent to the Corley Street Park that will be incorporated into the revitalization plans. Additionally, preliminary studies were initiated to determine the feasibility of walking trails on various parcels of undeveloped town property.

INTERNAL CONTROL

Internal controls are procedures that are designed to protect assets from loss, theft or misuse; to check the accuracy and reliability of accounting data; to promote operations efficiency; and to encourage compliance with managerial policies. The management of the Town is responsible for establishing a system of internal controls designed to provide reasonable assurances these objectives are met.

Federal and state financial assistance programs require recipients to comply with many laws and regulations. Administrative controls are procedures designed to insure compliance with these regulations.

BUDGETARY CONTROLS

The Town maintains budgetary controls, which are designed to insure compliance with all legal provisions of the annual budget as adopted by Council. The Town's budget process provides for input from department directors, elected officials, and the public to determine the Town's programs and services for the year. During the fiscal year, transfers can be made between budgetary line items with the approval of the Mayor and Finance Director. The General Fund and Enterprise Fund have formally adopted legal budgets, whereas other funds have approved budgets for management purposes.

SAXE GOTHA PUBLIC FACILITIES

The Saxe Gotha Public Facilities Corporation is a separate reporting entity of the Town of Lexington, but is accounted for as a blended component unit. In 1994, the Corporation completed the construction of the current Municipal Complex from the proceeds of the issuance of Certificates of Participation. In exchange for the use of the Municipal Complex, the Town has assumed responsibility for the annual debt service payments associated with the facility. As a result of the relationship between the Town of Lexington and the Saxe Gotha Public Facilities Corporation, the obligations are being reported in the General Long Term Debt Account Group.

FINANCIAL OVERVIEW

GOVERNMENTAL FUND TYPES:

The Town of Lexington's general governmental functions include its General, Special Revenue, Debt Service and Capital Projects Funds. The following section details revenues and expenditures for the Town's general governmental functions.

Revenues

The Town of Lexington continues to experience tremendous growth and likely will continue to increase the amount of revenues collected in its governmental funds. During Fiscal Year 2002 – 2003, total revenues increased by approximately 11.7% with collections for franchise fees, licenses and permits, interest income, other governmental revenue and charges for services and miscellaneous, all increasing from the previous year.

Property taxes increased by approximately \$197,000, due in part to residential and commercial development and annexations. Property tax rates are set Council and for the Fiscal Year 2002 – 2003, the millage rate remained 43.7 mills.

Franchises, licenses and permits increased by \$151,027, or 6%, during Fiscal Year 2002 – 2003 as the Town's economy continued to grow. This growth led to new businesses locating within the Town, which generated additional business license revenues; additional customers were added that increased revenues for electric, cable and phone franchises; and developers purchased additional permits associated with the construction of new dwellings and businesses.

Other governmental revenue increased by \$278,510, or 40%, during Fiscal Year 2002 – 2003. The increase was due primarily to the Town receiving grant funding for capital improvements related to the Main Street Streetscape and sidewalk installation projects.

Fines and forfeitures decreased by \$13,331, or 4.4%, as a result of stabilization in enforcement as the Police Department remained fully staffed for the year.

Interest income increased by \$6,627, or 8.2%, due to an increase in invested funds related primarily to borrowings for major capital improvements.

Charges for services and miscellaneous, which include space rentals and other miscellaneous service fees, decreased due to the termination of a tower leasing agreement with a telecommunications service.

Expenditures

Total expenditures increased by nearly 91% during Fiscal 2002 – 2003 due to the capital outlays associated with the completion of the new Public Safety Building, construction in progress on the expansion of the existing Town Hall, the Main Street Streetscape and other infrastructure projects. In fact, capital outlays increased by over \$4.4 million compared to the previous year. Expenditures increased in the areas of general government (before cost allocations to the Enterprise Fund), public safety, parks, streets and sanitation, victim's assistance, capital outlay, debt service and accommodations tax (tourism related). Bond issuance costs were lower since no general obligation debt was issued during the year.

Expenditures for the Town's general government function increased by \$177,636, or 11.8%, before \$681,116 of personnel and other operating expenditures were allocated to the Enterprise Fund. The Town increased personnel related costs primarily as a result of increases in employee benefit costs, the implementation of a new wage and compensation plan and the addition of new personnel including a full time town attorney. Cost allocations to the Enterprise Fund, which had been discontinued during the year ended June 30, 2000, contributed to the \$503,480 decrease

in general government. Debt Service increased as a result of issuance of general obligation debt during fiscal year 2001 -2002 for major capital improvements.

Operating transfers in increased due to the Enterprise Fund contributing to the general government's portion of the municipal complex expansion.

The following table depicts undesignated/unreserved and designated fund balances for the General Fund at June 30, 2003 and 2002, respectively. Designated amounts are for drug enforcement in 2002 and roadway improvements in 2003.

<u>General Fund - Fund Balance</u>	<u>2003</u>	<u>2002</u>
Reserved for prepaid items	\$ 1,102	\$ 2,790
Undesignated/Unreserved	3,027,752	3,286,127
Designated	<u>500,000</u>	<u>13,745</u>
 Total Fund Balance	 <u>\$ 3,528,854</u>	 <u>\$ 3,302,662</u>

PROPRIETARY FUND TYPES:

The Town of Lexington maintains a single Enterprise Fund in the "Proprietary Fund Types" that is used to account for the revenues and expenses associated with the Waterworks and Sewer System. The following section details revenues and expenses of the Enterprise Fund.

Revenues

The \$549,061, or 9.9%, increase in total operating revenue can be attributed to both the growth of the Lexington service area and a 5% increase in rates implemented in July, 2002. The Town of Lexington's water service revenue increased 5.8% while sewer service revenue increased by 12.8%. The region's severe drought ended during 2003 causing a decline in the rate of growth in revenues due to less irrigation during the spring and early summer. The City of West Columbia remained the Town's primary water supplier under terms of the water purchase agreement.

During the Fiscal Year 2002 – 2003, the Town collected \$1,941,348 in capital contribution fees, an increase of approximately 27%. Developers also contributed water and sewer assets to the Town with a fair value of \$1,027,343. In accordance with GASB Statement 33, capital contribution fees and other capital contributions were recognized as non-operating revenue totaling \$2,968,691.

During the Fiscal Year 2002 – 2003, the Town added to its water and sewer system 291 new water accounts (a 6.3% increase) and 583 new sewer accounts (a 9.9% increase). The analysis of the overall growth pattern and of proposed projects indicates that the revenue and account growth trends should continue during Fiscal Year 2003 – 2004.

Expenses

Operating expenses of the Waterworks and Sewer System Enterprise Fund increased by \$976,401, or 22%, inclusive of \$681,118 of general government personnel and other operating

expenditure cost allocations to the Enterprise Fund. General government allocations were not made in fiscal years 2000, 2001, and 2002. Expenses in the Enterprise Fund increased 6.7%, excluding the allocated costs. The increase in expenses is attributable in part to the general increase in personnel costs previously discussed regarding the general government. Depreciation and amortization expense increased approximately \$138,519, or 11.6% as a result of the impact of significant developer contributions of system assets (approximately \$2.6 million in contributed assets in 2002 and 2003) and a full year of amortization of the deferred amount on refunding associated with the issuance of Series 2001 A and B Revenue Bond during the previous fiscal year. The cost of water purchased from the City of West Columbia increased approximately \$200,000, or 32%. The increase resulted from both an increase in volume and in wholesale costs. During the year, the Town's proportionate share of water produced by West Columbia again increased as a continuing result of the City of Cayce reopening its water plant and not purchasing water from West Columbia. The Town's contract with West Columbia provides for wholesale water costs to be governed by a formula whereby the Town's proportionate share of water purchased from West Columbia either increases or decreases the cost per 1000 gallons.

Interest income declined due to the general decline in interest rates. Interest expense increased \$41,836, or 2.7%, as a result of the issuance of a \$7,500,000 bond anticipation note.

The operating transfer out represents the Enterprise Fund's contribution to the general government's portion of the expansion of the municipal complex.

Operating income decreased \$427,340, or 38%. The reduction in operating income resulted substantially from the allocation of general government costs. The allocations and the operating transfer demonstrate a commitment to fully recover all of the cost of operating the system.

The Town complied with its bonded debt covenants during the Fiscal Year 2002 - 2003. Management is aware of the need to monitor rates and charges to ensure adequate system revenues. Accordingly, a rate study was completed in the fall of 2001. The study recommended a series of 5% per year rate increases, the first of which was implemented in October, 2001 followed by additional increases in July, 2002 and 2003.

The following table depicts unreserved retained earnings for the Waterworks and Sewer System Enterprise Fund at June 30, 2003 and 2002, respectively.

<u>Enterprise Fund - Retained Earnings</u>	<u>2003</u>	<u>2002</u>
Unreserved	<u>\$ 8,696,794</u>	<u>\$ 9,375,470</u>
Total Retained Earnings	<u><u>\$ 8,696,794</u></u>	<u><u>\$ 9,375,470</u></u>

DEBT ADMINISTRATION

The Town of Lexington funds the daily operation of government through current operating revenues. However, the Town has issued revenue bonds for the expansion of the waterworks and sewer system, general obligation bonds for major capital improvement projects, Certificates of Participation for the construction of the municipal complex and periodically utilizes lease purchasing for the acquisition of major capital equipment.

Moody rated "Aaa", or "A2", (Fitch rated "AAA") the Town of Lexington's \$27,475,000 Combined Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2001A and \$5,800,000 Combined Waterworks and Sewer System Revenue Bonds, Series 2001B. The proceeds of these issues refunded portions of the Enterprise Fund's then outstanding revenue bonds and contractual obligations while providing additional funding for the expansion of the system and facilities.

Moody also rated "Aaa" the Town of Lexington's \$2,450,000 General Obligation Bonds of 2002. The proceeds are funding capital improvement projects including the Main Street Streetscape and roadway improvements.

The Town's available legal debt margin was \$911,918 as of June 30, 2003. This amount excludes outstanding certificate of participation bonds that were issued during Fiscal Year 1994. An operating transfer from General Fund revenues to the Debt Service Fund are utilized to pay the outstanding bonds related to the municipal complex and general obligation bonds issued to fund major capital improvements.

CASH MANAGEMENT

The Town maintains cash and cash equivalents which consist of cash deposit accounts with a maturity of three months or less from purchase and other short term, highly liquid investments that are readily convertible to known amounts of cash. The Town of Lexington invests other available resources in accordance with the Town's investment policies. This has included investments in certificates of deposit with maturities of less than two years, Treasury Notes and other high-grade securities. Working capital has been invested in various money market funds and overnight repurchase agreements. Substantial portions of the Town's cash and cash equivalents at June 30, 2003, were invested in the Local Government Investment Pool administered by the State Treasurer. The mix of deposit and investment accounts is periodically evaluated to optimize return and ensure compliance with the Town's investment policies. All funds are collateralized in accordance with requirements of South Carolina law.

RISK MANAGEMENT

The Town of Lexington is insured through various third party organizations for tort, health and workers' compensation claims. The Town funds all unemployment claims through current

resources. The Town is a member of governmental pools that provide coverage for the Town's insurance claims including the South Carolina Insurance Reserve Fund (SCMIRF) for tort and liability claims and the South Carolina Municipal Insurance Trust (SCMIT) for workers' compensation. The Town's health and dental claims are insured through the South Carolina Office of Insurance Services (OIS).

INDEPENDENT AUDIT

An audit of the general purpose financial statements was performed by the independent certified public accounting firm of Brittingham, Dial & Jeffcoat, P. A., of West Columbia, South Carolina. The Town again received an unqualified opinion, which is the best possible result from the financial statement audit process.

AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its comprehensive annual financial report for the year ended June 30, 2002. This was the fifth consecutive year that the Town has received this prestigious award. In order to be awarded the Certificate of Achievement, the Town published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both the generally accepted accounting principles and applicable legal requirements.

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

ADDITIONAL INFORMATION

The following tables and charts depict the revenues, expenditures and expenses of the General, Special Revenue, Debt Service and Capital Projects Funds (all governmental fund types), and the Enterprise Fund for the Town of Lexington. This information has been included as a part of the letter of transmittal to help the reader assess the financial performance of the Town of Lexington for the Fiscal Year 2002 – 2003.

The Town's general fixed assets, exclusive of those used in the enterprise fund, are reported within the general fixed assets account group. During the year ended June 30, 2000, the Town began presenting its general fixed assets by function and activity in three categories: general government, public safety, and parks, streets and sanitation.

ACKNOWLEDGEMENTS

This report represents countless hours of preparation and record keeping by the members of the Finance Department. Those staff members are:

Gwen Holdman, Assistant Finance Director
Mira Jeffcoat, Billing Supervisor
Laraine Wieder, Accountant II
Sonya Lee, Accountant I
Regina Lowell, Accounting Clerk
Vesta Troutman, Accounting Clerk
Sherry Brooks, Accounting Clerk
Tony Harsey, Meter Technician
Alfred Brown, Meter Technician
Mary Louise Resch, Grants Administrator

Additional thanks to **Wendy Jeffcoat** of Design Concepts for providing the art work used on the cover featuring the "Clark House", which served as Town Hall from the early 1980s to early 1990s. Also, special thanks to the firm of Brittingham, Dial & Jeffcoat, P. A., (particularly **Ken Prince, CPA, Matthew Brandon, CPA** and **David Veldman**), for their technical assistance in helping to complete this – the Town's sixth-year Comprehensive Annual Financial Report.

Respectfully submitted,

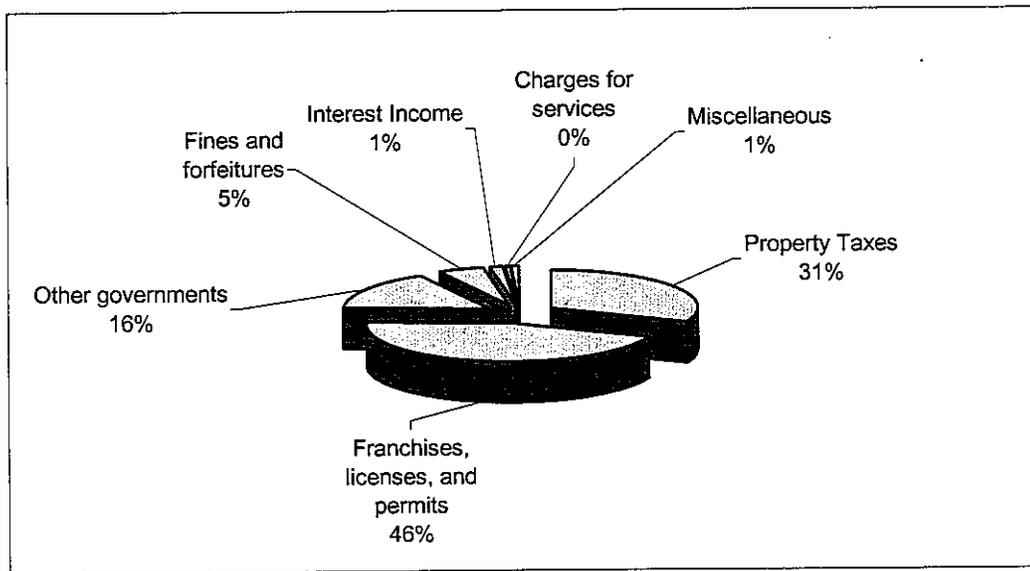


Stuart W. Ford, CPA
Finance Director

Town of Lexington, South Carolina
 All Governmental Fund Types
 Year Ended June 30, 2003
 (With Comparative Totals for the Year Ended June 30, 2002)

Revenue	2003 Total Revenue	2002 Total Revenue	Increase (Decrease)	Percent Change
Property Taxes	\$ 1,840,776	\$ 1,643,953	\$ 196,823	12.0%
Franchises, licenses, and permits	2,636,418	2,485,391	151,027	6.1%
Other governments	969,807	691,297	278,510	40.3%
Fines and forfeitures	286,383	299,714	(13,331)	-4.4%
Interest Income	87,767	81,140	6,627	8.2%
Charges for services	27,587	41,429	(13,842)	-33.4%
Miscellaneous	53,608	40,634	12,974	31.9%
Total Revenue	5,902,346	5,283,558	618,788	11.7%

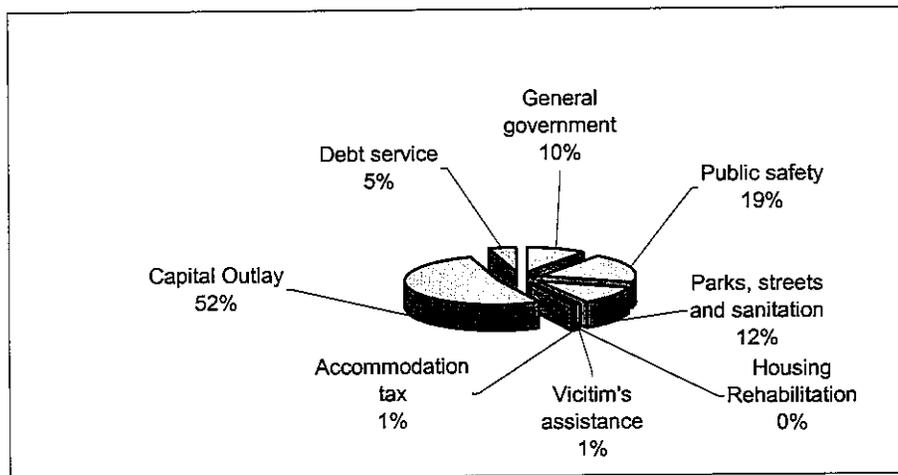
Percentages of Revenue
 Year Ended June 30, 2003



