

TOWN OF LEXINGTON, SOUTH CAROLINA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

WITH

REPORT OF INDEPENDENT AUDITORS



Prepared by: Finance Department

James W. Duckett, Jr., Town Administrator
Stuart W. Ford, CPA, Finance Director

TOWN OF LEXINGTON, SOUTH CAROLINA

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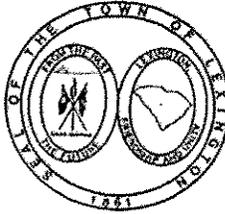
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MAYOR
T. Randall Halfacre

TOWN OF LEXINGTON

111 Maiden Lane



MAYOR PRO-TEM
Hazel Leggett-Tyndall

COUNCIL
Constance Caractor Flemming
Danny Frazier
Kathy Mauess
Ted Stambolitis
Richard D. Thompson

TOWN ADMINISTRATOR
James W. Duckett, Jr.

MAILING ADDRESS
Post Office Box 397
Lexington, SC 29071

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Letter of Transmittal

December 19, 2005

To the Honorable T. Randall Halfacre, Mayor, Members of Town Council, and the Citizens of the Town of Lexington, South Carolina:

Both local ordinances and polices and state statutes mandate that the Town of Lexington complete a set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Comprehensive Annual Financial Report (CAFR) for the Town of Lexington for the year ended June 30, 2005, is hereby submitted. 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.
- The Financial Section includes the independent auditors' report, management's discussion and analysis, basic financial statements, notes to financial statements and other financial information.
- The Statistical Section, which is unaudited, includes selected general, financial and demographic information, presented on a multi-year comparative basis.

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, this financial report is complete and reliable in all material respects and all disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included. Management has established and maintains a system of internal controls to provide for this assurance.

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 of the United States and Canada.

The Town of Lexington's financial statements have been audited by the firm of Brittingham, Brown, Prince, & Hancock, LLC, CPA's. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The auditors' report in the Financial Section provides a discussion of the audit, procedures and their opinion. The independent auditors have rendered an unqualified opinion that the Town of Lexington's financial statements for the year ended June 30, 2005, are fairly presented in conformity with GAAP.

GAAP require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town of Lexington's MD&A can be found immediately following the report of independent auditors.

PROFILE OF THE GOVERNMENT

Town of Lexington was incorporated on January 28, 1861. The Town is the county seat for Lexington County which is named in honor of the American victory in 1785 over the British at Lexington, Massachusetts. In 1927, the municipal water system began operation, followed soon afterward by a sewer system, to serve residents of the one square mile town limits. Since the 1970s, the Town's area has grown to about 10 square miles, and its population, now estimated to be greater than 16,500, will likely exceed 20,000 by 2010. Lexington is easily accessible to I-20, I-26, and I-77 and is a suburb of the state capital of Columbia which is located 12 miles from town. Because of Lexington's location, award winning school system, and small-town flavor, the rapid growth of the past decade is expected to continue.

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.

Lexington provides a full range of services including police protection; construction and maintenance of streets and other infrastructure; sanitation services; water and sewer services; storm water services; economic and community development; parks, recreational and cultural services; building and zoning services; and victims' assistance.

FACTORS AFFECTING FINANCIAL CONDITION

In July 2003, the U.S. Census Bureau 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 2005, the town estimates its population to be 16,900 which is approximately 71% higher than the 2000 Census and over four fold the 1992 population of 4,100.

One of the main reasons people are attracted 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 over 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 drawn to the quality schools, but also to the small, hometown, community feel of Lexington that offers a quality of life that enhances family life.

The Town continues to invest in water and wastewater infrastructure to enable the development of commercial, industrial and residential properties both in town and regionally. The Town's 100 square mile combined water and sewer service areas serve a substantial portion of Lexington County. Although the town and region have experienced tremendous growth, the service areas have significant potential for future growth as rural and agricultural land, in relatively close proximity to Lake Murray, can be transformed into suburban residential and commercial development. The water and sewer system has over 146 miles of sewer lines and 174 miles of water lines and serves approximately 5,881 water accounts and 8,049 sewer accounts (nearly 8,650 individual residential and commercial customers).

During the year, approximately 100 net new businesses opened in the Town of Lexington, including numerous restaurants, retail, service and suppliers and professional office developments completed during the year. Commercial development also continued just outside the town limits along the major highways that serve the town. Several subdivisions also were under development both in town and out of town but on the water and sewer system. In-town development included 151 single family units and 167 multi-family units which began construction during the year.

The Town of Lexington has consistently demonstrated a commitment to provide adequate infrastructure, services and quality of life initiatives for the citizens and businesses in the greater Lexington region.

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, 2004. This was the seventh-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.

ACKNOWLEDGEMENTS

This report represents countless hours of preparation and record keeping by the members of the Finance Department. The efficient and dedicated service of all members of our department's staff who assisted and contributed to the preparation of this report is sincerely appreciated.

Additional thanks to **Wendy Jeffcoat** of Design Concepts for providing the art work used throughout the CAFR. The cover features our newly expanded Municipal Complex, which began serving the citizens of Lexington in late 2004. The tabs for the "Introductory", "Financial", and "Statistic" sections feature Town Hall from 1993 through 2004; the "Clark House", which served as Town Hall from the early 1980's through 1993; and "old Town Hall" on South Church Street circa 1970; respectively. We also thank Pine Press of Lexington for printing services. Finally, special thanks to the firm of Brittingham, Brown, Prince, & Hancock, LLC, CPA's, (particularly **Ken Prince, CPA**), for their technical assistance in helping to complete this – the Town's eighth-year Comprehensive Annual Financial Report.

Respectfully submitted,



Stuart W. Ford, CPA
Finance Director

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, 2004

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.



Nancy L. Zields

President

Jeffrey R. Emer

Executive Director

TOWN OF LEXINGTON

SOUTH CAROLINA LIST OF PRINCIPAL OFFICIALS

MAYOR

T. Randall Halfacre

MAYOR PRO-TEM

Hazel Leggett-Tyndall

COUNCIL MEMBERS

Constance Caractor Flemming

Danny Frazier

Kathy Maness

Ted Stambolitis

Richard D. Thompson

TOWN ADMINISTRATOR

James W. Duckett, Jr.

MUNICIPAL CLERK

Becky Hildebrand

TOWN ATTORNEY

Brad Cunningham

DEPARTMENT HEADS

Joe Boles, Building/Zoning

Dan Walker, Parks, Streets, & Sanitation

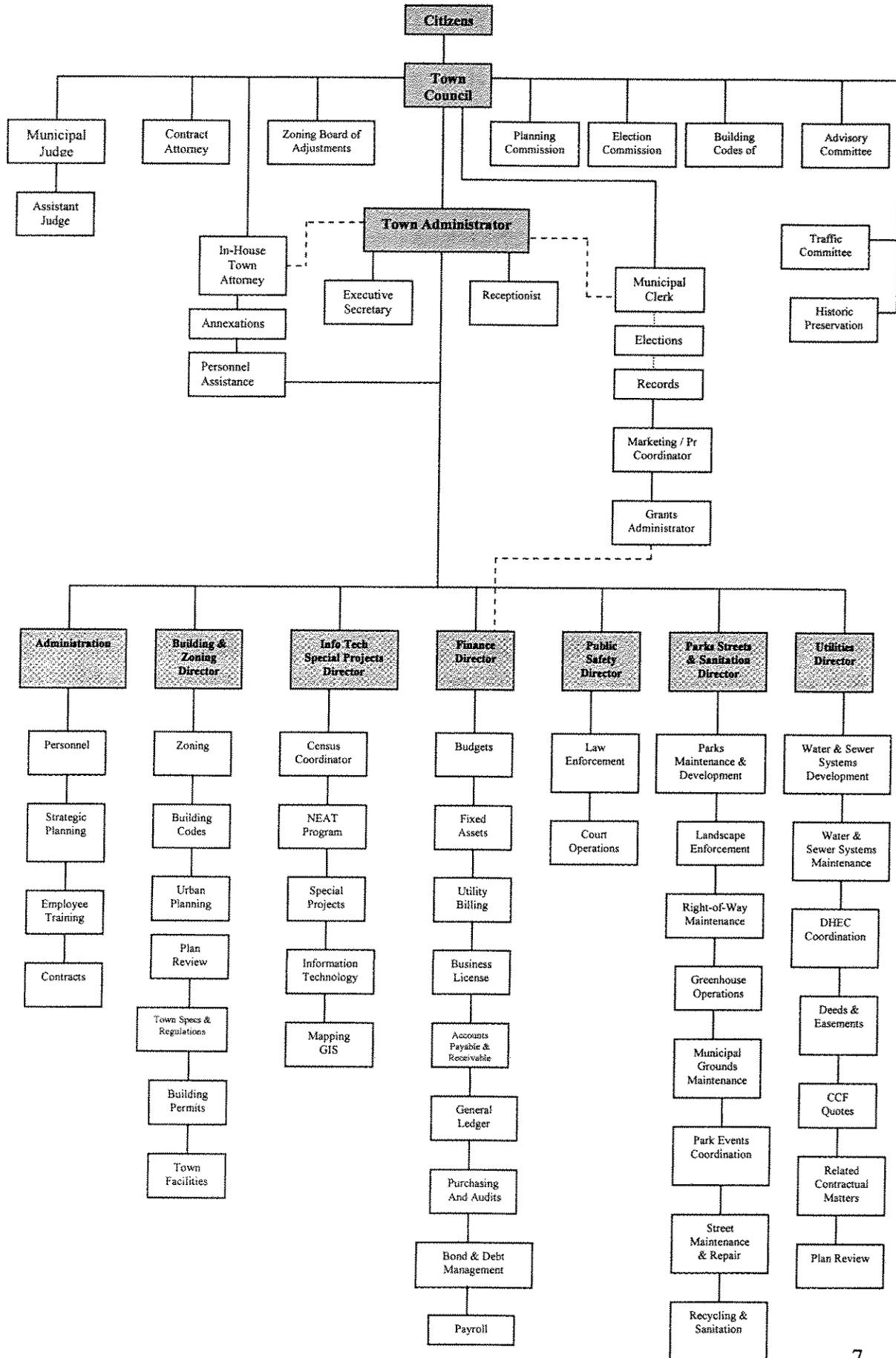
Chief Stace Day, Police Department

Allen Lutz, Utilities

Stuart W. Ford, Finance

Britt Poole, Information Technology

TOWN OF LEXINGTON, SOUTH CAROLINA ORGANIZATION CHART



TOWN OF LEXINGTON, SOUTH CAROLINA

James T. Brittingham, CPA (1924-1995)
Kerry R. Brown, CPA
Kenneth E. Prince, CPA
James T. Brittingham, Jr., CPA
William H. Hancock, CPA/PFS

Members:
American Institute of
Certified Public Accountants

South Carolina Association of
Certified Public Accountants

A. Scott Hendrix, MBA, CPA
Jeffrey M. Lee, CPA

IN ASSOCIATION WITH
Kenneth S. Sexton, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Members of Town Council
Town of Lexington, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lexington (hereafter referred to as the Town) as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town, management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the respective budgetary comparisons for the General Fund and the Hospitality Tax Special Revenue Fund of the Town, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2005 on our consideration of the Town, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Burlingham Brown Paine & Hancock

December 12, 2005

**Town of Lexington, South Carolina
Management's Discussion and Analysis
Year Ended June 30, 2005**

As management of the Town of Lexington, we offer our overview and analysis of the financial activities and performance of the Town for the year ended June 30, 2005. Please read it in conjunction with the Town's financial statements which follow this discussion and the letter of transmittal in the Introductory Section of this report.