Town of Lexington, South Carolina
 All Governmental Fund Types
 Year Ended June 30, 2003
 (With Comparative Totals for the Year Ended June 30, 2002)

Expenditures	2003 Total Expenditures	2002 Total Expenditures	Increase (Decrease)	Percent Change
Current:				
General government	\$ 1,005,750	\$ 1,509,230	\$(503,480)	-33.4%
Public safety	1,850,757	1,551,536	299,221	19.3%
Parks, streets and sanitation	1,170,204	1,023,938	146,266	14.3%
Housing Rehabilitation	816	-	816	
Victim's assistance	82,450	44,184	38,266	86.6%
Accommodation tax	52,207	-	52,207	
Capital Outlay	5,112,166	689,109	4,423,057	641.9%
Debt service	465,061	224,856	240,205	106.8%
Bond issuance costs	-	62,420	(62,420)	
Total Expenditures	9,739,411	5,105,273	4,634,138	90.8%

Percentages of Total Expenditures
 Year Ended June 30, 2003



Town of Lexington, South Carolina
 Enterprise Fund
 Year Ended June 30, 2003
 (With Comparative Totals for the Year Ended June 30, 2002)

	2003	2002	Increase (Decrease)	Percent Change
Operating Revenue				
Water Service	\$ 2,506,809	\$ 2,370,027	\$ 136,782	5.8%
Sewer Service	3,204,653	2,841,639	363,014	12.8%
Tap and meter fees	97,778	76,165	21,613	28.4%
Other income	265,434	237,782	27,652	11.6%
Total Operating Revenues	6,074,674	5,525,613	549,061	9.9%
Operating Expenses				
Salaries, Wages, & Fringes	1,349,273	1,197,937	151,336	12.6%
Contractual Services	1,363,748	1,381,714	(17,966)	-1.3%
Materials and supplies	305,986	245,769	60,217	24.5%
Heat, light, & power	105,101	83,740	21,361	25.5%
Depreciation and amortization	1,334,482	1,196,263	138,219	11.6%
Other operating expenses	244,438	302,320	(57,882)	-19.1%
Allocation of personnel expenditures	446,579	-	446,579	
Allocation of other operating expenditures	234,537	-	234,537	
Total Operating Expenses	5,384,144	4,407,743	976,401	22.2%
Operating Income	690,530	1,117,870	(427,340)	-38.2%
Non-Operating Revenues (Expenses)				
Interest Income	165,249	211,252	(46,003)	-21.8%
Capital contributions	2,968,691	3,091,977	(123,286)	-4.0%
Interest Expense	(1,599,820)	(1,557,984)	(41,836)	2.7%
Amortization of bond issuance costs	(44,159)	(53,635)	9,476	-17.7%
Total non-operating revenues (expenses)	1,489,961	1,691,610	(201,649)	-11.9%
Net Income before operating transfer	2,180,491	2,809,480	(628,989)	-22.4%
Operating transfer out	(2,859,167)	-	(2,859,167)	
Net income (loss)	\$ (678,676)	\$ 2,809,480	\$ (3,488,156)	

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Lexington,
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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



President

Executive Director

TOWN OF LEXINGTON

SOUTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2003

MAYOR

Daniel P. Breazeale, Sr.

MAYOR PRO-TEM

Linda W. Bryant

COUNCIL MEMBERS

Constance Caractor Flemming

T. Randall Halfacre

James M. Lowman

Hazel Leggett-Tyndall

Richard D. Thompson

TOWN ADMINISTRATOR

L.C. Greene

MUNICIPAL CLERK

Julia Kight

DEPARTMENT HEADS

Donna Smith, Economic Development

Joe Boles, Building/Zoning

Dan Walker, Parks, Streets, & Sanitation

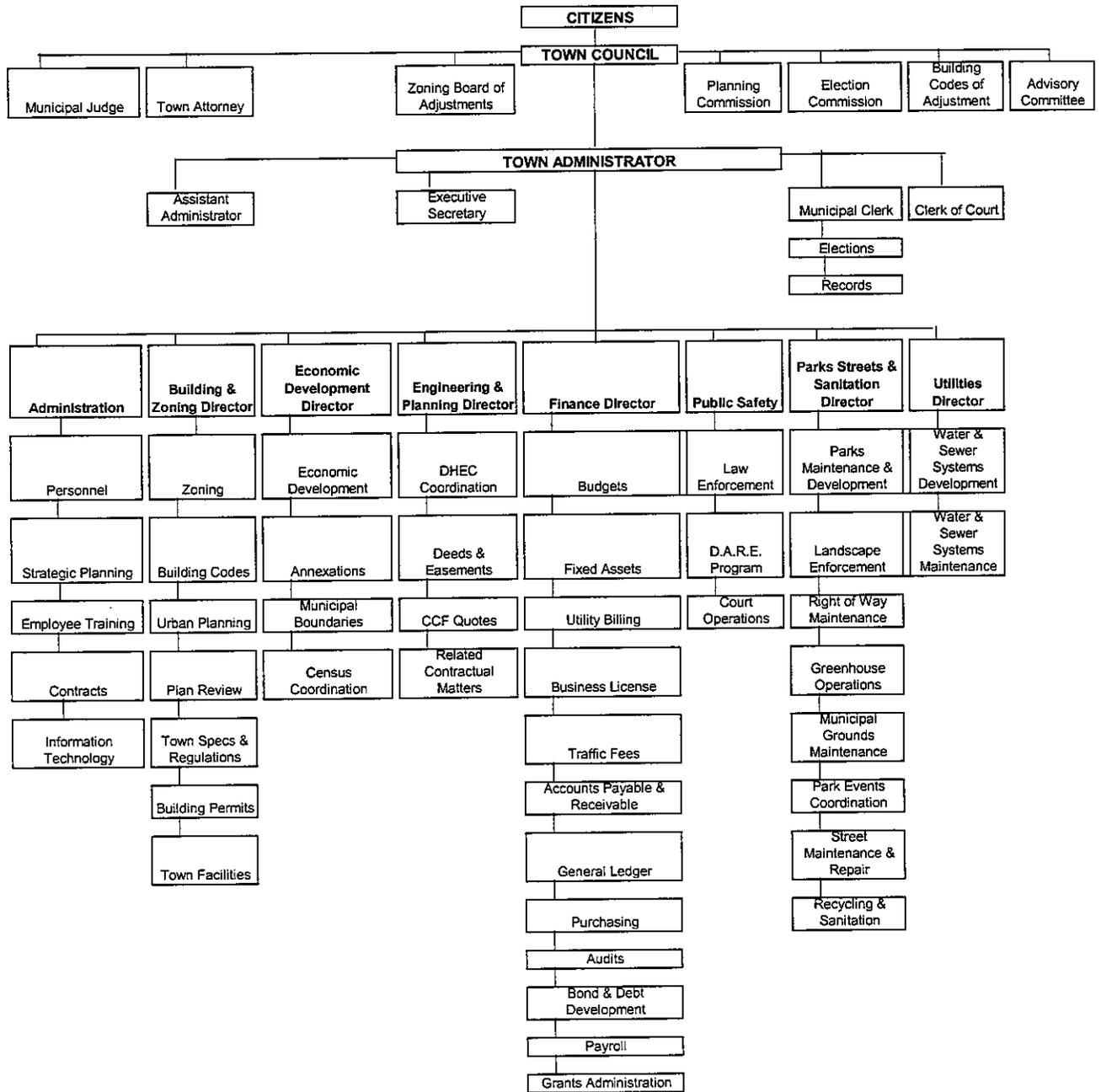
Chief Mike Roth, Police Department

Gene Edwards, Engineering & Planning

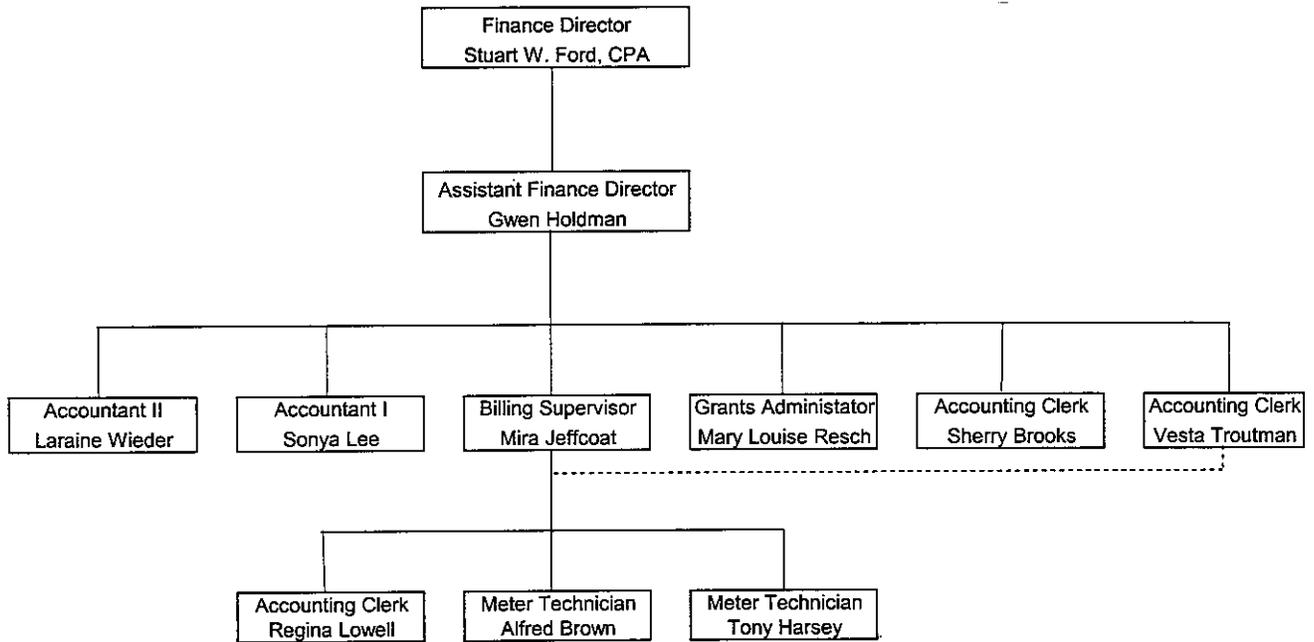
Allen Lutz, Utilities

Stuart W. Ford, Finance

TOWN OF LEXINGTON, SOUTH CAROLINA ORGANIZATIONAL CHART



TOWN OF LEXINGTON, SOUTH CAROLINA
FINANCE DEPARTMENT
ORGANIZATIONAL CHART





Brittingham, Dial & Jeffcoat, P. A.
CERTIFIED PUBLIC ACCOUNTANTS

J.T. BRITTINGHAM, CPA (1924-1995) W.F. DIAL, JR., CPA J.M. JEFFCOAT, CPA (RETIRED) K.R. BROWN, CPA K.E. PRINCE, CPA
J.R. HITE, CPA J.T. BRITTINGHAM JR., CPA K.D. DIAL, CPA WM. H. HANCOCK, CPA • M.A. BRANDON, CPA • ESTABLISHED IN 1957

INDEPENDENT AUDITOR'S REPORT

**The Honorable Mayor and Members of Town Council
Town of Lexington, South Carolina**

We have audited the accompanying general purpose financial statements of the Town of Lexington, South Carolina (the Town), as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town, as of June 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2003 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our Audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements and supporting schedules (as listed in the table of contents as Other Financial Information) and the accompanying schedule of expenditures of federal awards (as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*) are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Town of Lexington, South Carolina. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the introductory and statistical sections of this report, and accordingly, do not express an opinion or any other form of assurance on this information.

Brittingham Dial & Jeffcoat

October 16, 2003

**COMBINED STATEMENTS - OVERVIEW
(GENERAL PURPOSE FINANCIAL STATEMENTS)**

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2003

(With comparative total amounts for June 30, 2002)

	Governmental Fund Types			Proprietary Fund Type		Account Groups		Totals	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	General	Long-Term Debt	2003	2002
						Fixed Assets			
Assets and other debits	\$4,056,225	\$314,004	\$ -	\$ -	\$ 4,924,717	\$ -	\$ -	\$ 9,294,946	\$ 6,885,671
Cash and temporary investments	-	-	-	-	-	-	-	-	-
Receivables, net:									
Fees and services	24,172	-	-	-	775,289	-	-	799,461	1,262,391
Property and other taxes	108,497	14,164	-	-	-	-	-	122,661	122,279
From other governments	100,836	69,681	-	30,909	-	-	-	201,426	227,725
Other	1,068	2,570	-	-	12,186	-	-	15,824	45,862
Due from other funds	46,334	2,131	-	-	386,674	-	-	435,139	58,085
Inventories-supplies	-	-	-	-	133,348	-	-	133,348	242,128
Prepaid items	1,102	-	-	-	-	-	-	1,102	2,790
Restricted assets:									
Cash and temporary investments	-	-	310,253	1,371,799	10,930,008	-	-	12,612,060	8,083,525
Prepaid items	-	-	-	-	19,762	-	-	19,762	-
Property, plant, and equipment, net	-	-	-	-	36,511,338	10,689,163	-	47,200,501	43,860,681
Deferred charges:									
Water and sewer capacity reserve	-	-	-	-	11,444,539	-	-	11,444,539	11,688,210
Retail distribution rights	-	-	-	-	2,302,566	-	-	2,302,566	2,352,622
Bond issue cost, net of amortization	-	-	-	-	1,101,609	-	-	1,101,609	1,084,515
Amount to be provided for accrued compensated absences	-	-	-	-	-	-	214,806	214,806	173,292
Amount to be provided for long-term debt retirement	-	-	-	-	-	-	4,310,338	4,310,338	4,488,872
Amount available in Debt Service Fund	-	-	-	-	-	-	310,253	310,253	307,444
Total assets and other debits	<u>\$4,338,234</u>	<u>\$402,550</u>	<u>\$ 310,253</u>	<u>\$1,402,708</u>	<u>\$68,542,036</u>	<u>\$10,689,163</u>	<u>\$4,835,397</u>	<u>\$ 90,520,341</u>	<u>\$ 80,886,092</u>
Liabilities, equity and other credits									
Liabilities:									
Accounts payable	\$ 240,975	\$ 23,778	\$ -	\$ 225,982	\$ 119,275	\$ -	\$ -	\$ 610,010	\$ 349,680
Accrued liabilities	72,878	-	-	-	32,676	-	-	105,554	75,819
Due to other funds	386,674	48,465	-	-	-	-	-	435,139	58,085
Other liabilities	18,670	-	-	-	-	-	-	18,670	15,298
Current liabilities payable from restricted assets:									
Construction payables	-	-	-	-	520,214	-	-	520,214	314,906
Accrued interest	-	-	-	-	381,576	-	-	381,576	327,477
Revenue bonds/note payable-current	-	-	-	-	855,000	-	-	855,000	855,000

- CONTINUED -

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

- CONTINUED -

	Governmental Fund Types			Proprietary Fund Type		Account Groups			Totals (Memorandum Only)		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	General Fixed Assets	Long-Term Debt	2003	2002		
										2003	2002
Liabilities, equity and other credits (continued)											
Liabilities: (continued)											
Customer deposits	-	-	-	-	3,000	-	-	3,000	2,000		
Deferred revenue	90,183	16,147	-	-	-	-	-	106,330	103,113		
Bond anticipation note	-	-	-	-	7,500,000	-	-	7,500,000	-		
Revenue bonds payable	-	-	-	-	29,357,332	-	-	29,357,332	29,847,465		
Notes payable	-	-	-	-	-	-	144,581	144,581	170,653		
Contract payable	-	-	-	-	2,559,018	-	-	2,559,018	2,559,018		
Accrued compensated absences	-	-	-	-	57,509	-	214,806	272,315	228,445		
Capital lease obligation	-	-	-	-	515,415	-	-	515,415	515,415		
General obligation bonds	-	-	-	-	-	-	2,370,000	2,370,000	2,450,000		
Certificates of participation payable	-	-	-	-	-	-	2,106,010	2,106,010	2,175,663		
Total liabilities	809,380	88,390	-	225,982	41,901,015	-	4,835,397	47,860,164	40,048,037		
Equity and other credits:											
Contributed capital	-	-	-	-	17,944,227	-	-	17,944,227	17,944,227		
Investment in general fixed assets	-	-	-	-	-	10,689,163	-	10,689,163	7,210,467		
Retained earnings:											
Unreserved	-	-	-	-	8,696,794	-	-	8,696,794	9,375,470		
Fund balances:											
Reserved for:											
Debt service	-	-	310,253	-	-	-	-	-	310,253		
Prepaid items	1,102	-	-	-	-	-	-	-	1,102		
Unreserved:											
Designated for:											
Drug enforcement	-	-	-	-	-	-	-	-	-		13,745
Streets and infrastructure	500,000	-	-	-	-	-	-	-	500,000		
Undesignated	3,027,752	314,160	-	1,176,726	-	-	-	4,518,638	5,983,912		
Total equity and other credits	3,528,854	314,160	310,253	1,176,726	26,641,021	10,689,163	-	42,660,177	40,838,055		
Total liabilities, equity and other credits	\$4,338,234	\$402,550	\$ 310,253	\$1,402,708	\$68,542,036	\$ 10,689,163	\$4,835,397	\$ 90,520,341	\$ 80,886,092		