Financial Highlights

- The assets of the Town of Lexington exceeded its liabilities at year end June 30, 2005 by \$51,884,064 (*net assets*). Of the total net assets at June 30, 2005, \$12,636,561 was unrestricted and available to meet the ongoing obligations and operations of the Town.
- The Town's total net assets increased by \$6,414,760, as revenues of \$21,743,612 exceeded expenses of \$15,328,852. Governmental Activities contributed \$2,529,509 and Business-type activities contributed \$3,885,252 of the overall increase in net assets.
- Governmental funds reported combined ending fund balances at June 30, 2005, of \$5,023,636, an increase of \$790,226 compared to the prior year. Approximately \$4,579,731, or 91 percent of the ending fund balance, is available for spending at the government's discretion (*unreserved fund balance*).
- General Fund unreserved fund balance at June 30, 2005, was \$2,501,473 or 43 percent of total fund expenditures.
- The Town had \$44,388,931 in bonds, notes, contracts and capital leases payable at year end, a decrease of \$802,914 from the prior year. Bond anticipation notes decreased \$8,000,000 as the Town issued revenue bonds for \$7,865,000. \$3,615,000 special source (hospitality tax) revenue bonds were issued during the year. The special source bonds were repaid in response to a citizens' petition and the results of a subsequent advisory referendum.

Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction the Town's basic financial statements. Those financial statements have three components: 1) Government-Wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplementary information that will enhance the reader's understanding of the financial condition of the Town.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported on the accrual basis (as soon as the underlying event giving rise to the change occurs), *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., revenues receivable and earned but unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government; public safety; parks, streets and sanitation; victim's assistance; and tourism related. The business-type activities of the Town include a Combined Waterworks and Sewer Enterprise Fund.

The Government-Wide financial statements can be found immediately following MD&A.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: Governmental funds, and Proprietary funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Budgetary comparison statements have been provided to demonstrate compliance with the adopted annually appropriated budgets for the Town's two major governmental funds, the General Fund and Hospitality Tax Fund.

The basic Governmental Fund financial statements can be found immediately following the Government-Wide financial statements.

Proprietary Funds – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the Government-Wide financial statements. The Town uses an Enterprise Fund to account for its combined waterworks and sewer utility. Proprietary

funds provide the same type of information as the Government-Wide financial statements, only in more detail.

The basic Proprietary Fund financial statements can be found immediately following the Governmental Fund financial statements.

Notes to Financial Statements – The notes to the financial statements provide additional information that is essential to full understanding of the data provided in both the Government-Wide and Fund financial statements.

Other Financial Information – Following the basic financial statements and the accompanying notes, this annual report also presents combining statements for non-major governmental funds. Additionally, certain individual fund statements and other schedules can be found immediately following the combining statements for non-major governmental funds.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Town, total assets exceeded total liabilities by \$51,884,064 at year end June 30, 2005.

Below is a ‘condensed’ Statement of Net Assets, which depicts the major components of the Town’s assets, liabilities, and net assets at June 30, 2005 and 2004:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets:						
Cash and cash equivalents:						
Unrestricted	\$4,252,907	\$4,113,200	\$6,870,314	\$7,450,179	\$11,123,221	\$11,563,379
Restricted	2,403,402	1,628,198	3,268,916	8,058,824	5,672,318	9,687,022
Investments	-	-	565,191	-	565,191	-
Other current assets	730,519	472,149	1,386,363	1,316,663	2,116,882	1,788,812
Internal balances	(1,622,523)	(1,546,074)	1,622,523	1,546,074	-	-
Deferred charges, net	-	-	19,060,517	14,585,309	19,060,517	14,585,309
Capital assets, net	18,794,407	17,081,566	41,389,595	37,941,320	60,184,002	55,022,886
Total assets	<u>\$24,558,712</u>	<u>\$21,749,039</u>	<u>\$74,163,419</u>	<u>\$70,898,369</u>	<u>\$98,722,131</u>	<u>\$92,647,408</u>
Liabilities and Net Assets:						
Current liabilities	\$ 907,656	\$ 569,664	\$ 610,116	\$ 295,189	\$ 1,517,772	\$ 864,856
Current liabilities payable						
from restricted assets	99,611	98,668	831,753	1,022,738	931,364	1,121,406
Non-current liabilities	4,358,038	4,416,808	40,030,893	40,775,037	44,388,931	45,191,845
Total liabilities	<u>5,365,305</u>	<u>5,085,140</u>	<u>41,472,762</u>	<u>42,092,964</u>	<u>46,838,067</u>	<u>47,178,107</u>
Net invested in capital						
assets	14,921,730	13,128,724	22,064,484	15,006,879	36,986,214	28,135,603
Restricted	1,860,561	1,065,564	400,728	1,031,264	2,261,289	2,096,828
Unrestricted	2,411,116	2,469,611	10,225,445	12,767,262	12,636,561	15,236,870
Total net assets	<u>19,193,407</u>	<u>16,663,899</u>	<u>32,690,657</u>	<u>28,805,405</u>	<u>51,884,064</u>	<u>45,469,301</u>
Total liabilities and net assets	<u>\$24,558,712</u>	<u>\$21,749,039</u>	<u>\$74,163,419</u>	<u>\$70,898,369</u>	<u>\$98,722,131</u>	<u>\$92,647,408</u>

By far the largest portion of the Town’s net assets (\$36,986,214, or 71.3 percent) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related remaining outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets

are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (\$2,261,289, or 4.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (12,636,561, or 24.3 percent) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report 'positive' balances in each category of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Town's components of changes in net assets for Fiscal Years 2005 and 2004 are illustrated in the following table:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue:						
Program Revenue:						
Charges for services	\$1,251,697	\$1,200,590	\$7,494,063	\$6,942,895	\$8,745,760	\$8,143,485
Operating grants and contributions	207,811	209,753	-	-	207,811	209,753
Capital grants and contributions	1,360,018	176,096	4,976,928	3,248,045	6,336,946	3,424,141
General Revenue:						
Property taxes	2,101,197	1,956,731	-	-	2,101,197	1,956,731
Business license taxes	2,430,443	2,092,340	-	-	2,430,443	2,092,340
Hospitality taxes	1,236,308	777,968	-	-	1,236,308	777,968
State aid not restricted	321,134	341,246	-	-	321,134	341,246
Unrestricted						
Investment earnings	122,275	53,381	226,087	199,511	348,362	252,892
Miscellaneous	15,651	3,922	-	-	15,651	3,922
Total revenue	<u>9,046,534</u>	<u>6,812,027</u>	<u>12,697,078</u>	<u>10,390,451</u>	<u>21,743,612</u>	<u>17,202,478</u>
Expenses:						
General government	1,395,091	1,231,253	-	-	1,395,091	1,231,253
Public safety	2,595,158	2,351,798	-	-	2,595,158	2,351,798
Parks, streets, and sanitation	1,897,425	1,706,399	-	-	1,897,425	1,706,399
Victim's assistance	54,696	48,897	-	-	54,696	48,897
Housing rehabilitation	157,053	-	-	-	157,053	-
Tourism related	332,007	184,862	-	-	332,007	184,862
Interest on long-term debt	358,158	250,309	-	-	358,158	250,309
Water and sewer	-	-	8,539,264	7,616,681	8,539,264	7,616,681
Total expenses	<u>6,789,588</u>	<u>5,773,518</u>	<u>8,539,264</u>	<u>7,616,681</u>	<u>15,328,852</u>	<u>13,390,199</u>
Transfers	<u>272,562</u>	<u>609,386</u>	<u>(272,562)</u>	<u>(609,386)</u>	<u>-</u>	<u>-</u>
Change in net assets	2,529,508	1,647,895	3,885,252	2,164,384	6,414,760	3,812,279
Beginning net assets	16,663,899	15,016,004	28,805,405	26,641,021	45,469,304	41,657,025
Ending net assets	<u>\$19,193,407</u>	<u>\$16,663,899</u>	<u>\$32,690,657</u>	<u>\$28,805,405</u>	<u>\$51,884,064</u>	<u>\$45,469,304</u>

Expenses and Program Revenues – Governmental Activities – Governmental expenses are funded by fees for services, grants and contributions, and general revenues. The Statement of Activities details this activity for the Town.

The following table illustrates the ratio of governmental activities program revenue funding to general revenue funding for the year ended June 30, 2005. The percent funded by program revenues indicates the degree to which governmental activities are self-sustaining thereby reducing the overall cost of governmental activities that must be funded by the general taxpayers of the Town through general revenues.

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net Expense</u>	<u>% Funded by Program Revenues</u>	<u>% Required to be Funded by General Revenues</u>
General government	\$1,395,091	\$255,112	\$1,139,979	18%	82%
Public safety	2,595,158	502,936	2,092,222	19%	81%
Parks, streets, and sanitation	1,897,425	1,813,936	83,489	96%	4%
Victim's assistance	54,696	41,602	13,094	76%	24%
Housing rehabilitation	157,053	151,824	5,229	97%	3%
Tourism related	332,007	54,116	277,891	16%	84%
Interest on long-term debt	358,158	-	358,158	-	100%
Totals	<u>\$6,789,588</u>	<u>\$2,819,526</u>	<u>\$3,970,062</u>	<u>42%</u>	<u>58%</u>

General Revenues by Source – Governmental Activities

	<u>2005</u>	<u>2004</u>
Property taxes	\$2,101,197	\$1,956,731
Business license taxes	2,430,443	2,092,340
Hospitality taxes	1,236,308	777,968
Unrestricted state aid	321,134	341,246
Unrestricted investment earnings	122,275	53,381
Miscellaneous	15,651	3,922
Total	<u>\$6,227,008</u>	<u>\$5,225,588</u>

Expenses and Program Revenues – Business-type Activities – The Town operates the Combined Waterworks and Sewer System Enterprise Fund that comprise its business-type activities. The Enterprise Fund is used for all resources associated with supplying water and providing sewer services to domestic, business, and industrial customers within the town limits and in the Town's service area in some surrounding unincorporated areas of Lexington County.