See accompanying notes

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2003

(With comparative total amounts for the year ended June 30, 2002)

	Governmental Fund Types				Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	2003	2002
Revenue						
Property taxes	\$ 1,823,451	\$ 17,325	\$ -	\$ -	\$ 1,840,776	\$ 1,643,953
Franchises, licenses, and permits	2,636,418	-	-	-	2,636,418	2,485,391
Other governments	325,178	299,629	-	342,430	967,237	691,297
Fines and forfeitures	251,469	38,408	-	-	289,877	299,714
Interest income	37,471	5,088	2,817	42,391	87,767	81,140
Charges for services	27,587	-	-	-	27,587	41,429
Miscellaneous	13,789	38,895	-	-	52,684	40,634
Total revenue	5,115,363	399,345	2,817	384,821	5,902,346	5,283,558
Expenditures						
Current:						
General government	1,005,750	-	-	-	1,005,750	1,509,230
Public safety	1,690,548	160,209	-	-	1,850,757	1,551,536
Parks, streets and sanitation	1,167,617	2,587	-	-	1,170,204	1,023,938
Victim's assistance	-	82,450	-	-	82,450	44,184
Housing rehabilitation	-	816	-	-	816	-
Accommodations tax	-	52,207	-	-	52,207	-
Capital outlay	3,431,215	49,796	-	1,631,155	5,112,166	689,109
Debt service	42,356	-	422,705	-	465,061	224,856
Bond issuance costs	-	-	-	-	-	62,420
Total expenditures	7,337,486	348,065	422,705	1,631,155	9,739,411	5,105,273
Excess (deficiency) of revenue over (under) expenditures	(2,222,123)	51,280	(419,888)	(1,246,334)	(3,837,065)	178,285
Other Financing Sources (Uses)						
Note payable proceeds	-	-	-	-	-	83,772
General obligation bond proceeds	-	-	-	-	-	2,463,140
Operating transfers in	2,885,573	13,745	422,697	122,680	3,444,695	206,300
Operating transfers out	(437,258)	(148,270)	-	-	(585,528)	(206,300)
Total other financing sources (uses)	2,448,315	(134,525)	422,697	122,680	2,859,167	2,546,912
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other uses	226,192	(83,245)	2,809	(1,123,654)	(977,898)	2,725,197
Fund balances, beginning of year	3,302,662	397,405	307,444	2,300,380	6,307,891	3,582,694
Fund balances, end of year	\$ 3,528,854	\$ 314,160	\$ 310,253	\$ 1,176,726	\$ 5,329,993	\$ 6,307,891

See accompanying notes.

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS

YEAR ENDED JUNE 30, 2003

	General Fund			Debt Service Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue						
Property taxes	\$ 1,670,000	\$ 1,823,451	\$ 153,451	\$ -	\$ -	\$ -
Franchises, licenses, and permits	2,401,500	2,636,418	234,918	-	-	-
Other governments	310,000	325,178	15,178	-	-	-
Fines and forfeitures	275,000	251,469	(23,531)	-	-	-
Interest income	55,000	37,471	(17,529)	-	2,817	2,817
Charges for services	27,500	27,587	87	-	-	-
Miscellaneous	7,700	13,789	6,089	-	-	-
Total revenue	4,746,700	5,115,363	368,663	-	2,817	2,817
Expenditures						
Current:						
General government	1,062,752	1,005,750	57,002	-	-	-
Public safety	1,783,032	1,690,548	92,484	-	-	-
Parks, streets and sanitation	1,141,100	1,167,617	(26,517)	-	-	-
Capital outlay	226,141	3,431,215	(3,205,074)	-	-	-
Debt service	42,400	42,356	44	420,074	422,705	(2,631)
Total expenditures	4,255,425	7,337,486	(3,082,061)	420,074	422,705	(2,631)
Excess (deficiency) of revenue over (under) expenditures	491,275	(2,222,123)	(2,713,398)	(420,074)	(419,888)	186
Other Financing Sources (Uses)						
Operating transfers in	-	2,885,573	2,885,573	420,074	422,697	2,623
Operating transfers out	(420,074)	(437,258)	(17,184)	-	-	-
Total other financing sources (uses)	(420,074)	2,448,315	2,868,389	420,074	422,697	2,623
Excess of revenue and other financing sources over expenditures and other uses	71,201	226,192	154,991	-	2,809	2,809
Fund balances, beginning of year	3,302,662	3,302,662	-	307,444	307,444	-
Fund balances, end of year	\$ 3,373,863	\$ 3,528,854	\$ 154,991	\$ 307,444	\$ 310,253	\$ 2,809

See accompanying notes.

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS -
ALL PROPRIETARY FUND TYPES
WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND

YEAR ENDED JUNE 30, 2003

(With comparative amounts for the year ended June 30, 2002)

	<u>2003</u>	<u>2002</u>
Operating Revenue		
Water service	\$ 2,506,809	\$ 2,370,027
Sewer service	3,204,653	2,841,639
Tap and meter fees	97,778	76,165
Other income	265,434	237,782
Total operating revenue	<u>6,074,674</u>	<u>5,525,613</u>
Operating Expenses		
Salaries, wages, and fringes	1,349,273	1,197,937
Contractual services	1,363,748	1,381,714
Materials and supplies	305,986	245,769
Heat, light, and power	105,101	83,740
Depreciation and amortization	1,334,482	1,196,263
Other operating expenses	244,438	302,320
Allocation of personnel expenditures	446,579	-
Allocation of operating expenditures	234,537	-
Total operating expenses	<u>5,384,144</u>	<u>4,407,743</u>
Operating income	<u>690,530</u>	<u>1,117,870</u>
Non-Operating Revenue (Expenses)		
Interest income	165,249	211,252
Capital contributions	2,968,691	3,091,977
Interest expense	(1,599,820)	(1,557,984)
Amortization of bond issuance costs	(44,159)	(53,635)
Total non-operating revenue (expenses)	<u>1,489,961</u>	<u>1,691,610</u>
Net income before operating transfer	2,180,491	2,809,480
Operating transfer out	<u>(2,859,167)</u>	<u>-</u>
Net income (loss)	(678,676)	2,809,480
Retained earnings, beginning of year	9,375,470	6,565,990
Retained earnings, end of year	<u>\$ 8,696,794</u>	<u>\$ 9,375,470</u>

See accompanying notes

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND

YEAR ENDED JUNE 30, 2003

(With comparative amounts for the year ended June 30, 2002)

	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 6,207,269	\$ 5,336,157
Cash paid to suppliers for goods or services	(2,228,837)	(2,088,010)
Cash paid to employees for services	(1,783,100)	(1,173,703)
Net cash provided by operating activities	<u>2,195,332</u>	<u>2,074,444</u>
Cash Flows from Non-Capital Financing Activities		
Transfer to other fund	(2,859,167)	-
Net Cash used in non-capital financing activities	<u>(2,859,167)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of fixed assets	(155,664)	(1,879,679)
Proceeds from the sale of land	80,000	-
Refund of purchase of wastewater capacity	-	84,398
Proceeds from new debt	7,500,000	40,841,735
Bond issuance costs paid	(61,253)	(974,609)
Bond proceeds placed in defeasance escrow	-	(22,153,385)
Premium paid on revenue bond refunding	-	(10,650)
Principal paid on revenue bonds	(855,000)	(2,705,000)
Principal paid on contract payable	-	(216,736)
Principal paid on note's payable	-	(14,363,938)
Arbitrage rebate paid	-	(53,645)
Interest and fees paid	(1,180,855)	(1,644,962)
Capital contribution fees	1,941,348	1,528,075
Net cash provided by (used in) capital and related financing activities	<u>7,268,576</u>	<u>(1,548,396)</u>
Cash Flows from Investing Activities		
Interest received	165,249	209,497
Net cash provided by investing activities	<u>165,249</u>	<u>209,497</u>
Net increase in cash and cash equivalents	6,769,990	735,545
Cash and cash equivalents, beginning of year	9,084,734	8,349,189
Cash and cash equivalents, end of year	<u>\$ 15,854,724</u>	<u>\$ 9,084,734</u>

- CONTINUED -

TOWN OF LEXINGTON, SOUTH CAROLINA

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF CASH FLOWS

- CONTINUED -

	<u>2003</u>	<u>2002</u>
Reconciliation of Net Cash Provided by Operating Activities:		
Operating income	\$ 690,530	\$ 1,117,870
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,334,482	1,196,263
Decrease (increase) in accounts receivable	131,595	(189,456)
Decrease (increase) in inventory	108,780	(115,686)
Decrease in prepaid items	-	13,428
Increase (decrease) in accounts payable	(83,807)	41,219
Increase in customer deposits	1,000	-
Increase in accrued expenses	12,752	10,806
Net cash provided by operating activities	<u>\$ 2,195,332</u>	<u>\$ 2,074,444</u>
Non-cash Capital Supplementary Information:		
Revenue bond principal accretion and discount amortization	\$ 124,402	\$ 118,100
Revenue bond premium and deferred amount on refunding amortization	240,464	157,894
Deeded fixed assets (capital contributions)	1,027,343	1,563,902

See accompanying notes

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

1. **Summary of Significant Accounting Policies**

The Town of Lexington, South Carolina (the "Town") was incorporated January 28, 1861. The Town operates under a Council form of government and is governed by a six (6) member council and Mayor. The Town provides the following services as authorized by its charter: public safety (police), highways and streets, sanitation, recreation, public improvements, planning and zoning, utilities (water and sewer) and general administrative services.

The financial statements of the Town have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Government Accounting Standards Boards (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant of these accounting policies are described below.

A. Reporting Entity

Using the criteria of GASB Statement No. 14, "The Financial Reporting Entity," the general purpose financial statements of the Town present the reporting entity that consists of the primary government and those organizations for which the primary government is financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Town's general purpose financial statements to be misleading or incomplete. Blended component units are legally separate entities that are, substantially, part of the government's operations and so data from such units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that it is legally separate from the government. The Town does not have any discretely component units. Its blended presented component unit has the same fiscal year end as the Town.

Blended Component Unit

The Saxe Gotha Lexington Public Facilities Corporation (the "Corporation") is governed by a board comprised of the Town's elected Council. The Corporation leases the Town's Municipal Complex to the Town ("Town Hall Lease Project") for the identical amount of the Corporation's bond indebtedness (Certificates of Participation "COPS"). The Corporation has assigned all of its interest in the lease payments to a trustee. Due to its relationship and blending in the general purpose financial statements, the lease payments by the Town to the Trustee are recorded as debt service expenditures in the Debt Service Fund. The balance of the obligation is carried in the Town's General Long Term Debt Account Group.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. **Summary of Significant Accounting Policies (Continued)**

B. Basis of Presentation

Fund Accounting

The Town uses funds and account groups to report financial position and the result of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds, as they do not directly affect net expendable and available financial resources. The various funds are grouped, in the financial statements in the report, into broad fund categories and generic fund types as follows:

Governmental Fund Types

General Fund-The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds-Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Town's Special Revenue Funds are used to account for law enforcement, community development and other revenues from federal and state grants.

Capital Projects Funds-The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Debt Service Fund-This fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the Town, other than debt service payments financed by proprietary fund types. General Fund transfers and interest earned on the investments of the Debt Service Fund are used for the

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. **Summary of Significant Accounting Policies (Continued)**

B. Basis of Presentation (Continued)

Fund Accounting (Continued)

Debt Service Fund (Continued)

payment of principal and interest on the Town's long-term debt, which are recorded in the General Long-Term Debt Account Group.

Proprietary Fund Type

Enterprise Funds - Enterprise Funds are used to 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 cost (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, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Waterworks and Sewer System Enterprise Fund is used to account for enterprise operations of the Town's water and sewer utility systems.

Account Groups

Account groups are used to establish accounting control and accountability for the Town's general fixed assets and general long-term obligations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect net expendable available resources. The following are the Town's account groups:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Town, except those accounted for in proprietary and trust funds.

General Long-Term Debt Account Group - This group of accounts is established to account for all long-term obligations including general obligation bonds of the Town except those accounted for in the proprietary funds.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets, and the unreserved fund balance is a measure of available spendable resources.

The modified accrual basis of accounting is used by all Governmental Funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available.) “Measurable” means the transaction can be identified, and “available” means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within sixty days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the Debt Service Fund for payments to be made early in the following year.

Property taxes, franchise fees, accommodations taxes, licenses and interest are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred in compliance with the grant requirements.

Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the occurrence of the qualifying expenditures. When the revenue recognition criteria are met and the Town has a legal claim to the

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by Proprietary Fund types. Under this method, revenues are recognized when earned, and expenses are recorded at the time liabilities are incurred. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The Town applies all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, in accounting and reporting for its proprietary-type operations, except when there is a conflict with GASB pronouncements.

D. Assets, Liabilities And Fund Equity

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period.

Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results could differ from those estimates.

Cash and Temporary Investments

Cash includes currency on hand, demand deposits with financial institutions and other accounts that have the general characteristics of demand deposits in that additional funds may be deposited any time and withdrawn without prior notice or penalty. Cash equivalents are deposit accounts with an original maturity of three months or less from purchase, and other short-term, highly liquid investments that are readily convertible to known amounts of cash. The Town pools the cash of all funds into a central depository bank account except that portion of cash on deposit in the South Carolina Local Government Investment Pool and where legal restrictions prohibit the commingling of funds. Temporary investments are then made from the pooled account in collaborative form in order to maximize the return on invested funds. Therefore, in the "Statement of

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. **Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities And Fund Equity (Continued)

Cash and Temporary Investments (Continued)

Cash Flows”, all Enterprise Fund cash and temporary investments (including restricted assets) are essentially demand deposits and are considered cash and cash equivalents. Each individual fund’s equity in the pooled cash and temporary investments is shown in that fund. Long-term investments, if any, are reported at fair value.

Interfund Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses (transfers out) in the reimbursing fund and as reductions of the expenditures or expenses (transfers in) in the fund that is reimbursed.

Inventory

Inventory is valued at cost, using the first-in, first-out method. Inventory in the Waterworks and Sewer System Enterprise Fund during the year ended June 30, 2003, consists of various supplies and other inventoriable items which are expensed at the time they are consumed.

Prepaid Items

Certain payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items. Prepaid items in governmental funds result in a reservation of ending fund balance.

Fixed Assets and Depreciation

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated.

The Town has adopted the accounting policy of not capitalizing “infrastructure” general fixed assets (i.e., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the Town).

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities And Fund Equity (Continued)

Fixed Assets and Depreciation (Continued)

Property, plant and equipment used in Governmental Fund Type operations are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. No depreciation has been provided on such property, plant and equipment.

Depreciation is provided in the Waterworks and Sewer System Enterprise Fund in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Buildings	10-50 Years
Distribution Systems	15-75 Years
Machinery and Equipment	5-10 Years

Compensated Absences

All permanent, full-time employees of the Town accrued vacation leave according to the following schedule:

1st Year - Five (5) days per year
2-5 Years - Ten (10) days per year
6-15 Years - Fifteen (15) days per year
16 or more years - Twenty (20) days per year

An employee may accrue up to forty-five (45) days of vacation leave. Upon termination of employment, any accrued vacation leave is earned and payable, whereas no compensation is provided for sick leave.

In Governmental Fund Types, the cost of vacation pay is recognized when payments are made to employees. Accordingly, the Town has accrued a long-term liability in the General Long-Term Debt Account Group for such outstanding amounts. This represents the Town's commitment to fund such costs from future operations. The Town's Enterprise Fund recognizes accrued vacation pay and the related liability in the period it is earned. At June 30, 2003, \$214,806 and \$57,509 have been recorded in the General Long-Term Debt Account Group and Waterworks and Sewer System Enterprise Fund, respectively.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities And Fund Equity (Continued)

Long-Term Liabilities

Long-term liabilities expected to be financed from Governmental Fund Types are accounted for in the General Long-Term Debt Account Group while those of the Enterprise Fund have been recorded directly in the Waterworks and Sewer System Enterprise Fund.

Fund Equity Reservations and Designations

Reserves represent those portions of fund equity not appropriable for expenditure/expense or legally segregated for a specific use. Designated fund balances represent tentative plans by management for future use of available financial resources.

Contributed Capital

Contributions are recorded as non-operating revenue in Proprietary Funds which receive capital grants or contributions from developers, customers or other funds. Contributions from developers and customers can take the form of cash or capital assets which include both fixed assets and capital contribution fees for water and sewer service. The Town issues certificates redeemable for future sewer taps in exchange for payment of capital contribution fees. The purchase of capital contribution certificates is generally recorded as non-operating revenue in the Waterworks and Sewer System Enterprise Fund when received.