Business-type activities increased the Town's net assets by \$3,885,252, accounting for 60% of the total growth in net assets. The significant factors related to the increase are as follows:

- Charges for services increased \$551,168, or 7.9%, due to a 5% rate increase and continued growth in total customers on the system.
- Operating expenses increased at a higher rate than revenues. Operating expenses increased \$733,903, or 12.6%, due to two main factors, 1) a rise in overall personnel cost driven in part to rising health care costs and cost of living and merit increases (\$184,916 increase, or 25% of overall increase), 2) a rise in the cost of wholesale water and sewer treatment under contracts with the cities of Cayce and West Columbia (\$439,955 increase, or 60% of the overall increase).

The wholesale treatment costs are increasing as a result of 1) higher production costs at the facilities, and 2) the Town's utilization of a higher share of the production of the facilities.

- Capital contributions remained strong totaling \$4,976,926, of which \$1,207,014 were developer contribution of system capital assets. Capital contribution fees increased \$1,100,459, or 41.2%, due primarily to continued development of residential subdivisions. Contributions from developers increased \$628,424, or nearly 109%. Overall, capital contributions increase approximately \$1,729,000, or 53%, indicating significant continued strong growth in the system.

Financial Analysis of Government's Funds

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

Governmental Funds – The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$5,023,639, an increase of \$790,226. The Hospitality Tax on prepared meals and beverages served in the Town resulted in an increase in governmental fund balance of \$578,331, or 73% of the overall increase in fund balance. General Fund revenues exceeded expectations by approximately \$147,000, accounting for about 19% of the increase in fund balance. General Fund revenue growth continued to be driven by increases in property and business license taxes and franchise fees.

Of the \$5,023,639 governmental fund balances, approximately \$4,580,000 constitutes *unreserved fund balance*, which is available for spending. A portion of the unreserved balance has been designated by the Town for streets and infrastructure (\$638,450) and vehicle replacement (\$76,561). Designations of fund balance indicate the Town's intended or planned future use of that portion of its unreserved balance.

The remainder of fund balance is *reserved* to indicate it is not available for new spending because it has been committed primarily for debt service.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance was \$2,501,473, or 43% of total fund expenditures. Although this is may be a useful measure of the fund's liquidity, the Town's General Fund total liabilities reflect an amount advanced from the Enterprise Fund of \$1,622,520. The advance from to the Enterprise Fund relates to construction of the Municipal Complex and will decline through planned budgeted annual repayments in future years.

Proprietary Fund – The Town’s proprietary fund statement provides the same type of information found in the government-wide financial statements, but in more detail. Substantially all factors related to the proprietary fund were discussed in relation to business-type activities in the government-wide discussion and analysis. The total growth in net assets was \$3,885,252 resulting in ending net assets of \$32,690,657.

General Fund Budgetary Highlights – General Fund revenues exceeded budgeted amounts by \$147,468. General Fund total expenditures exceeded the final budget by \$567,473 primarily due to the unbudgeted capital outlay associated with the expansion of the Municipal Complex. The expenditures for the expansion were part of an overall long term (multi-year) financing plan for the project and were therefore not included in the adopted operating budget.

All departments were under budget and total expenditures exclusive of the non-budgeted capital outlay were less than the final budget.

The Town’s original budget shows an excess of revenue over expenditures of \$209,500 which equals the amount of budgeted reserve for contingencies and grant matches. The final budget’s excess of revenues over expenditures reflects additional appropriations for public safety and allocations of grant matches.

Capital Assets and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$60.184 Million (net of accumulated depreciation). The investment in capital assets includes land, buildings, water and sewer transportation and treatment system, roadways, sidewalks, storm water drainage system, parks, machinery and equipment.

The major capital asset events during the current year include:

- Completion of the Municipal Complex,
- Construction in progress additions totaling approximately \$1,869,000 related to above ground water storage capacity and related lines, and relocation and extension of water and sewer lines,
- Purchase of land for park expansion totaling approximately \$259,000,
- Developer contributions of water and sewer capital assets of \$1,207,014, and \$1,064,577 of general governmental infrastructure, and
- Donation of a veterans monument to the Town valued at approximately \$147,000.

Additional information on the Town’s capital assets can be found in *Note 7* and in supplemental information on pages following the notes to the financial statements.

Long-Term Debt – At year end June 30, 2005, the Town had total indebtedness outstanding of \$44,388,931. Debt secured by the full faith and credit of the Town represented \$4,208,421 of the total and bonded debt secured by the pledge of net revenues of the Enterprise Fund totaled \$36,983,100. The Town also recognizes a contract and capital lease payable to the City of West Columbia totaling \$3,047,793 for water treatment capacity reserve, retail distribution rights, and water lines. During the year ended June 30, 2005, the Town had a decrease in Bond Anticipation Notes outstanding of \$8,000,000. The bond anticipation notes were refunded through the issuance of Series 2004 Revenue Bonds for \$7,865,000 and with unexpended proceeds from the notes. The Town also entered into a capital lease purchase financing agreement totaling approximately \$178,000 to acquire vehicles and equipment (*See Note 17*).

Economic Factors and Next Year's Budgets and Rates – As previously discussed, the Town of Lexington continues to experience high rates of growth. The general increase in economic activity in the Town's corporate limits and service area continues to drive higher revenues for the general government and the water and sewer enterprise. The growth naturally places demands on the Town for additional services and creates quality of life challenges including heavy traffic. The Town's approved budget for fiscal year 2006 did not include any tax or fee increase to support general government activities or business-type activities.

The local Hospitality Tax implemented in fiscal year 2004 was repealed effective June 30, 2005. Proceeds from the Hospitality Tax can only be expended on tourism related promotions and projects permitted by state law. Projects anticipated to be funded by the Hospitality Tax have been modified to reflect the change in available funding.

Request for Information

This report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Lexington, Post Office Box 397, Lexington, South Carolina 29071.

BASIC FINANCIAL STATEMENTS

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and temporary investments	\$ 4,252,907	\$ 6,870,314	\$ 11,123,221
Receivables, net	250,955	1,224,206	1,475,161
Due from other governments	351,704	-	351,704
Internal balances	(1,622,523)	1,622,523	-
Inventories-supplies	-	162,157	162,157
Prepays	127,860	-	127,860
Deferred charges	-	19,060,517	19,060,517
Restricted assets:			
Temporarily restricted:			
Cash and temporary investments	2,403,402	3,268,916	5,672,318
Investments	-	565,191	565,191
Capital assets, net:			
Land and construction in progress	3,730,478	2,220,338	5,950,816
Buildings, vehicles, equipment, and infrastructure	15,063,929	39,169,257	54,233,186
Total assets	<u>24,558,712</u>	<u>74,163,419</u>	<u>98,722,131</u>
Liabilities			
Accounts payable and other current liabilities	628,513	443,541	1,072,054
Liabilities payable from restricted assets	99,611	831,753	931,364
Deferred revenue	7,504	90,000	97,504
Accrued compensated absences	271,639	76,575	348,214
Noncurrent liabilities:			
Due within one year	355,384	1,105,000	1,460,384
Due in more than one year	4,002,654	38,925,893	42,928,547
Total liabilities	<u>5,365,305</u>	<u>41,472,762</u>	<u>46,838,067</u>
Net Assets			
Invested in capital assets, net of related debt	14,921,730	22,064,484	36,986,214
Restricted for:			
Capital projects	140,809	58,258	199,067
Debt service	216,422	342,470	558,892
Other purposes	1,503,330	-	1,503,330
Unrestricted	2,411,116	10,225,445	12,636,561
Total net assets	<u>\$ 19,193,407</u>	<u>\$ 32,690,657</u>	<u>\$ 51,884,064</u>

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

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

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Functions / Programs	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,395,091	\$ 254,412	\$ 700	\$ -	\$ (1,139,979)	\$ -	\$ (1,139,979)
Public safety	2,595,158	199,256	160,667	143,013	(2,092,222)	-	(2,092,222)
Parks, streets and sanitation	1,897,425	713,897	35,462	1,064,577	(83,489)	-	(83,489)
Victim's assistance	54,696	29,878	10,982	742	(13,094)	-	(13,094)
Housing rehabilitation	157,053	138	-	151,686	(5,229)	-	-
Tourism related	332,007	54,116	-	-	(277,891)	-	(277,891)
Interest on long-term debt	358,158	-	-	-	(358,158)	-	(358,158)
Total governmental activities	6,789,588	1,251,697	207,811	1,360,018	(3,970,062)	-	(3,970,062)
Business-Type Activities:							
Enterprise fund	8,539,264	7,494,063	-	4,976,928	-	3,931,727	3,931,727
Total business-type activities	8,539,264	7,494,063	-	4,976,928	-	3,931,727	3,931,727
Total	\$ 15,328,852	\$ 8,745,760	\$ 207,811	\$ 6,336,946	(3,970,062)	3,931,727	(38,335)
General Revenues:							
Property taxes					2,101,197	-	2,101,197
Business license taxes					2,430,443	-	2,430,443
Hospitality taxes					1,236,308	-	1,236,308
State aid not restricted for specific purpose					321,134	-	321,134
Unrestricted investment earnings					122,275	226,087	348,362
Miscellaneous					15,651	-	15,651
Transfers					272,562	(272,562)	-
Total general revenues and transfers					6,499,570	(46,475)	6,453,095
Change in net assets					2,529,508	3,885,252	6,414,760
Total net assets, beginning of year					16,663,899	28,805,405	45,469,304
Total net assets, end of year					\$ 19,193,407	\$ 32,690,657	\$ 51,884,064

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

TOWN OF LEXINGTON, SOUTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2005

	General Fund	Hospitality Tax	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and temporary investments	\$ 4,054,059	\$ -	\$ 198,848	\$ 4,252,907
Receivables, net	129,755	107,250	13,950	250,955
Due from other fund	210,996	-	10,228	221,224
Due from other governments	114,495	-	237,209	351,704
Prepaid items	127,860	-	-	127,860
Restricted assets:				
Cash and temporary investments	45,244	1,315,576	1,042,582	2,403,402
Total assets	\$ 4,682,409	\$ 1,422,826	\$ 1,502,817	\$ 7,608,052
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 172,100	\$ 261,800	\$ 39,046	\$ 472,946
Accrued liabilities	119,739	480	1,298	121,517
Due to other funds	18	-	221,209	221,227
Other liabilities	34,050	-	-	34,050
Deferred revenue	104,649	-	7,504	112,153
Advance from other fund	1,622,520	-	-	1,622,520
Total liabilities	2,053,076	262,280	269,057	2,584,413
Fund balances:				
Reserved for:				
Prepaid items	127,860	-	-	127,860
Debt service	-	-	316,048	316,048
Unreserved, designated for:				
Vehicle replacement	76,561	-	-	76,561
Streets and infrastructure	638,450	-	-	638,450
Unreserved, reported in:				
General Fund	1,786,462	-	-	1,786,462
Special Revenue Funds	-	1,160,546	401,809	1,562,355
Capital Projects Funds	-	-	515,903	515,903
Total fund balances	2,629,333	1,160,546	1,233,760	5,023,639
Total liabilities and fund balances	\$ 4,682,409	\$ 1,422,826	\$ 1,502,817	\$ 7,608,052