E. Revenue, Expenditures And Expenses

Property Taxes

Real property tax levy is effective January 1, billed in October of each year and due by January 15 of the following year. Real property taxes attach as an enforceable lien on property as of March 15 of the following year, if unpaid at that time. Vehicle taxes are levied on a monthly basis in accordance with guidelines established by the State of South Carolina. Lexington County bills and collects the Town's taxes and remits collections to the Town on a periodic basis. The Town recognizes property tax revenue when they become available for the fiscal year budget period to which they apply and includes those property tax receivables expected to be collected within sixty days after year-end. Property tax amounts collected in advance of the fiscal year to which they apply or that are receivable but not yet available are recorded as deferred revenue.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. **Summary of Significant Accounting Policies (Continued)**

E. Revenue, Expenditures And Expenses (Continued)

Deferred Revenue

Grant revenues or miscellaneous contributions received for specific purposes are recognized in amounts equal to related expenditures (expenses) made or accrued. Funds received in excess of such expenditures are recorded as deferred revenue. Additionally, property taxes collected in advance or that are receivable but not yet available are recorded as deferred revenue.

Deferred Bond Issuance Costs

Bond issuance costs in the Town's Waterworks and Sewer System Enterprise Fund relates to the 1993, 2001A and 2001B Series Revenue Bonds, and Series 2002 Bond Anticipation Note, and are being amortized over the life of the debt on the straight line method. During the year ended June 30, 2002, the Town currently refunded a portion of its Series 1993 Revenue Bonds and advance refunded all Series 1997 Revenue Bonds. Series 2001A and 2001B Revenue Bonds were issued to accomplish the refundings (See *Note 9*). Total deferred bond issue costs totaled \$1,175,207 and accumulated amortization at June 30, 2003, equaled \$73,598.

Capitalized Interest

The Town capitalizes interest costs net of applicable interest earned, as part of the cost of construction of its assets recorded in Proprietary Fund Types. Additional capitalized interest of \$202,079 was recorded in the Waterworks and Sewer System Enterprise Fund during the year ended June 30, 2003.

F. Total Memorandum Only

The Total "Memorandum Only" column represents an aggregation of the combined financial statements and does not represent consolidated financial information. Data in those columns do not present financial position, results of operations, or cash flows in conformity with GAAP and are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

G. Comparative Data and Reclassifications

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. Stewardship, Compliance and Accountability

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General, Debt Service and Waterworks and Sewer System Funds. When applicable, project-length financial plans are adopted for all capital projects funds. All annual appropriations lapse at fiscal year end.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) The various departments meet with the Finance Director, Town Administrator, and Council members during the last quarter of the fiscal year to discuss their operating budget requests.
- 2) The Council meets in a workshop to discuss all the departments' budgets.
- 3) The proposed budget was then compiled and enacted prior to July 1 in the form of an ordinance with two readings and one public hearing.
- 4) Department heads are authorized to transfer budgeted amounts between line items in their department with the approval of the Mayor and the Finance Director.
- 5) Council must authorize budget transfers between departments.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. Stewardship, Compliance and Accountability (Continued)

A. Budgets and Budgetary Accounting (Continued)

- 6) Budget amounts are as originally adopted or as amended as outlined above. Individual amendments were not material in relation to the original appropriations which were amended.
- 7) Formal budgetary integration is employed as a management control device during the year for the General, Debt Service and Waterworks and Sewer System Enterprise Funds.

B. Encumbrances

Encumbrances represent outstanding purchase orders or commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the Governmental Fund Types. During the year ended June 30, 1997, the Town Council changed its policy whereby all contracts and commitments lapse at fiscal year end. Therefore, no reserve for encumbrances is applicable for year ended June 30, 2003.

3. Deposits and Investments

At June 30, 2003, the reported amount of the Town's cash deposits with financial institutions was \$6,602,346 and the financial institution's balances totaled \$6,776,608. Of the balance, \$100,000 was covered by federal depository insurance and the remaining balance was covered by collateral held by the financial institutions' trust departments in the Town's name. The Town's cash on hand at June 30, 2003, amounted to \$6,706.

State statute authorizes the Town to invest in obligations of the United States and agencies thereof; general obligations of the State of South Carolina or any of its political units provided such obligations are rated as an "A" or better by Moody's Investors Service, Inc. and Standard and Poor's Corporation or their respective successors; interest bearing accounts in savings and loan associations to the extent that the same are insured by an agency of the Federal government; certificates of deposit where the certificates are collaterally secured by securities of the type described above, held by a third party as escrow agent or custodian, of a fair value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Deposits and Investments (Continued)

required to the extent the same are insured by an agency of the United States Government; or deposit accounts with banking institutions insured and secured in the same manner.

The statutes provide that all authorized investments shall have maturities consistent with the time or times when the invested monies will be needed in cash. Statutes also allow the State Treasurer to assist local governments in investing funds. The State Treasurer also provides oversight for the State Treasurer's Investment Pool, of which, the fair value of the Town's investments are the same as the value of the pooled shares. The Town is under no contractual agreements which restrict investment alternatives.

The Town's investments, if any, are categorized to give an indication of the level of risk assumed by the Town at year-end. Category 1 includes investments that are insured or registered or where the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments where the securities are held by a financial institution's trust department or agent in the Town's name. A third category would include uninsured and unregistered investments where the securities are held by the counterparty, or by its trust department or agent but not in the Town's name. At June 30, 2003, the Town had no investments subject to categorization. The Town's investments at June 30, 2003, are reported at fair value and are summarized as follows:

Investments not subject to categorization:	
Investment in State	
Treasurer's Investment Pool	<u>15,297,954</u>
Total investments	<u>\$ 15,297,954</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Deposits and Investments (Continued)

A reconciliation of cash and investments as shown on the Combined Balance Sheet follows:

Cash on hand	\$ 6,706
Carrying amount of cash deposits	6,602,346
Carrying amount of investments	<u>15,297,954</u>
Total	<u>\$ 21,907,006</u>
Cash and temporary investments	\$ 9,294,946
Cash and temporary investments-restricted	<u>12,612,060</u>
Total	<u>\$ 21,907,006</u>

4. Receivables

Receivables at June 30, 2003, consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise Fund</u>	<u>Total</u>
Fees and services	\$ 24,172	\$ -	\$ -	\$ 800,772	\$ 824,944
Property and other taxes	147,470	14,164	-	-	161,634
Due from other governments	100,836	69,681	30,909	-	201,426
Other	1,068	2,570	-	12,186	15,824
Less, allowance for doubtful accounts	<u>(38,973)</u>	<u>-</u>	<u>-</u>	<u>(25,483)</u>	<u>(64,456)</u>
	<u>\$ 234,573</u>	<u>\$ 86,415</u>	<u>\$ 30,909</u>	<u>\$ 787,475</u>	<u>\$1,139,372</u>

Fees and services represent outstanding franchise and business license fees in the General Fund, and outstanding water and sewer service billings in the Waterworks and Sewer System Enterprise Fund.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

5. Interfund Receivables and Payable

Individual fund interfund receivable and payable balances at June 30, 2003, were as follows:

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 46,334	\$ 386,674
Special Revenue Funds:		
Police Grants and Programs	-	47,757
Accommodations tax	-	708
Victim's Assistance	2,131	-
Enterprise Fund	<u>386,674</u>	<u>-</u>
	<u>\$ 435,139</u>	<u>\$ 435,139</u>

6. Components of Restricted Assets

Waterworks and Sewer System Enterprise Fund:

Certain proceeds of Waterworks and Sewer System Fund Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The revenue bond current debt service retirement account is used to segregate resources accumulated for debt service payments over the next twelve months. The revenue bond renewal and replacement account is used for resources set aside to meet unexpected contingencies or to fund asset renewals or replacements.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

6. **Components of Restricted Assets (Continued)**

Carrying balances of restricted assets in the Waterworks and Sewer System Enterprise Fund at June 30, 2003, are as follows:

	Cash and Temporary Investments
Renewal and Replacement Fund	104,581
Debt Service Fund 2001A	462,280
Debt Service Fund 2001B	147,205
Construction Fund(1997)	301,679
Construction Fund(2001A)	2,354,457
Bond Anticipation Note 2002	7,559,806
	<u>\$ 10,930,008</u>

Debt Service Fund:

Certain proceeds of the Series 1994 Certificates of Participation, as well as amounts set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by the lease agreement (See *Note 9*). The reserve account is set aside to protect against possible future deficiencies in funds available to pay the lease obligations. Carrying balance at the year ended June 30, 2003, is as follows:

	Cash and Temporary Investments
Reserve Account	<u>\$ 310,253</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

7. Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group for the year ended June 30, 2003:

	<u>Balances</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances</u> <u>June 30, 2003</u>
Land	\$ 1,422,854	\$ -	\$ -	\$ 1,422,854
Buildings	2,930,833	3,245,842	-	6,176,675
Vehicles and equipment	2,856,780	232,854	-	3,089,634
	<u>\$ 7,210,467</u>	<u>\$ 3,478,696</u>	<u>\$ -</u>	<u>\$ 10,689,163</u>

A summary of Waterworks and Sewer System Enterprise Fund fixed assets at June 30, 2003, follows:

Land	\$ 137,434
Buildings	213,215
Waterworks and sewer systems	41,848,709
Machinery and equipment	1,667,088
Construction in progress	366,673
	<u>44,233,119</u>
Less, accumulated depreciation	<u>(7,721,781)</u>
	<u>\$ 36,511,338</u>

8. Deferred Charges

Purchase of Sewer Capacity

During the year ended June 30, 1997, the Town entered into an agreement with the City of Cayce, South Carolina ("Cayce") and acquired the usage rights of up to 6.4 million gallons per day in Cayce's sewer treatment facility. In addition, the Town and Cayce agreed during the year ended June 30, 1999, to share the cost of construction of a sewer line to facilitate the Town's use of purchased capacity. Accordingly, the purchase price of reserving sewer capacity equaling \$7,140,262 and the Town's share of cost incurred on the new sewer line of \$773,879 are being amortized to the Town's Waterworks and Sewer System Enterprise

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

8. **Deferred Charges (Continued)**

Purchase of Sewer Capacity (Continued)

Fund operations, with amortization expense totaling \$158,282 recognized during the year ended June 30, 2003.

Purchase of Water Capacity

During the year ended June 30, 1998, the Town entered an agreement with the City of West Columbia, South Carolina ("West Columbia"). The terms provided in part for the Town to acquire a maximum of 4.5 million gallons per day of water from West Columbia's water treatment plant, known as the Lake Murray Water Treatment Facility (the "LMWTF"). The Town agreed to pay the cost of expanding the LMWTF to meet its capacity needs. Accordingly, the cost of the expansion equaled \$4,269,496 and is being amortized to the Town's Waterworks and Sewer System Enterprise Fund operations with amortization expense totaling \$85,390 recognized during the year ended June 30, 2003.

Purchase of Retail Distribution Rights

The Town's agreement with West Columbia also provided the Town the non-exclusive right of retail distribution within a certain geographical location (defined in the agreement as the "service area"). Accordingly, the purchase price for the service area rights equaled \$2,980,000 with the rights reported at their discounted value at June 30, 2003, net of accumulated amortization (\$2,302,566, taking into account the imputed cost of capital approximating 5%) and is being amortized to the Town's Waterworks and Sewer System Enterprise Fund operations with amortization expense totaling \$50,056 recognized during the year ended June 30, 2003.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt

The following is a summary of long-term debt of the Town for the year ended June 30, 2003:

General Long-Term Debt Account Group:	Balances June 30, 2002	Additions	Reductions	Balances June 30, 2003
Certificates of participation	\$ 2,175,663	\$ 100,347	\$ (170,000)	\$ 2,106,010
Notes payable	170,653	-	(26,072)	144,581
General obligation Bonds	2,450,000	-	(80,000)	2,370,000
Compensated absences	173,292	41,514	-	214,806
	<u>\$ 4,969,608</u>	<u>\$ 141,861</u>	<u>\$ (276,072)</u>	<u>\$ 4,835,397</u>

Non-cash principal certificate of participation 'additions' include amounts (\$100,347) of accretion on certain capital appreciation certificates.

Waterworks and Sewer System Enterprise Fund:

	Balances June 30, 2002	Additions	Reductions	Balances June 30, 2003
Revenue Bonds	\$ 30,702,465	\$ -	\$ (490,133)	\$ 30,212,332
Bond Anticipation Notes	-	7,500,000	-	7,500,000
Contract payable	2,559,018	-	-	2,559,018
Capital lease	515,415	-	-	515,415
Compensated absences	55,153	2,356	-	57,509
	<u>\$ 33,832,051</u>	<u>\$ 7,502,356</u>	<u>\$ (490,133)</u>	<u>\$ 40,844,274</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. **Long-Term Debt (Continued)**

Amortization of the Series 2001A Revenue Bond premium and the deferred amount on refunding totaling \$240,465 and \$124,402 of non-cash principal accretion on certain capital appreciation bonds are included as components of the reductions to Revenue Bonds.

Certificates of Participation

Pursuant to *Note 1*, the Town's "blended" component unit (Saxe Gotha Lexington Public Facilities Corporation) issued Series 1994 Certificates of Participation which require semi-annual interest payments at rates from 3.65% to 5.75% and annual principal installments ranging from \$165,000 to \$200,000 through December, 2005. These debt service requirements are followed by capital appreciation certificates maturing annually on December 1 from year 2006 to 2018 with annual maturity values of \$210,000 and at yields from 6.0% to 6.8%.

Optional Redemption:

The Current Interest Certificates maturing on or prior to December 1, 2002 and the Capital Appreciation Certificates are not subject to optional redemption prior to maturity. The Current Interest Certificates maturing after December 1, 2002, are subject to optional redemption prior to maturity in whole at any time or in part on any interest payment date on or after December 1, 2002, at the following prices, expressed as percentages of the principal amount to be redeemed, plus accrued interest to the redemption date:

<u>Redemption Dates (Both Dates Inclusive)</u>	<u>Redemption Price</u>
November 1, 2002 to October 31, 2003	102%
November 1, 2003 to October 31, 2004	101
November 1, 2004 and thereafter	100

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

The annual debt service requirements to amortize all certificates outstanding as of June 30, 2003, including interest components are as follows:

<u>Year Ending June 30,</u>	<u>Requirements</u>
2004	\$ 207,185
2005	206,868
2006	205,750
2007	210,000
2008	210,000
Thereafter	<u>2,310,000</u>
	3,349,803
Less, interest component	<u>(1,243,793)</u>
	<u>\$ 2,106,010</u>

Notes Payable

Boozer Property

The Town entered an agreement during the year ended June 30, 1999, to purchase property for \$150,000. The agreement's terms provide for the Seller (Boozer) to continue to live on the property as long as is desired. A portion of the property, however, was agreed to be immediately incorporated into the Virginia Hylton Park.

If, at the death of the Seller, less than \$130,000 shall have been paid under the terms of the agreement, the remaining balance under the terms shall become due. However, if more than \$130,000 shall have been paid, then the balance shall be deemed fully satisfied. Monthly simple interest payments of 9% per annum and principal payments ranging from \$620 to \$1,519 are required through September 19, 2008.

106 Hendrix Street

The Town entered an agreement during the year ended June 30, 2002, to purchase property at 106 Hendrix Street for a total of \$130,500 at no stated rate of interest. The Town paid \$21,750 at closing. The note payable and the cost of the acquired property (recorded in the General Fixed Assets Account Group) have been valued based on an imputed rate of interest of 6%. Annual payments of \$21,750 are due through April 11, 2007.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Notes Payable (continued)

The annual debt service requirements to amortize notes payable as of June 30, 2003, including interest component are as follows:

<u>Year Ending June 30,</u>	<u>Requirements</u>
2004	\$ 39,976
2005	39,976
2006	39,976
2007	39,976
2008	18,226
Thereafter	4,556
	<hr/> 182,686
Less, interest component	(38,105)
	<hr/> <hr/> \$ 144,581

General Obligation Bonds

During the year ended June 30, 2002, the Town issued \$2,450,000 of Town of Lexington, South Carolina General Obligation Bonds of 2002. The payment of principal and interest on the Bonds is secured by an irrevocable pledge of the full faith, credit and taxing power of the Town. The Bonds require semi-annual interest payments at rates from 4.00% - 6.00% and annual principal installments ranging from \$80,000 - \$190,000 through March 1, 2021. The proceeds from the bonds are to fund roadway and other capital improvements.

Optional Redemption:

The Bonds maturing on or before March 1, 2011, are not subject to redemption prior to their maturity. The Bonds maturing subsequent to March 1, 2011, are subject to redemption on or after March 1, 2011, at the option of the Town, in whole or in part on any interest payment date at par plus accrued interest.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

The annual debt service requirements to amortize all general obligation bonds outstanding as of June 30, 2003, including interest components are as follows:

<u>Year Ending June 30,</u>	<u>Requirements</u>
2004	\$ 201,135
2005	202,535
2006	198,735
2007	199,935
2008	198,935
Thereafter	<u>2,554,802</u>
	3,556,077
Less, interest component	<u>(1,186,077)</u>
	<u>\$ 2,370,000</u>

Revenue Bonds and Bond Anticipation Notes

During the year ended June 30, 2002, the Town issued Town of Lexington, South Carolina Bond Anticipation Note Series 2001, Combined Waterworks and Sewer System Revenue Refunding and Improvement Bonds Series 2001A and Combined Waterworks and Sewer System Revenue Refunding and Improvements Bonds Series 2001B. Proceeds from these issues were used in part to accomplish a current refunding of the remaining serial bonds of the Town's Combined Waterworks and Sewer System Revenue Refunding and Improvement Bonds Series 1993, advance refund the Town's Combined Waterworks and Sewer System Revenue Bonds Series 1997, advance refund a portion of a contract and capital lease payable to the City of West Columbia for wholesale water capacity charges, retail distribution rights, and related waterlines. Proceeds necessary to generate resources for all future debt service payments on the refunded bonds and contractual obligations were placed in irrevocable trusts. As a result, the amounts refunded are considered to be defeased and the liabilities have been removed from the Enterprise Fund Balance Sheet.