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

TOWN OF LEXINGTON, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005

Total fund balances - governmental funds		\$ 5,023,639
Amounts reported for governmental activities in the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$22,812,398 and the accumulated depreciation is \$4,017,991.		18,794,407
Property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, and therefore are deferred in the governmental funds.		104,649
Accrued interest on bonds in governmental funds is not due and payable in the current period and therefore is not reported as a liability in the funds.		(99,611)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bonds payable	\$ 2,185,000	
Certificates of participation	1,936,927	
Notes payable	86,494	
Capital lease payable	149,617	
Compensated absences	271,639	
		<u>(4,629,677)</u>
Total net assets - governmental activities		<u>\$ 19,193,407</u>

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

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	General Fund	Hospitality Tax	Other Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 2,101,280	\$ -	\$ -	\$ 2,101,280
Hospitality taxes	-	1,236,308	-	1,236,308
Franchises, licenses, permits and fees	3,340,848	-	-	3,340,848
Other governments	295,054	-	529,574	824,628
Fines and forfeitures	186,964	-	46,983	233,947
Interest income	62,801	37,502	21,972	122,275
Charges for services	10,175	-	-	10,175
Miscellaneous	29,046	-	83,533	112,579
Total Revenue	<u>6,026,168</u>	<u>1,273,810</u>	<u>682,062</u>	<u>7,982,040</u>
Expenditures				
Current:				
General government	1,253,880	-	-	1,253,880
Public safety	2,138,459	-	168,705	2,307,164
Parks, streets and sanitation	1,357,804	-	30,004	1,387,808
Victim's assistance	-	-	54,696	54,696
Housing rehabilitation	-	-	157,053	157,053
Tourism related	-	261,800	70,207	332,007
Debt Service:				
Principal	28,588	3,645,084	285,000	3,958,672
Interest	2,718	51,474	124,402	178,594
Fees and other costs	3,500	67,885	539	71,924
Capital Outlay	1,012,716	284,236	258,831	1,555,783
Total expenditures	<u>5,797,665</u>	<u>4,310,479</u>	<u>1,149,437</u>	<u>11,257,581</u>
Excess (deficiency) of revenue over (under) expenditures	228,503	(3,036,669)	(467,375)	(3,275,541)
Other Financing Sources (Uses)				
Proceeds from capital lease	178,205	-	-	178,205
Proceeds from special source bonds	-	3,615,000	-	3,615,000
Transfers in	392,566	-	498,741	891,307
Transfers out	(592,665)	-	(26,080)	(618,745)
Total other financing sources (uses)	<u>(21,894)</u>	<u>3,615,000</u>	<u>472,661</u>	<u>4,065,767</u>
Excess of revenue over expenditures and other financing sources	206,609	578,331	5,286	790,226
Fund balance, beginning of year	2,422,724	582,215	1,228,474	4,233,413
Fund balance, end of year	<u>\$ 2,629,333</u>	<u>\$ 1,160,546</u>	<u>\$ 1,233,760</u>	<u>\$ 5,023,639</u>

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

TOWN OF LEXINGTON, SOUTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

Total net change in fund balance - governmental funds \$ 790,226

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

Property tax revenues not considered current financial resources are deferred in the governmental funds but are not in the statement of activities. Deferred revenues decreased by \$83 this year. (83)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlays of \$1,309,325 exceeded depreciation expense of \$661,061. 648,264

Donations of capital assets are recorded as program revenues in the statement of activities 1,064,577

Repayment of long-term liabilities, such as bonds payable and capital leases, is an expenditure in the governmental funds, but reduces liabilities in the statement of net assets. 3,851,975

Proceeds from the issuance of debt are financial resources in the governmental funds, but increase liabilities in the statement of net assets (3,793,205)

Interest on long-term debt in the statement of activities differs from the governmental funds because governmental funds record interest in the period it is paid. Interest is recorded as it accrues in the statement of net assets, regardless of when due. (943)

Compensated absences are accrued and accounted for when the Town becomes liable to its employees in the statement of activities. However, these expenses are only recorded when paid in the governmental funds statements. The accrual increased by a net \$31,303 for this fiscal year. (31,303)