The refunding was undertaken to reduce annual debt service payments thereby reducing the rate increases necessary to maintain and improve the coverage ratio required by the

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

restrictive bond covenants on outstanding revenue bonds. Additionally, the transaction provided additional resources necessary to improve the system.

The reacquisition price exceeded the net carrying amount of the old debt by \$3,529,026. This deferred amount on refunding is being netted against the new debt and amortized over the old debt's life, which is shorter than the life of the new debt. The transaction resulted in an economic cost of \$83,500 and a \$3,580,000 increase in future debt service payments.

Gross revenues of the Waterworks and Sewer System Enterprise Fund, after paying the costs and expenses of operating and maintaining the system, are pledged for repayment of the revenue bonds.

Series 1993 Revenue Refunding and Improvement Bonds:

The current interest bonds due through May, 2004, totaling \$1,065,000, were currently refunded during the year ended June 30, 2002. The Series 1993 Town of Lexington, South Carolina Combined Waterworks and Sewer System Revenue Refunding and Improvement Bonds capital appreciation bonds remain outstanding and maturing annually on May 1 from 2005 to 2012 at yields from 4.90% to 5.50% and maturity values of \$385,000 with the final maturity at \$195,000. The capital appreciation bonds were issued at a discount with principal at maturity totaling \$3,275,000. The balance of Series 1993 Bonds at June 30, 2003 equaled \$2,466,832 (net of discount of \$808,168 with principal accretion recognized during the year of \$124,402).

Optional Redemption:

The Capital Appreciation Bonds are not subject to redemption prior to their maturity.

Series 1997 Revenue Bonds:

The Town of Lexington, South Carolina Combined Waterworks and Sewer System Revenue Bonds, Series 1997 were advance refunded during the year ended June 30, 2002.

Series 2001A Revenue Refunding and Improvement Bonds:

The Town of Lexington, South Carolina Combined Waterworks and Sewer System Revenue Bonds, Series 2001A require semi-annual interest payments at rates of 3.50% to 5.75% and annual principal installments ranging from \$205,000 to \$1,935,000. The Series 2001A Bonds were issued for \$27,475,000 with an outstanding balance at June 30, 2003 of

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

\$22,560,500 (net unamortized premium and deferred amount on refunding equaled \$88,615 and (\$3,123,115), respectively). Amortization of the premium and deferred amount equaled (\$3,082) and \$243,547, respectively.

The Series 2001A Bonds maturing on or prior to April 1, 2010, are not subject to redemption prior to their maturity. The Bonds maturing on and after April 1, 2010, are subject to redemption prior to maturity, at the option of the Town, on or after April 1, 2010, as a whole at any time, or in part from time to time on any Interest Payment Date in the maturities as designated by the Town (but only in integral multiples of \$5,000 denomination) and by lot within a maturity, at the redemption prices with respect to each Series 2001A Bond, expressed as a percentage of principal amount of the Series 2001A Bond to be redeemed, as set forth below, together, in each case, with the interest accrued on the principal amount to the date fixed for redemption:

<u>Redemption Dates (Both Dates Inclusive)</u>	<u>Redemption Price</u>
April 1, 2010 to March 31, 2011	101%
April 1, 2011 and thereafter	100

Series 2001B Revenue Bonds:

The Town of Lexington, South Carolina Combined Waterworks and Sewer System Revenue Bonds, Series 2001B will initially bear interest from their date of issuance at the weekly rate. The weekly rate is a fluctuating rate per annum determined periodically by the remarketing agent. The Town may at its option convert (subject to certain conditions) from the weekly rate mode to either the daily rate, term rate or fixed rate mode. The interest rate on the Bonds shall not exceed 12% per annum except for the bank bonds (bonds purchased under the terms of the Standby Bond Purchase Agreement) which shall not exceed 18% per annum. The Town has assumed an average interest rate of 3.37%. The Series 2001B Revenue Bonds were issued for \$5,800,000 with \$5,185,000 outstanding at June 30, 2003.

Optional Redemption:

The Series 2001B Bonds may be redeemed in whole or in part at the option of the Town at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest on any weekly rate interest payment date when in the weekly rate mode, on any daily rate interest payment date when in the daily rate mode and on any conversion date between interest payment modes.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

The Series 2001B Bonds in the term rate mode or the fixed rate mode are not subject to optional redemption during any term rate period of 5 years or less. During any term rate period of more than 5 years, the Bonds may be redeemed on or after the first optional call date. For any term rate period or fixed rate period of more than 5 years but less than 10 years the first optional call date shall be the fifth anniversary of the beginning of the term rate or fixed rate period. For any term or fixed rate of more than 10 years but less than 32 years the first optional call date shall be the anniversary of the beginning of the term or fixed rate period that is on or immediately after the midpoint of such rate period.

The Series 2001B Bonds in the term rate mode or the fixed rate mode may be redeemed in whole or in part on or after the first optional call date as defined above at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest plus a redemption premium (expressed as a percentage of principal amount redeemed) of 2% if the date of redemption is on or after the first call date but prior to the first anniversary of the first call date, 1% if the date of redemption is on or after the first anniversary of the first optional call date but prior to the second anniversary of the first optional call date, and without premium if the date of redemption is on or after the second anniversary of the first optional call date.

The annual debt service requirements to amortize revenue bonds outstanding as of June 30, 2003 including interest components are as follows:

<u>Year Ending June 30,</u>	<u>Requirements</u>
2004	\$ 2,297,241
2005	2,327,468
2006	2,339,748
2007	2,321,988
2008	2,299,898
Thereafter	51,089,413
	62,675,756
Less, interest component	(32,463,424)
	<u>\$ 30,212,332</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. **Long-Term Debt (Continued)**

Revenue Bonds and Bond Anticipation Notes (Continued)

Bond Anticipation Note, Series 2002:

The Town issued Bond Anticipation Note, Series 2002 for \$7,500,000 during the year ended June 30, 2003. Principal and interest of 1.52% per annum are due at maturity on September 20, 2003.

Contract Payable

As discussed in *Note 8*, the Town agreed to pay West Columbia \$2.98 million for the non-exclusive use of the existing distribution lines and the non-exclusive retail distribution rights in an agreed upon service area. An initial payment of \$1 million was incurred at execution of the agreement during the year ended June 30, 1998. The remainder was to be paid in semi-annual payments of \$90,000 through December 30, 2008. The remaining obligation under this portion of the agreement was defeased during the year ended June 30, 2002. The agreement with West Columbia also requires the Town to pay for water capacity in an amount equal to its pro rata share of the debt service requirements on West Columbia's Water and Sewer System Improvements Revenue Bonds, Series 1998B. The Town's pro rata share is approximately 89% of the Series 1998B issue (based on the cost of expanding the LMWTF relative to entire issue). The Series 1998B requires semi-annual interest payments at rates from 3.45% to 4.5% and annual principal installments ranging from \$160,000 to \$345,000 through October 1, 2018. The Town defeased all required payments on Series 1998B through January 1, 2009, during the year ended June 30, 2002. The liabilities for all payments required to be made to West Columbia through January 1, 2009 have been reduced on the Enterprise Fund Balance Sheet. Accordingly, a contract payable has been recorded for the remaining installment payments due between January 1, 2009 and October 1, 2018 for the Town's pro rata share of the West Columbia Series 1998B.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Contract Payable (Continued)

The annual debt service requirements to amortize the contract payable as of June 30, 2003 including interest components are as follows:

<u>Year Ending June 30,</u>	<u>Requirements</u>
2004	\$ -
2005	-
2006	-
2007	-
2008	-
Thereafter	3,220,343
	<u>3,220,343</u>
Less, interest component	(661,325)
	<u>\$ 2,559,018</u>

Capital Lease

The agreement with West Columbia provides in part for the Town to purchase waterlines from West Columbia under a capital lease. The minimum lease payments equaled the Town's pro rata share of the debt service requirements on West Columbia's Water and Sewer System Improvements Revenue Bonds, Series 1998A. The Town's pro rata share is approximately 40% of the Series 1998A issue (based on the construction cost of the waterlines relative to entire issue). The Series 1998A required quarterly interest payments at 4.75% and principal installments ranging from \$15,177 to \$38,566 through January 1, 2019. The Town defeased all required payments through January 1, 2009 on the Series 1998A Bonds with the corresponding capital lease liability being reduced on the Enterprise Fund Balance Sheet. Accordingly, a capital lease payable has been recorded at the present value of the minimum lease payments required from January 1, 2009 through January 1, 2019.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Capital Lease (Continued)

The annual debt service requirements to amortize the capital lease payable as of June 30, 2003 including interest component are as follows:

<u>Year Ending June 30,</u>	<u>Requirements</u>
2004	\$ -
2005	-
2006	-
2007	-
2008	-
Thereafter	620,207
	<u>620,207</u>
Less, interest component	<u>(104,792)</u>
	<u>\$ 515,415</u>

The waterlines acquired under the capital lease were recorded in the Enterprise Fund for \$805,068 during the year ended June 30, 1999.

10. Capacity Charges and Other Contributed Capital

Pursuant to GASB Statement #33, contributed capital in the Waterworks and Sewer Enterprise Fund for the year ended June 30, 2003, has been recognized as non-operating revenue.

A summary of cash receipts and contributions from developers during the year ended June 30, 2003, were as follows:

Capacity charges receipts and other cash contributions received	\$ 1,941,348
System contributions from developers	<u>1,027,343</u>
Total capacity charges and other contributed capital recognized	<u>\$ 2,968,691</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

10. Capacity Charges and Other Contributed Capital (Continued)

The Town has outstanding contracts that allow certain developers to pay capital contribution fees on an installment basis. Total capital contribution fees outstanding approximate \$317,000 at June 30, 2003. Upon payment of periodic installments, the developers may claim the applicable number of capital contribution certificates.

Prior to implementation of GASB #33, capital contributions of the Proprietary Fund-types were recorded as increases in "contributed capital" and reported in the fund equity section of the balance sheet. Statement 33 further states that governments should not 'restate' contributed capital arising from prior periods until the government adopts and implements GASB Statement #34, which requires such restatement. As of the year ended June 30, 2003, the Town has not adopted nor implemented GASB Statement #34.

Accordingly, the Town has recognized current year capacity charges and other capital contributions as non-operating revenue. Prior year cumulative amounts of capacity charges and other contributed capital have not been restated. The balance of contributed capital reported in the fund equity section at June 30, 2003, is summarized as follows:

<u>Local Support</u>	<u>Capital Contribution Fees</u>	<u>Developers</u>	<u>Other Governments</u>	<u>Total</u>
<u>\$ 75,000</u>	<u>\$ 8,540,699</u>	<u>\$ 7,901,280</u>	<u>\$ 1,427,248</u>	<u>\$ 17,944,227</u>

11. Related Party Transaction

The Town and other neighboring governments in Lexington County support the Lexington Economic Development Association (LEDA). LEDA is a non-profit entity established to promote economic development within the Town and immediate surrounding area. The LEDA's executive director is a Town employee and office space has been provided by the Town.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

12. Contingencies

Federal Grants

In the normal course of operations, the Town receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement that may arise as the result of audits of grant funds is not believed by Town officials to be material.

Litigation

Department of Health and Environmental Control (“DHEC”):

Under terms of *The 208 Water Quality Management for the Central Midlands Region* (the “208 Plan”), the Town established a regional sewer system. The original terms of the 208 Plan included in part a requirement for several service providers to decommission treatment facilities that discharge into the lower Saluda River. The Town’s Coventry Woods plant was one of the facilities designated for decommissioning upon availability of the regional system.

The Central Midlands Council of Governments (the “COG”) is charged with developing and ensuring compliance with the 208 Plan. The COG approved an amendment to the plan to extend the deadline for closure of Coventry Woods for five years. The extension would allow adequate capacity to be constructed in the City of Cayce’s Wastewater Treatment Plant to serve present and anticipated demand from the regional system. DHEC disapproved the amendment and filed suit against the Town to enjoin continued operation of Coventry Woods and to impose a \$10,000 per day fine, retroactive to March 1, 2001, for each day of continued operation.

The Town believes that the COG, as the agency delegated with the responsibility for managing the 208 Plan, properly approved the 208 Amendment. Pending a resolution of whether DHEC has jurisdiction, the Court granted the Town’s motion to stay, which not only stayed the proceedings and imposition of fines, but also enjoins DHEC from taking any enforcement action against the Coventry Woods plant, based on information known to DHEC before September 14, 2001. During the year ended June 30, 2003, the Administrative Law Judge issued a ruling in the case which held that DHEC’s role is ministerial in nature and consists of certifying 208 Plan amendments to the U.S. Environmental Protection Agency but does not include the power to reject the amendments. DHEC staff appealed the decision of the Administrative Law Judge to the DHEC board. Subsequent to year end, the DHEC

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

12. Contingencies (Continued)

Litigation: (Continued)

board overturned the decision of the Administrative Law Judge and held that DHEC had final authority to approve amendments to the 208 Plan. The decision of the DHEC board is likely to be appealed to the Circuit Court. The Town believes that ultimately the decision of the Administrative Law Judge will be upheld. Accordingly, it is improbable that the any fine will be imposed or upheld.

The Town is party to other legal proceedings that normally occur in governmental operations. These proceedings are not likely to have a material adverse impact on the affected funds of the Town.

13. Commitments

Developers and Contractors

The Town has outstanding contracts to provide certain developers future sewer and water taps at June 30, 2003. The Town reserves sewer treatment capacity to provide the future service at the inception of the installment contracts.

Additionally, the Town has outstanding commitments to contractors and others for approximately \$3,800,000.

Wastewater Treatment Service Agreement

As discussed in *Note 8*, the Town entered into a Wastewater Treatment Service agreement with the City of Cayce, South Carolina Municipal Corporation, to provide wastewater treatment capacity for the Town. Under the agreement the Town is obligated to pay (1) Its' "pro rata" share of the capacity in the plant for the cost of future capital replacement or improvement to the Plant, upon receipt of a statement from the City of Cayce setting forth in reasonable detail the calculation of such cost, and (2) for additional capacity in the plant at the rate of \$1.60 per gallon until June 18, 2001. Thereafter, the price shall be 88% of the then applicable residential equivalent unit (REU) charge imposed by the City of Cayce if purchased in increments of one million gallons per day (GPD) or more, and 100% of the City of Cayce's then current REU charge purchased in increments of less than one million GPD.

Provided, however, that if the requested capacity is in excess of amounts necessary to serve City of Cayce's needs and amounts made available by contract to other governmental entities, (a) City of Cayce shall not be required to sell capacity in increments of less than

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

13. Commitments (Continued)

one million GPD and (b) City of Cayce shall not be required to make such capacity available until 36 months following the date of the request.

Water Sale and Purchase Agreement

As discussed in *Note 8*, the Town is obligated under a Water Sale and Purchase Agreement with the City of West Columbia, South Carolina whereby the Town purchased capacity of up to 4.5 million gallons of water per day in the LMWTF. Wholesale water rates are determined by a formula that both parties agreed to, as described in the agreement. The agreement is for the economic life of the LMWTF or for the duration of the lease of the property upon which the facility is operated as executed between the City of West Columbia and the County of Lexington, South Carolina.

14. Employee Retirement

All employees, excluding public safety department employees, are eligible for membership in the South Carolina Governmental Employees' Retirement System (SCRS). Public safety department employees are covered by the South Carolina Police Officers' Retirement System (PORS). Both are a cost sharing, multiple employer defined benefit public employee retirement system administered by the State Budget and Control Board of South Carolina. Actuarial determinations are made by the administrators for the system. The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for both plans. The report may be obtained by writing to: The South Carolina Retirement System, Fontaine Business Center, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

The Town's total payroll for the year ended June 30, 2003, was approximately \$3,409,198, of which \$2,370,620 was for substantially all employees covered by the SCRS and \$1,038,578 was for PORS covered employees.

Benefits of the retirement systems are established by state statutes. Under current statutes, member employees who retire at age 65 or after 28 years (public safety employees after 25 years) of credited service are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82 percent of the employee's highest twelve consecutive quarters of compensation for non-public safety employees and 2.14 percent for public safety employees. Member employees who are at least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5 percent for each year the

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

14. Employee Retirement (Continued)

employee's age at retirement is less than 65. In either case, any unrecovered contributions are payable upon death and benefit payments increase 4 percent each year following an increase in the Consumer Price Index of at least 3 percent. Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distributions,

benefit levels coordinated with the retiree's social security benefits and distributions to a named beneficiary. Benefits are fully vested on reaching five years of service. The retirement systems also provide death and disability benefits to all member employees.

State statutes also determine the levels of contributions required. Non-public safety members are required to contribute 6 percent of their compensation. Under this system, the Town's contributions were 6.85 percent of each member employee's compensation, which included .15 percent of group life coverage. Contributions to the SCRS for the years ending June 30, 2003, 2002, and 2001 were \$162,387, \$144,486, and \$126,703, respectively, which equal 100% of required contributions. For public safety employees, amounts equaled 6.5 percent for member employees' contributions and 10.7 percent for the Town's contribution, which included .2 percent of group life and .2 percent of accidental death coverages. Contributions to the PORS for the years ending June 30, 2003, 2002, and 2001 were \$111,128, \$98,304, and \$87,198, respectively, which equal 100% of required contributions.

The current interest rate assumption for actuarial purposes equals eight percent, compounded annually.

The Town does not provide other post-employment benefits as of June 30, 2003. Subsequent to year end, the Town adopted a policy to pay the health insurance benefits until age 65 for retirees who retire with 20 years of service and retire between the ages of 62 and 65.

15. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Town carries commercial property insurance coverage and general liability coverage for these risks. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

15. Risk Management (Continued)

The Town participates in the South Carolina Municipal Insurance and Risk Financing Fund (SCMIRF), an insurance pool currently operating as a common tort liability and insurance program. The limit of the tort liability is \$2,000,000 per occurrence, while the limit for casualty insurance varies depending on the value of the property. The Town pays an annual experience rated premium to SCMIRF for its general insurance coverage, totaling approximately \$121,143 in the current year.

The Town provides for the administration of a plan providing health and dental coverage for all employees through the Office of Insurance Services (OIS). The Town's payments to the OIS plan approximated \$466,700 during the year.

The Town participated in the South Carolina Municipal Insurance Trust (SCMIT) for its workers' compensations insurance program. The Town funds "contributions" monthly to SCMIT to provide for payment of claims, including a reserve against any unused large claims as they are filed. The Town paid SCMIT approximately \$48,400 during the year.

The Town is self-insured for unemployment benefits. Claims are administered by the South Carolina Employment Security Commission and are then reimbursed by the Town. The Town funds all unemployment claims through current available resources. No liability has been accrued at year-end for potential claims, as they are expected to be minimal.

16. Subsequent Events

The Town issued Town of Lexington, South Carolina Combined Waterworks and Sewer System Revenue Bond Anticipation Note, Series 2003 for \$8,000,000 with principal and interest at 1.28% per annum due at maturity on September 17, 2004.

TOWN OF LEXINGTON, SOUTH CAROLINA

OTHER FINANCIAL INFORMATION

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND

The General Fund is the principal operating fund of the Town that accounts for all financial resources not accounted for in other funds.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND
BALANCE SHEET

JUNE 30, 2003

(With comparative amounts at June 30, 2002)

	<u>2003</u>	<u>2002</u>
Assets		
Cash and temporary investments	\$ 4,056,225	\$ 2,886,926
Receivables, net:		
Fees and services	24,172	387,319
Property taxes, net	108,497	106,698
Other governments	100,836	141,475
Other	1,068	1,864
Due from other funds	46,334	53,867
Prepaid items	1,102	2,790
Total assets	<u>\$ 4,338,234</u>	<u>\$ 3,580,939</u>
 Liabilities and Fund Equity		
Liabilities:		
Accounts payable	\$ 240,975	\$ 120,835
Accrued liabilities	72,878	53,539
Due to other funds	386,674	1,639
Other liabilities	18,670	15,298
Deferred revenue	90,183	86,966
Total liabilities	<u>809,380</u>	<u>278,277</u>
 Fund equity:		
Reserved for prepaid items	1,102	2,790
Unreserved:		
Designated for:		
Drug enforcement	-	13,745
Streets and infrastructure	500,000	-
Undesignated	3,027,752	3,286,127
Total fund equity	<u>3,528,854</u>	<u>3,302,662</u>
Total liabilities and fund equity	<u>\$ 4,338,234</u>	<u>\$ 3,580,939</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED JUNE 30, 2003

(With comparative amounts for the year ended June 30, 2002)

	2003		Variance Favorable (Unfavorable)	2002
	Budget	Actual		Actual
Revenue				
Property taxes	\$ 1,670,000	\$ 1,823,451	\$ 153,451	\$ 1,627,363
Franchises, licenses and permits	2,401,500	2,636,418	234,918	2,485,391
Other governments	310,000	325,178	15,178	345,102
Fines and forfeitures	275,000	251,469	(23,531)	266,465
Interest income	55,000	37,471	(17,529)	52,964
Charges for services	27,500	27,587	87	41,429
Miscellaneous	7,700	13,789	6,089	17,774
Total revenue	<u>4,746,700</u>	<u>5,115,363</u>	<u>368,663</u>	<u>4,836,488</u>
Expenditures				
General Government				
Building Department:				
Personnel	297,939	297,329	610	278,333
Contractual services	1,790	2,596	(806)	2,048
Repairs and maintenance	2,080	2,464	(384)	4,621
Supplies	15,080	11,363	3,717	8,371
Other operating	10,260	10,890	(630)	8,247
Total building department	<u>327,149</u>	<u>324,642</u>	<u>2,507</u>	<u>301,620</u>
Administration Department:				
Personnel	496,170	495,633	537	398,793
Contractual services	13,260	14,890	(1,630)	2,854
Repairs and maintenance	9,330	5,982	3,348	743
Supplies	30,600	21,032	9,568	18,461
Other operating	59,720	43,040	16,680	27,354
Allocation of personnel expenditures	(248,085)	(247,817)	(268)	-
Allocation of other expenditures	(56,455)	(42,471)	(13,984)	-
Total administration department	<u>304,540</u>	<u>290,289</u>	<u>14,251</u>	<u>448,205</u>
Finance:				
Personnel	317,846	300,090	17,756	286,352
Contractual services	2,730	2,617	113	3,073
Repairs and maintenance	-	-	-	123
Supplies	7,070	6,392	678	5,834
Other operating	56,050	43,268	12,782	41,775
Allocation of personnel expenditures	(158,923)	(150,046)	(8,877)	-
Allocation of other expenditures	(32,925)	(26,140)	(6,785)	-
Total finance	<u>191,848</u>	<u>176,181</u>	<u>15,667</u>	<u>337,157</u>
Council:				
Personnel	102,021	97,429	4,592	92,230

- CONTINUED -

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL

- CONTINUED -

	2003		Variance Favorable (Unfavorable)	2002
	Budget	Actual		Actual
Expenditures (Continued)				
General Government (Continued)				
Council (continued)				
Contractual services	35,000	20,859	14,141	16,767
Repairs and maintenance	43,850	32,368	11,482	46,284
Supplies	4,860	5,270	(410)	4,461
Other operating	292,700	270,354	22,346	255,806
Contributions	-	3,000	(3,000)	6,700
Allocation of personnel expenditures	(51,011)	(48,716)	(2,295)	-
Allocation of other expenditures	(188,205)	(165,926)	(22,279)	-
Total council	<u>239,215</u>	<u>214,638</u>	<u>24,577</u>	<u>422,248</u>
Total general government	<u>1,062,752</u>	<u>1,005,750</u>	<u>57,002</u>	<u>1,509,230</u>
Public Safety				
Personnel	1,500,592	1,406,667	93,925	1,194,961
Contractual services	73,460	47,322	26,138	44,719
Repairs and maintenance	36,760	41,329	(4,569)	20,096
Supplies	52,220	71,432	(19,212)	27,903
Other operating	120,000	123,798	(3,798)	85,389
Total public safety	<u>1,783,032</u>	<u>1,690,548</u>	<u>92,484</u>	<u>1,373,068</u>
Parks, Streets and Sanitation				
Personnel	474,780	438,450	36,330	402,013
Contractual services	467,510	530,767	(63,257)	439,693
Repairs and maintenance	53,970	56,050	(2,080)	13,263
Supplies	9,430	10,584	(1,154)	38,337
Other operating	135,410	131,766	3,644	126,624
Total parks and appearances	<u>1,141,100</u>	<u>1,167,617</u>	<u>(26,517)</u>	<u>1,019,930</u>
Capital Outlay	226,141	3,431,215	(3,205,074)	460,397
Debt Service	42,400	42,356	44	18,226
Total expenditures	<u>4,255,425</u>	<u>7,337,486</u>	<u>(3,082,061)</u>	<u>4,380,851</u>
Other Financing Sources (Uses)				
Operating transfers in	-	2,885,573	2,885,573	-
Operating transfers out	(420,074)	(437,258)	(17,184)	(153,574)
Note payable proceeds	-	-	-	83,772
Total other financing sources (uses)	<u>(420,074)</u>	<u>2,448,315</u>	<u>2,868,389</u>	<u>(69,802)</u>
Excess of revenue over (under) expenditures and other financing sources (uses)	71,201	226,192	154,991	385,835
Fund balance, beginning of year	3,302,662	3,302,662	-	2,916,827
Fund balance, end of year	<u>\$ 3,373,863</u>	<u>\$ 3,528,854</u>	<u>\$ 154,991</u>	<u>\$ 3,302,662</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

SPECIAL REVENUE FUND

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than sources for major capital projects) that are restricted by law or otherwise restricted for specified purposes.

- Police Grants and Programs Fund:** The Town currently receives federal grant revenue funding that is coordinated through the South Carolina Department of Public Safety. The grants help fund the personnel and other costs of the Lexington Police Department.
- Golden Hills Tax District Fund:** Established by Town Council and the voters of the Town to account for the proceeds of a special assessment on all property in the District. Proceeds are expended to fund maintenance of roads within the Golden Hills subdivision.
- Downtown Restoration Fund:** Donations made by SCANA to assist the residents of the Town after the 1993 tornado. Funds are to be used for cleanup associated with natural disasters.
- Disaster Fund:** Donations that have been made by SCANA and other local businesses to assist with future natural disasters. Funds will be utilized to assist local residents after future natural disasters.
- Alcohol Permits:** The Town received funds from Lexington County from the County's Alcohol Permits revenue. The Town will use the funds in accordance with state law for tourism related activities.
- Sidewalk Fund:** Funding that is provided by local developers to install sidewalks within the Town limits when the requirements of the South Carolina Department of Transportation have been met. Developers are required to contribute to this fund when sidewalk construction is disallowed due to a lack of terminus points. Funding levels are established by the current construction costs necessary to complete the project.
- Drug Fund:** Fund is used to account for seized and forfeited drug funds. The proceeds are to be used by the Town for drug law enforcement.
- Cans to Trees Fund:** Recycling and other revenues accounted for in this fund will expand "green" areas within the Town.
- Victim's Assistance Fund:** Funding is provided by the assessment of ticket proceeds. Funds are used to provide victim services that include travel, training, personnel costs, and the notification processes that are required to meet the criteria established by the state law.
- CDBG Fund:** Fund is used to account for transactions related to the Community Development Block Grant program.
- Concerts in the Park Fund:** The Fund is used to account for donations and expenditures related to the annual "Second Sunday in the Park" summer concert series and other events held in the Virginia Hylton Park.
- Accommodations Tax Fund:** Fund accounts the tax levied on the rental of transient accommodations. Use of the revenue is restricted to the promotion of tourism and tourist related activities.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2003

(With comparative total amounts at June 30, 2002)

	Police Grants and Programs	Golden Hills Tax District	Downtown Restoration	Disaster Fund	Alcohol Permits	Sidewalk Fund	Drug Fund	Cans to Trees	Victims Assistance	CDBG	Concerts in the Park		Accommodations Tax	Totals
											2003	2002		
Cash and temporary investments	\$ 3,845	\$ 40,535	\$ 21,968	\$ 12,324	\$ 17,500	\$ 147,349	\$ 10,266	\$ 8,272	\$ 37,500	\$ -	\$ 712	\$ 13,733	\$ 314,004	\$ 395,993
Receivables, net:														
Taxes	-	-	-	-	-	-	-	-	-	-	-	14,164	14,164	15,581
Other	2,570	-	-	-	-	-	-	-	-	-	-	-	2,570	-
Due from grantor	69,532	-	-	-	-	-	-	149	-	-	-	-	69,681	68,024
Due from other funds	-	-	-	-	-	-	-	-	2,131	-	-	-	2,131	4,218
Total assets	\$ 75,947	\$ 40,535	\$ 21,968	\$ 12,324	\$ 17,500	\$ 147,349	\$ 10,266	\$ 8,421	\$ 39,631	\$ -	\$ 712	\$ 27,897	\$ 402,550	\$ 483,816

Liabilities and Fund

	2003	2002
Balances		
Accounts payable	\$ 22,342	\$ 157
Due to other funds	47,757	-
Deferred revenue	-	-
Total liabilities	70,099	157
Fund balances:		
Unreserved/undesignated	5,848	40,378
Total fund equity	5,848	40,378
Total liabilities and fund balances	\$ 75,947	\$ 40,535

	2003	2002
Accounts payable	\$ -	\$ -
Due to other funds	-	-
Deferred revenue	-	-
Total liabilities	-	-
Fund balances:		
Unreserved/undesignated	5,848	40,378
Total fund equity	5,848	40,378
Total liabilities and fund balances	\$ 75,947	\$ 40,535

DEBT SERVICE FUND

This fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the Town. Transfers from other governmental funds and interest earned on the investments of the Debt Service Fund are used for the payment of principal, interest, and fiscal agent expenditures on the Town's general obligation bonds, which are recorded in the General Long-Term Debt Account Group.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

DEBT SERVICE FUND
BALANCE SHEET

JUNE 30, 2003
(With comparative amounts at June 30, 2002)

	<u>2003</u>	<u>2002</u>
Assets		
Restricted cash and temporary investments	\$ 310,253	\$ 307,444
Total assets	<u>\$ 310,253</u>	<u>\$ 307,444</u>
Liabilities and Fund Balance		
Fund balance:		
Reserved for debt service	\$ 310,253	\$ 307,444
Total fund balance	<u>310,253</u>	<u>307,444</u>
Total liabilities and fund balance	<u>\$ 310,253</u>	<u>\$ 307,444</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

DEBT SERVICE FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED JUNE 30, 2003

(With comparative actual amounts for the year ended June 30, 2002)

	2003		Variance Favorable (Unfavorable)	2002
	Budget	Actual		Actual
Revenue				
Interest earned on investments	\$ -	\$ 2,817	\$ 2,817	\$ 6,290
Total revenue	-	2,817	2,817	6,290
Expenditures				
Debt service	420,074	422,705	(2,631)	206,630
Total expenditures	420,074	422,705	(2,631)	206,630
Deficiency of revenue under expenditures	(420,074)	(419,888)	186	(200,340)
Other Financing Sources				
Operating transfers in	420,074	422,697	2,623	206,300
Total other financing source	420,074	422,697	2,623	206,300
Excess of revenue and other financing sources over expenditures	-	2,809	2,809	5,960
Fund balance, beginning of year	307,444	307,444	-	301,484
Fund balance, end of year	\$ 307,444	\$ 310,253	\$ 2,809	\$ 307,444

CAPITAL PROJECT FUNDS

The Capital Project Funds account for all financial resources to be used for the acquisition and/or construction of major capital facilities (other than those financed by the Proprietary Fund). The primary sources of money in these funds are the proceeds of general obligation bond issues, federal and state grants, and interest earnings.

- Streetscape: Accounts for financial resources and construction of the Main Street Streetscape project.
- Streets and Infrastructure: Accounts for financial resources and construction of major street and infrastructure projects.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2003

(With comparative amounts at June 30, 2002)

	<u>Streetscape</u>	<u>Streets and Infrastructure</u>	<u>Totals</u>	
			<u>2003</u>	<u>2002</u>
Assets				
Restricted cash and temporary investments	\$ 874,366	\$ 497,433	\$ 1,371,799	\$ 2,294,099
Due from grantor	-	30,909	30,909	18,226
Total assets	<u>\$ 874,366</u>	<u>\$ 528,342</u>	<u>\$ 1,402,708</u>	<u>\$ 2,312,325</u>
Liabilities and Fund Balance				
Accounts payable	\$ 122,818	\$ 103,164	\$ 225,982	\$ 11,945
Fund Balance:				
Unreserved/Undesignated	751,548	425,178	1,176,726	2,300,380
Total fund balance	<u>751,548</u>	<u>425,178</u>	<u>1,176,726</u>	<u>2,300,380</u>
Total liabilities and fund balance	<u>\$ 874,366</u>	<u>\$ 528,342</u>	<u>\$ 1,402,708</u>	<u>\$ 2,312,325</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

CAPITAL PROJECTS FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2002
 (With comparative amounts for the year ended June 30, 2002)

	Streetscape	Streets and Infrastructure	Totals	
			2003	2002
Revenue				
Grant revenue	\$ 222,750	\$ 119,680	\$ 342,430	\$ 40,126
Interest earned on investments	29,385	13,006	42,391	17,845
Total Revenue	<u>252,135</u>	<u>132,686</u>	<u>384,821</u>	<u>57,971</u>
Expenditures				
Capital outlay	1,097,265	533,890	1,631,155	158,311
Bond issuance costs	-	-	-	62,420
Total expenditures	<u>1,097,265</u>	<u>533,890</u>	<u>1,631,155</u>	<u>220,731</u>
Deficiency of revenue under expenditures	<u>(845,130)</u>	<u>(401,204)</u>	<u>(1,246,334)</u>	<u>(162,760)</u>
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	2,463,140
Operating transfer in	-	122,680	122,680	-
Total other financing sources	<u>-</u>	<u>122,680</u>	<u>122,680</u>	<u>2,463,140</u>
Excess of revenue and other financing sources over expenditures	<u>(845,130)</u>	<u>(278,524)</u>	<u>(1,123,654)</u>	<u>2,300,380</u>
Fund balance, beginning of year	1,596,678	703,702	2,300,380	-
Fund balance, end of year	<u>\$ 751,548</u>	<u>\$ 425,178</u>	<u>\$ 1,176,726</u>	<u>\$ 2,300,380</u>

ENTERPRISE FUND

Enterprise Funds are to be used to account for operations that are financed and operated in a manner similar to private sector businesses where the intent of the governing body is that the costs (including depreciation) of providing goods or services primarily or solely to the general public be financed or recovered primarily through user charges. The only Enterprise Fund of the Town is the Waterworks and Sewer System Enterprise Fund. The Waterworks and Sewer System Enterprise Fund is used to account for all financial resources associated with supplying water and providing sewage services to domestic, business, and industrial customers within the Town area.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
BALANCE SHEET

JUNE 30, 2003
(With comparative amounts at June 30, 2002)

	2003	2002
Assets		
Cash and temporary investments	\$ 4,924,717	\$ 3,602,752
Receivables, net:		
Fees and services	775,289	875,072
Other	12,186	43,998
Due from other fund	386,674	-
Inventories-supplies	133,348	242,128
Restricted assets:		
Cash and temporary investments	10,930,008	5,481,982
Prepaid items	19,762	-
Property, plant, and equipment, net	36,511,338	36,650,214
Deferred charges:		
Capacity reserve	11,444,539	11,688,210
Retail distribution rights	2,302,566	2,352,622
Bond issue cost, net of amortization	1,101,609	1,084,515
Total assets	\$ 68,542,036	\$ 62,021,493
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	\$ 119,275	\$ 203,082
Accrued liabilities	32,676	22,280
Current liabilities payable from restricted assets:		
Construction payables	520,214	314,906
Accrued interest	381,576	327,477
Revenue bonds-current	855,000	855,000
Customer deposit	3,000	2,000
Bond anticipation note	7,500,000	-
Revenue bonds payable	29,357,332	29,847,465
Contracts payable	2,559,018	2,559,018
Accrued compensated absences	57,509	55,153
Capital lease obligation	515,415	515,415
Total liabilities	41,901,015	34,701,796
Fund equity:		
Contributed capital	17,944,227	17,944,227
Retained earnings:		
Unreserved	8,696,794	9,375,470
Total fund equity	26,641,021	27,319,697
Total liabilities and fund equity	\$ 68,542,036	\$ 62,021,493

TOWN OF LEXINGTON, SOUTH CAROLINA

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS

YEAR ENDED JUNE 30, 2003

(With comparative amounts for the year ended June 30, 2002)

	<u>2003</u>	<u>2002</u>
Operating Revenue		
Water service	\$2,506,809	\$2,370,027
Sewer service	3,204,653	2,841,639
Tap and meter fees	97,778	76,165
Other income	265,434	237,782
Total operating revenue	<u>6,074,674</u>	<u>5,525,613</u>
Operating Expenses		
Salaries, wages, and fringes	1,349,273	1,197,937
Contractual services	1,363,748	1,381,714
Materials and supplies	305,986	245,769
Heat, light, and power	105,101	83,740
Depreciation and amortization	1,334,482	1,196,263
Other operating expenses	244,438	302,320
Allocation of personnel expenditures	446,579	-
Allocation of operating expenditures	234,537	-
Total operating expenses	<u>5,384,144</u>	<u>4,407,743</u>
Operating income	<u>690,530</u>	<u>1,117,870</u>
Non-Operating Revenue (Expenses)		
Interest income	165,249	211,252
Capital contributions	2,968,691	3,091,977
Interest expense	(1,599,820)	(1,557,984)
Amortization of bond issuance costs	(44,159)	(53,635)
Total non-operating revenue (expenses)	<u>1,489,961</u>	<u>1,691,610</u>
Net income before operating transfer	2,180,491	2,809,480
Operating transfer out	<u>(2,859,167)</u>	<u>-</u>
Net income (loss)	(678,676)	2,809,480
Retained earnings, beginning of year	9,375,470	6,565,990
Retained earnings, end of year	<u>\$8,696,794</u>	<u>\$9,375,470</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2003

(With comparative amounts for the year ended June 30, 2002)

	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 6,207,269	\$ 5,336,157
Cash paid to suppliers for goods or services	(2,228,837)	(2,088,010)
Cash paid to employees for services	(1,783,100)	(1,173,703)
Net cash provided by operating activities	<u>2,195,332</u>	<u>2,074,444</u>
Cash Flows from Non-Capital Financing Activities		
Transfer to other fund	(2,859,167)	-
Net Cash used in non-capital financing activities	<u>(2,859,167)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of fixed assets	(155,664)	(1,879,679)
Proceeds from the sale of land	80,000	-
Refund of purchase of wastewater capacity	-	84,398
Proceeds from new debt	7,500,000	40,841,735
Bond issuance costs paid	(61,253)	(974,609)
Bond proceeds placed in defeasance escrow	-	(22,153,385)
Premium paid on revenue bond refunding	-	(10,650)
Principal paid on revenue bonds	(855,000)	(2,705,000)
Principal paid on contract payable	-	(216,736)
Principal paid on note's payable	-	(14,363,938)
Arbitrage rebate paid	-	(53,645)
Interest and fees paid	(1,180,855)	(1,644,962)
Capital contribution fees	1,941,348	1,528,075
Net cash provided by (used in) capital and related financing activities	<u>7,268,576</u>	<u>(1,548,396)</u>
Cash Flows from Investing Activities		
Interest received	165,249	209,497
Net cash provided by investing activities	<u>165,249</u>	<u>209,497</u>
Net increase in cash and cash equivalents	6,769,990	735,545
Cash and cash equivalents, beginning of year	<u>9,084,734</u>	<u>8,349,189</u>
Cash and cash equivalents, end of year	<u>\$ 15,854,724</u>	<u>\$ 9,084,734</u>

TOWN OF LEXINGTON, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF CASH FLOWS

- CONTINUED -

	<u>2003</u>	<u>2002</u>
Reconciliation of Net Cash Provided by Operating Activities:		
Operating income	\$ 690,530	\$ 1,117,870
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,334,482	1,196,263
Decrease (increase) in accounts receivable	131,595	(189,456)
Decrease (increase) in inventory	108,780	(115,686)
Decrease in prepaid items	-	13,428
Increase (decrease) in accounts payable	(83,807)	41,219
Increase in customer deposits	1,000	-
Increase in accrued expenses	12,752	10,806
Net cash provided by operating activities	<u>\$ 2,195,332</u>	<u>\$ 2,074,444</u>
Non-cash Capital Supplementary Information:		
Revenue bond principal accretion and discount amortization	\$ 124,402	\$ 118,100
Revenue bond premium and deferred amount on refunding amortization	240,464	157,894
Deeded fixed assets (capital contributions)	1,027,343	1,563,902

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is used to account for the general fixed assets of the Town utilized in its general operations, exclusive of those used in the Enterprise Fund. General Fixed Assets include land, buildings, betterments and equipment owned by the Town.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA
 SCHEDULE OF GENERAL FIXED ASSETS BY SOURCE

JUNE 30, 2003
 (With comparative amounts at June 30, 2002)

	2003	2002
General Fixed Assets		
Land	\$ 1,422,854	\$ 1,422,854
Buildings	6,176,675	2,930,833
Vehicles and equipment	3,089,634	2,856,780
Total general fixed assets	\$ 10,689,163	\$ 7,210,467
 Investment in General Fixed Assets by Source		
Certificates of participation	\$ 2,491,113	\$ 2,491,113
Special Revenue	208,844	158,873
General Fund	7,989,206	4,560,481
Total investment in general fixed assets	\$ 10,689,163	\$ 7,210,467

TOWN OF LEXINGTON, SOUTH CAROLINA

SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY

JUNE 30, 2003

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Vehicles and Equipment</u>	<u>Totals</u>
General Government:				
Council	\$ -	\$ -	\$ 51,145	\$ 51,145
Administration	-	-	19,299	19,299
Finance	-	-	32,970	32,970
Information technology	-	-	51,760	51,760
Building department	-	-	35,469	35,469
Total general government	-	-	190,643	190,643
Public Safety:				
Police	-	2,662,006	630,177	3,292,183
Victim's assistance	-	-	15,305	15,305
Police grants and programs	-	-	126,188	126,188
Total public safety	-	2,662,006	771,670	3,433,676
Parks, streets, and sanitation	191,269	79,147	107,544	377,960
Construction in progress	-	725,975	-	725,975
Assets in service prior to June 30, 1999	1,231,585	2,709,547	2,019,777	5,960,909
Total general fixed assets	<u>\$ 1,422,854</u>	<u>\$ 6,176,675</u>	<u>\$ 3,089,634</u>	<u>\$10,689,163</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY

YEAR ENDED JUNE 30, 2003

<u>Function and Activity</u>	<u>Balances June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances June 30, 2003</u>
General Government:				
Council	\$ 40,550	\$ 10,595	\$ -	\$ 51,145
Administration	19,299	-	-	19,299
Finance	25,219	7,751	-	32,970
Information technology	-	51,760	-	51,760
Building department	20,507	14,962	-	35,469
Total general government	<u>105,575</u>	<u>85,068</u>	<u>-</u>	<u>190,643</u>
Public Safety:				
Police	555,150	2,737,033	-	3,292,183
Victim's assistance	14,311	994	-	15,305
Police grants and programs	77,212	48,976	-	126,188
Total public safety	<u>646,673</u>	<u>2,787,003</u>	<u>-</u>	<u>3,433,676</u>
Parks, streets, and sanitation	355,171	22,789	-	377,960
Construction in progress	142,139	583,836	-	725,975
Assets in service prior to June 30, 1999	5,960,909	-	-	5,960,909
Total general fixed assets	<u>\$ 7,210,467</u>	<u>\$ 3,478,696</u>	<u>\$ -</u>	<u>\$ 10,689,163</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL LONG-TERM DEBT ACCOUNT GROUP

The General Long-Term Debt Account Group is used to account for general obligation bonded debt of the Town and liabilities for vested amounts of compensated absences which are to be paid from taxes, and other Governmental Fund type revenue of the Town.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA
 SCHEDULE OF GENERAL LONG-TERM DEBT

JUNE 30, 2003
 (With comparative amounts at June 30, 2002)

	2003	2002
<u>Amount available and to be provided for the payment of</u>		
<u>General Long-Term Debt</u>		
Amount to be provided-compensated absences	\$ 214,806	\$ 173,292
Amount to be provided-general obligation bonds	2,370,000	2,450,000
Amount to be provided-other long-term debt	1,940,338	2,038,872
Amount available in debt service fund	310,253	307,444
Total available and to be provided	\$ 4,835,397	\$ 4,969,608
 <u>General Long-Term Debt Payable</u>		
Notes payable	\$ 144,581	\$ 170,653
General obligation bonds	2,370,000	2,450,000
Certificates of participation	2,106,010	2,175,663
Total general long-term debt payable	4,620,591	4,796,316
 <u>Other Long-Term Obligations</u>		
Accrued compensated absences	214,806	173,292
Total other long-term obligations	214,806	173,292
 Total general long-term debt payable and other long-term obligations	 \$ 4,835,397	 \$ 4,969,608

TOWN OF LEXINGTON, SOUTH CAROLINA

SCHEDULE OF COURT FINES, ASSESSMENTS, AND SURCHARGES

This schedule, which is mandated by state law, summarizes the amount of court fines, assessments, and surcharges retained by the Town and the amount remitted to the State Treasurer.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA
SCHEDULE OF COURT FINES, ASSESSMENTS, AND SURCHARGES
YEAR ENDED JUNE 30, 2003

Court Fines and Assessments

Total Court fines and assessments collected	<u>\$ 601,016</u>
Total Court fines and assessments retained by Municipal Treasurer	<u>\$ 251,469</u>
Total Court fines and assessments remitted to State Treasurer	<u>\$ 314,633</u>

Surcharges

Total surcharges collected	<u>\$ 10,002</u>
Total surcharges retained by Municipal Treasurer	<u>\$ 10,002</u>

Victim's Services

Total Court fines and assessments allocated	<u>\$ 34,914</u>
Total surcharges allocated	<u>\$ 10,002</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

Town of Lexington, South Carolina

General Government Expenditures by Function Last Ten Fiscal Years (Unaudited)

Fiscal Year	General Government	Public Safety	Parks Streets & Sanitation	Victim's Assistance	Housing Rehabilitation	Accommodations Tax	Capital Outlay	Debt Service	Total (1)
1994	\$ 683,771	\$ 795,975	\$ 486,810	\$ -	\$ -	\$ -	\$ 109,070	\$ 2,238,266	\$4,313,892
1995	606,858	925,316	658,742	-	-	-	49,559	294,682	2,535,157
1996	1,050,451	879,905	576,792	-	-	-	250,120	231,146	2,988,414
1997	1,242,858	985,996	655,178	-	-	-	200,557	307,333	3,391,922
1998	677,732	1,064,062	672,254	84	1,240	-	115,433	299,184	2,829,989
1999	990,345	1,125,591	772,834	618	235,588	10,839	425,253	375,959	3,937,027
2000	1,253,790	1,193,358	846,282	38,110	78,710	16,838	394,474	411,664	4,233,226
2001	1,387,621	1,391,450	957,204	35,236	-	30,042	437,340	540,427	4,779,320
2002	1,509,230	1,551,536	1,023,938	44,184	-	-	689,109	224,856	5,042,853
2003	1,005,750	1,850,757	1,170,206	82,450	816	52,207	5,112,166	465,061	9,739,413

(1) Includes general, special revenue, debt service, and capital projects funds

Town of Lexington, South Carolina

General Government Revenues by Source
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Property Taxes	Franchises,		Fines and Forfeitures	Grants and Other Revenues		Total
		Licenses & Permits	Other Governments		Grants and Other Revenues	Other Revenues	
1994	\$ 728,220	\$ 1,040,507	\$ 165,495	\$ 99,687	\$ 113,532	\$ 2,147,441	
1995	816,870	1,042,625	151,652	181,730	103,651	2,296,528	
1996	925,220	1,027,368	174,645	151,903	544,325	2,823,461	
1997	985,176	1,524,673	199,040	161,362	597,918	3,468,169	
1998	1,129,612	1,584,037	395,634	192,141	104,746	3,406,170	
1999	1,353,996	1,813,731	584,881	242,753	182,012	4,177,373	
2000	1,411,538	1,998,933	587,083	193,455	479,017	4,670,026	
2001	1,654,082	2,252,406	486,530	276,889	231,535	4,901,442	
2002	1,643,953	2,485,391	691,297	299,714	163,203	5,283,558	
2003	1,840,776	2,636,418	969,807	286,383	168,968	5,902,352	

Town of Lexington, South Carolina

Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited)

Fiscal Year	Total Tax Levy (1)	Total Tax Collections	Percentage of		Outstanding Delinquent Taxes	Percentage Delinquent Taxes to Total Tax Levy
			Total Tax Collections to Tax Levy	Total Tax Collections to Tax Levy		
1994	\$ 740,100	\$ 728,220	98.39%	\$	11,880	1.61%
1995	832,808	816,870	98.09%		15,938	1.91%
1996	967,264	925,220	95.65%		42,044	4.35%
1997	1,011,401	985,176	97.41%		26,225	2.59%
1998	1,156,004	1,129,612	97.72%		26,392	2.28%
1999	1,341,709	1,268,429	94.54%		73,280	5.46%
2000	1,425,166	1,392,750	97.73%		32,416	2.22%
2001	1,604,590	1,550,107	96.60%		54,483	3.40%
2002	1,700,317	1,659,502	97.60%		40,815	2.40%
2003	1,805,421	1,801,584	99.79%		3,837	0.21%

Source: Lexington County Treasurer's Office

Town of Lexington, South Carolina

Assessed and Estimated Actual Value of Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Tax Year	Real Property			Personal Property			Total			Ratio of Total Assessed Value to Estimated Actual Value
		Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value		
1994	1993	\$ 10,999,322	\$ 274,983,050	\$ 2,808,514	\$ 26,747,751	\$ 13,807,836	\$ 301,730,801	4.58%			
1995	1994	12,409,771	310,244,286	3,127,691	29,787,536	15,537,463	340,031,822	4.57%			
1996	1995	14,371,811	359,295,266	3,674,160	34,991,995	18,045,970	394,287,261	4.58%			
1997	1996	15,987,850	399,696,250	3,649,680	34,758,857	19,637,530	434,455,107	4.52%			
1998	1997	17,495,395	437,384,871	4,472,705	42,597,192	21,968,100	479,982,063	4.58%			
1999	1998	17,924,860	369,030,610	7,325,460	66,522,571	25,250,320	435,553,181	5.80%			
2000	1999	18,224,150	369,016,350	9,191,670	90,404,761	27,415,820	459,421,111	5.90%			
2001	2000	19,605,580	407,635,800	10,289,750	97,997,619	29,895,330	505,633,419	5.90%			
2002	2001	27,339,580	557,161,700	10,847,520	105,481,062	38,187,100	662,642,762	5.76%			
2003	2002	30,025,460	613,465,420	10,998,510	109,019,170	41,023,970	722,484,590	5.68%			

Source: Lexington County Auditor's Office

Note: Includes Fee In Lieu

Town of Lexington, South Carolina

Property Tax Rates-Direct and Overlapping Governments (Per \$1,000 of Assessed Value) Last Ten Fiscal Years (Unaudited)

Fiscal Year	Tax Year	Town of Lexington	Lexington County	Lexington School District 1	Midlands		Recreation Commission	Riverbanks Zoo	Mental Health	Total
					Technical College	College				
1994	1993	53.60	67.80	184.90	3.20	3.20	13.80	2.10	0.80	326.20
1995	1994	53.60	67.30	184.90	3.50	3.50	13.60	2.20	0.90	326.00
1996	1995	53.60	67.30	184.90	3.40	3.40	13.10	2.30	0.90	325.50
1997	1996	53.60	68.80	194.90	3.40	3.40	13.20	2.10	0.90	336.90
1998	1997	53.60	68.00	194.90	3.30	3.30	12.80	2.10	0.90	335.60
1999	1998	53.60	67.90	214.60	3.30	3.30	12.80	2.60	0.90	355.70
2000	1999	51.00	76.20	224.40	4.20	4.20	12.80	2.60	0.90	372.10
2001	2000	51.00	80.20	239.40	4.20	4.20	13.20	2.50	0.90	391.40
2002	2001 (1)	43.70	74.47	250.30	3.72	3.72	12.78	2.01	0.84	387.82
2003	2002	43.70	81.75	262.30	4.08	4.08	13.04	1.73	0.84	407.44

(1) = Reassessment of real property required the Town and other governments to comply with roll back millage provisions in state law.

Town of Lexington, South Carolina

Principal Tax Payers
Year Ended June 30, 2003
(Unaudited)

Taxpayer	Type of Business	Assessed Value as of 12/31/02	Percentage of Total Assessed Valuation	Taxes Paid
South Carolina Electric & Gas (1)	Manufacturing-Utility	\$ 925,620	2.26%	\$ 40,450
Lowes Home Centers	Retail	720,170	1.76%	31,471
Old Mill Apartments/Lexington	Apartment Complex	592,800	1.45%	25,905
Thornhill LP	Apartment Complex	531,970	1.30%	23,247
W M Lexington Trust	Real Estate	501,520	1.22%	21,916
Edens & Avant Financing	Real Estate	431,590	1.05%	18,860
Shenandoah Apartments	Apartment Complex	404,250	0.99%	17,666
Lexington Chapin Retirement	Retirement Home	368,810	0.90%	16,117
Advanced Newhouse Partners (Time Warner) (1)	Cable Television	328,480	0.80%	14,355
Chimney Ridge Apartments	Apartment Complex	307,200	0.75%	13,425
Kohls Department Stores	Retail	305,780	0.75%	13,363
Baker & Baker	Real Estate	288,750	0.70%	12,618
Lexington Senior Care Development	Real Estate	283,000	0.69%	12,367
Alltel South Carolina Inc	Manufacturing-Utility	277,770	0.68%	12,139
Lexington Place LLC	Real Estate	270,590	0.66%	11,825
Triton PCS Holding Co LLC	Manufacturing-Utility	226,020	0.55%	9,877
Herndon Chevrolet	Retail	210,060	0.51%	9,180
Village Square Partners	Real Estate	196,590	0.48%	8,591
Golden Hills Inc.	Real Estate	193,570	0.47%	8,459
East Towne Lexington (E&A)	Real Estate	193,460	0.47%	8,454
Total Principal Taxpayers		\$ 7,558,000	18.42%	\$ 330,284
Town 2002 Assessed Valuation		\$ 41,023,970	100.00%	

Source: Lexington County Property Appraiser's Office

(1) = Reflects 2001 assessed value and payment information.

Town of Lexington, South Carolina

Computation of Legal Debt Margin Year Ended June 30, 2003 (Unaudited)

Total Assessed Value	<u>\$ 41,023,970</u>
Debt Limit-Eight (8%) percent of assessed value, without voter's approval	\$ 3,281,918
Amount of Debt Applicable to debt limit	<u>2,370,000</u>
Legal debt margin without a referendum	<u>\$ 911,918</u>

Note: The Town's borrowing power is restricted by amended Article X, Section 14, of the State Constitution which became effective November 30, 1977. This Section provides that a local government unit cannot at any time have total general bonded debt outstanding (excluding certain lease and installment obligations) in any amount that exceeds eight percent (8%) of its total assessed property value. Also, excluded from the limitation are: bonded indebtedness approved by the voters and issued within five years of the date of such referendum; special bonded indebtedness levies assessed on properties located in an area receiving special benefits from the taxes collected; and other bonded indebtedness existing on or prior to 1995. Accordingly, the Town's outstanding Certificates of Participation in the amount of \$2,106,010 as of June 30, 2003 have not been included in the Town's computation of legal debt margin.

Town of Lexington, South Carolina

Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 June 30, 2003
 (Unaudited)

Political Subdivision	Assessed		Obligation Bonded Debt Outstanding		Percentage Applicable to the Town	Town's Share of Debt
	Total	Assessed Value Within the Town	General Gross Debt (1)			
Direct:						
Town of Lexington	\$ 41,023,970	\$ 41,023,970	\$ 4,476,010		100.00%	\$ 4,476,010
Overlapping:						
Lexington County	697,810,800	41,023,970	48,156,717		5.88%	2,831,111
Lexington County School District One	266,277,480	41,023,970	75,420,000		15.41%	11,619,562
Lexington County Recreation Commission	463,067,900	41,023,970	15,210,000		8.86%	1,347,480
Riverbanks Zoo	1,760,331,927	41,023,970	17,475,000		2.33%	407,249
Total Overlapping			156,261,717			16,205,402
Total			\$ 160,737,727			\$ 20,681,412

(1) = General gross debt for the Town of Lexington includes \$2,106,010 of outstanding Certificates of Participation which are excluded from the calculation of the Town's legal debt margin (See "Computation of Legal Debt Margin").

Town of Lexington, South Carolina

Ratio of Net General Bonded Debt To Assessed Value and Net General Bonded Debt per Capita Last Ten Fiscal Years (Unaudited)

Fiscal Year	Population (1)	Assessed Value (2)	General Bonded Debt (3)	Ratio of Bonded Debt to Assessed Value	Bonded Debt Per Capita
1994	5,148	\$ 13,807,836	\$ 2,833,236	20.52%	550
1995	5,250	15,537,463	2,746,768	17.68%	523
1996	6,180	18,045,970	2,705,891	14.99%	438
1997	6,500	19,637,530	2,717,736	13.84%	418
1998	7,300	21,968,100	2,505,454	11.40%	343
1999	7,800	25,250,320	2,820,162	11.17%	362
2000	9,800	27,415,820	2,571,228	9.38%	262
2001	10,500	29,895,330	2,344,004	7.84%	223
2002	13,000	38,187,100	4,625,663	12.11%	356
2003	14,500	41,023,970	4,476,010	10.91%	309

(1) Source: Lexington Economic Development Association and Bureau of the Census

(2) From Assessed value property as furnished by Lexington County

(3) General bonded debt represents debt that is supported by taxes and excludes debt reported in proprietary funds

Note: Prior to 2002, the amount reported as "General Bonded Debt" represented indebtedness which was properly excluded from the calculation of the Town's constitutionally imposed legal debt limit of 8% of assessed value. During 2002, the Town issued general obligation bonds in the amount of \$2,450,000 which are subject to the 8% limit.

Town of Lexington, South Carolina

Ratio of Annual Debt Service Expenditures
 General Bonded Debt (1)
 Total General Governmental Expenditures
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental		Ratio of Debt Service to General Governmental Expenditures
				Expenditures (2)	Expenditures	
1994	\$ 62,844	\$ 5,079	\$ 67,923	\$ 4,313,892		1.57%
1995	120,446	86,468	206,914	2,535,157		8.16%
1996	173,017	20,428	193,445	2,988,414		6.47%
1997	224,279	96,880	321,159	3,391,922		9.47%
1998	203,350	95,834	299,184	2,829,989		10.57%
1999	346,648	29,311	375,959	3,937,027		9.55%
2000	325,810	85,854	411,664	4,233,226		9.72%
2001	310,076	66,920	376,996	4,779,320		7.89%
2002	184,815	21,815	206,630	5,042,853		4.09%
2003	250,000	170,073	420,073	9,739,413		4.31%

(1) General bonded debt represents debt that is supported by taxes and excludes debt reported in proprietary funds.

(2) Includes general, special revenue, debt service, and capital projects funds

Town of Lexington, South Carolina

Revenue Bond Coverage Waterworks and Sewer System Bonds Last Ten Fiscal Years (Unaudited)

Fiscal Year	Gross Revenues(1)	Operating Expenses (2)	Net Revenue Available for			Debt Service Requirements		Coverage
			Debt Service	Principal	Interest	Total		
1994	\$ 2,125,463	\$ 1,022,526	\$ 1,102,937	\$ 208,000	\$ 170,525	\$ 378,525	2.91	
1995	2,389,781	1,280,539	1,109,242	260,000	120,532	380,532	2.91	
1996	2,991,965	1,633,909	1,358,056	270,000	191,615	461,615	2.94	
1997	4,214,144	1,798,322	2,415,822	280,000	411,464	691,464	3.49	
1998	5,102,536	1,955,760	3,146,776	290,000	977,788	1,267,788	2.48	
1999	5,108,532	2,630,425	2,478,107	420,000	1,268,962	1,688,962	1.47	
2000	7,502,725	2,902,209	4,600,516	819,390	1,428,701	2,248,091	2.05	
2001	6,618,244	2,972,509	3,645,735	895,816	1,618,510	2,514,326	1.45	
2002	7,264,940	3,211,480	4,053,460	1,856,736	774,747	2,631,483	1.54	
2003	8,016,022	4,049,662	3,966,360	855,000	1,360,808	2,215,808	1.79	

(1) Includes capital contribution fees (CCFs) but excludes non-cash capital contributions

(2) Does not include depreciation and other non-cash related charges

CCFs	Revenue	% Increase (Decrease)
1995	\$ 471,639	-
1996	755,677	60.22
1997	1,141,028	50.99
1998	1,644,136	44.09
1999	1,021,407	-37.88
2000	2,830,716	177.14
2001	1,251,965	-55.77
2002	1,528,075	22.05
2003	1,941,348	27.05

Town of Lexington, South Carolina

Demographic Statistics June 30, 2003

Fiscal Year	Estimated Population (1)	Per Capita		School Enrollment (2)	Unemployment Rate (3)
		Personal Income (1)	School Enrollment (2)		
1994	5,148	\$ 17,887	12,560	4.30%	
1995	5,250	18,900	13,222	3.20%	
1996	6,180	19,480	13,675	3.20%	
1997	6,500	19,870	14,416	2.90%	
1998	7,300	20,267	15,234	1.86%	
1999	7,800	22,771	15,822	1.70%	
2000	9,800	21,145	16,314	2.20%	
2001	10,500	23,416	16,831	2.30%	
2002	13,000	N/A	17,268	3.20%	
2003	14,500	N/A	17,829	3.30%	

(1) Information provided by Economic Development, Central Midlands and Bureau of the Census

(2) Data includes information for all of Lexington School District 1

(3) Lexington unemployment figures provided by S.C. Labor & Marketing

Town of Lexington, South Carolina

Property Value, Construction, and Bank Deposits Last Ten Fiscal Years (Unaudited)

Year	Estimated Actual Real Property Value	Residential Construction		Commercial Construction		Bank Deposits (x 1,000)
		# of Units	Value	# of Units	Value	
1994	\$ 274,983,050	174	\$ 14,683,240	14	\$ 12,258,307	\$ 276,525
1995	310,244,286	132	11,888,981	14	3,388,105	293,583
1996	395,295,266	145	12,530,889	17	7,190,640	296,472
1997	399,696,240	184	16,953,628	24	11,616,642	328,874
1998	437,384,871	255	23,767,534	25	19,992,349	359,130
1999	369,030,610	434	29,214,128	18	8,755,848	388,135
2000	369,016,350	459	29,145,971	20	38,489,121	418,789
2001	407,635,800	255	23,037,796	10	3,680,720	460,432
2002	557,161,700	348	24,749,534	18	31,852,541	523,898
2003	613,465,420	313	27,591,523	11	12,417,501	581,493

Source: Town of Lexington Building & Zoning Department, Lexington
County Assessor's Office, F.D.I.C.

Town of Lexington, South Carolina

Miscellaneous Statistics Year Ended June 30, 2003

(Unaudited)

Date of Incorporation	January 28, 1861		
Form of Government	Council		
Area-Square Miles	10		
Building Permits:			
Permits Issued	622		
Zoning Permits	310		
Police Protection:			
Full-time sworn	29		
Civilian Staff	5		
Recreation:			
Parks and Playgrounds	2		
Number of meters billed:	Inside	Outside	Total
Water	4290	651	4941
Sewer	4179	2267	6446
Municipal Water Plants (decommissioned)	1		
Municipal Sewer Plants	1		
Election Data:			
Registered Voters	5,858		
Number of precincts	6		
Town of Lexington employees:			
Full Time	97		
Part Time	9		
Median age	33.3		
Male	49%		
Female	51%		
Median Family Income	\$65,694		

Source: Town of Lexington Departments and Census

TOWN OF LEXINGTON, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

SECTION I:
SUMMARY OF THE AUDITOR'S RESULTS

1. The independent auditor's report on the financial statements expressed an unqualified opinion.
2. There were no reportable conditions in internal control over financial reporting disclosed in the audit of the financial statements.
3. The audit did not disclose any material noncompliance matters in relation to the financial statements.
4. There were no reportable conditions in internal control over compliance applicable to major programs.
5. The report on compliance for major programs expressed an unqualified opinion.
6. The audit disclosed no audit findings.
7. The major program of the Town of Lexington, S.C. included in the audit was:
 - a. CFDA# 20.205 U.S. Department of Transportation Enhancement Project.
8. The dollar threshold for Type A programs for Town of Lexington, S.C. was \$300,000.
9. The Town of Lexington, S.C. did not qualify as a low-risk auditee.

SECTION II:
FINDINGS IN RELATION TO THE AUDIT OF THE FINANCIAL STATEMENTS

No matters were reported.

SECTION III:
FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

TOWN OF LEXINGTON, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Total Expenditures
<u>United States Office of Juvenile Justice and Delinquency Prevention Programs (OJJDP)</u>				
Passed Through the South Carolina Department of Public Safety				
Juvenile Accountability Incentive Block Grant (School Resource Officer)	16.523	1J0016	\$ 10,326	\$ 10,326
<u>United States Office of Justice Programs (OJP)</u>				
Passed Through the South Carolina Department of Public Safety				
Body Armor Purchase Program (Vest Purchase)	16.607	1F99084	2,625	2,625
Byrne Grant Funding - Drug Control System Improvement Program (CDV Investigator-Year 2)	16.580	1F02041	39,873	37,452
<u>United States Department of Transportation</u>				
Passed Through the South Carolina Department of Public Safety				
Highway Safety Grant Program (TEU-Year 2)	20.600	2H02026	52,501	42,753
Highway Safety Grant Program (TEU-Year 3)	20.600	2T03007	64,535	52,323
Passed Through the South Carolina Department of Transportation				
ISTEA Funding (Main Street Improvements) *	20.205	STP-EH32(004)	271,753	222,751
ISTEA Funding (Highway 378 Sidewalk Improvements) *	20.205	ENH-47-02	119,680	119,680
<u>United States Department of Justice</u>				
Passed Through the South Carolina Department of Public Safety				
Victims of Crime Act Funding (Victim's Advocate - Year 3)	16.575	1V02099	16,755	12,713
Victims of Crime Act Funding (Victim's Advocate-Year 4)	16.575	1V03110	10,525	2,131
Victims of Crime Act Funding (Victim Assistance Training Video)	16.575	1W03035	25,000	25,000
<u>United States Department of Justice</u>				
Community Oriented Policing Services (Methamphetamine Task Force Grant)	16.710	2002CKWX0320	222,222	22,548
Total Expenditures of Federal Awards			\$ 550,302	\$ 550,302

* = denotes major program

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2003

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Lexington, South Carolina and is presented on the modified accrual basis of accounting, the same basis of accounting used to prepare the general purpose financial statements as described in Note 1 to the financial statements.

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.



Brittingham, Dial & Jeffcoat, P. A.
CERTIFIED PUBLIC ACCOUNTANTS

J.T. BRITTINGHAM, CPA (1924-1995) W.F. DIAL, JR., CPA J.M. JEFFCOAT, CPA (RETIRED) K.R. BROWN, CPA K.E. PRINCE, CPA
J.R. HITE, CPA J.T. BRITTINGHAM JR., CPA K.D. DIAL, CPA WM. H. HANCOCK, CPA M.A. BRANDON, CPA ESTABLISHED IN 1957

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and Members of Town Council
Town of Lexington, South Carolina

We have audited the general purpose financial statements of the Town of Lexington, South Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Lexington, South Carolina's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the town council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 16, 2003

Brittingham Dial + Jeffcoat



Brittingham, Dial & Jeffcoat, P. A.
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**INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

The Honorable Mayor and Members of Town Council
Town of Lexington, South Carolina

Compliance

We have audited the compliance of the Town of Lexington, South Carolina (hereafter referred to as the Town) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of town council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bruttingham Dial & Jeffcoat

October 16, 2003.