Change in net assets of governmental activities \$ 2,529,508

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

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
Revenue				
Property taxes	\$ 1,992,000	\$ 1,992,000	\$ 2,101,280	\$ 109,280
Franchises, licenses and permits	3,219,100	3,219,100	3,340,848	121,748
Other governments	315,000	315,000	295,054	(19,946)
Fines and forfeitures	275,000	275,000	186,964	(88,036)
Interest income	27,000	27,000	62,801	35,801
Charges for services	36,100	36,100	10,175	(25,925)
Miscellaneous	14,500	14,500	29,046	14,546
Total revenue	<u>5,878,700</u>	<u>5,878,700</u>	<u>6,026,168</u>	<u>147,468</u>
Expenditures				
Current:				
General government:				
Building department	393,910	392,950	385,886	7,064
Administration department	334,366	330,685	318,565	12,120
Finance	280,611	279,651	268,929	10,722
Council	263,234	282,646	280,500	2,146
Total general government	<u>1,272,121</u>	<u>1,285,932</u>	<u>1,253,880</u>	<u>32,052</u>
Public safety	2,216,116	2,224,540	2,138,459	86,081
Parks, streets and sanitation	1,365,490	1,364,530	1,357,804	6,726
Capital Outlay	201,536	319,296	1,012,716	(693,420)
Debt Service	38,318	35,894	34,806	1,088
Total expenditures	<u>5,093,581</u>	<u>5,230,192</u>	<u>5,797,665</u>	<u>(567,473)</u>
Excess of revenue over (under) expenditures	785,119	648,508	228,503	(420,005)
Other Financing Sources (Uses)				
Proceeds from capital lease	186,034	186,034	178,205	(7,829)
Transfers in	-	-	392,566	392,566
Transfers out	(761,653)	(761,653)	(592,665)	168,988
Total other financing sources (uses)	<u>(575,619)</u>	<u>(575,619)</u>	<u>(21,894)</u>	<u>553,725</u>
Excess of revenue over (under) expenditures and other financing sources (uses)	209,500	72,889	206,609	133,720
Fund balance, beginning of year	2,422,724	2,422,724	2,422,724	-
Fund balance, end of year	<u>\$ 2,632,224</u>	<u>\$ 2,495,613</u>	<u>\$ 2,629,333</u>	<u>\$ 133,720</u>

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

TOWN OF LEXINGTON, SOUTH CAROLINA
HOSPITALITY TAX FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Hospitality tax	\$ 1,080,000	\$ 1,080,000	\$ 1,236,308	\$ 156,308
Interest income	1,500	1,500	37,502	36,002
Total revenue	<u>1,081,500</u>	<u>1,081,500</u>	<u>1,273,810</u>	<u>192,310</u>
Expenditures				
Tourism related	989,383	989,383	261,800	727,583
Debt Service	439,976	67,976	3,764,443	(3,696,467)
Capital Outlay	190,000	562,000	284,236	277,764
Total expenditures	<u>1,619,359</u>	<u>1,619,359</u>	<u>4,310,479</u>	<u>(2,691,120)</u>
Excess (deficiency) of revenue over (under) expenditures	(537,859)	(537,859)	(3,036,669)	(2,498,810)
Other Financing Sources				
Proceeds from special source bonds	-	-	3,615,000	3,615,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>3,615,000</u>	<u>3,615,000</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures	(537,859)	(537,859)	578,331	1,116,190
Fund balance, beginning of year	582,215	582,215	582,215	-
Fund balance, end of year	<u>\$ 44,356</u>	<u>\$ 44,356</u>	<u>\$ 1,160,546</u>	<u>\$ 1,116,190</u>

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

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF NET ASSETS
PROPRIETARY FUND

JUNE 30, 2005

	<u>Business-Type Activities Enterprise Fund</u>
Assets	
Current assets:	
Cash and temporary investments	\$ 6,870,314
Receivables, net	1,224,206
Due from other fund	3
Inventories-supplies	162,157
Total current assets	<u>8,256,680</u>
Noncurrent assets:	
Restricted cash and temporary investments	3,268,916
Restricted investments	565,191
Deferred charges	19,060,517
Advance to other fund	1,622,520
Capital assets, net	41,389,595
Total noncurrent assets	<u>65,906,739</u>
Total assets	<u>74,163,419</u>
Liabilities	
Current liabilities:	
Accounts payable	385,114
Accrued liabilities	54,927
Deferred revenue	90,000
Customer deposits	3,500
Total current liabilities	<u>533,541</u>
Current liabilities payable from restricted assets:	
Construction payables	378,041
Accrued interest	453,712
Revenue bonds-current	1,105,000
Total current liabilities payable from restricted assets	<u>1,936,753</u>
Noncurrent liabilities:	
Revenue bonds payable	35,878,100
Contracts payable	2,559,018
Accrued compensated absences	76,575
Capital lease obligation	488,775
Total noncurrent liabilities	<u>39,002,468</u>
Total liabilities	<u>41,472,762</u>
Net Assets	
Invested in capital assets, net of related debt	22,064,484
Restricted for capital projects	58,258
Restricted for debt service	342,470
Unrestricted	10,225,445
Total net assets	<u>\$ 32,690,657</u>

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

TOWN OF LEXINGTON, SOUTH CAROLINA
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND

YEAR ENDED JUNE 30, 2005

	Business-Type Activities Enterprise Fund
Operating Revenue	
Charges for services:	
Water service	\$ 2,954,579
Sewer service	4,117,671
Tap and meter fees	109,088
Other income	312,725
Total operating revenue	7,494,063
Operating Expenses	
Salaries and benefits	2,256,972
Water and sewer treatment services	1,720,856
Other contractual services	207,278
Depreciation and amortization	1,389,780
Other operating expenses	1,007,386
Total operating expenses	6,582,272
Operating income	911,791
Non-Operating Revenue (Expenses)	
Interest income	226,087
Interest expense	(1,900,862)
Amortization of bond issuance costs	(56,130)
Total non-operating revenue (expenses)	(1,730,905)
Net loss before contributions and transfers	(819,114)
Capital Contribution Fees and Other Contributed Capital	4,976,928
Transfers In	93,924
Transfers Out	(366,486)
Change in net assets	3,885,252
Net assets, beginning of year	28,805,405
Net assets, end of year	\$ 32,690,657

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

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2005

	Business-Type Activities Enterprise Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 7,463,835
Cash paid to suppliers for goods or services	(2,770,464)
Cash paid to employees for services	(2,236,573)
Net cash provided by operating activities	<u>2,456,798</u>
Cash Flows from Non-Capital Financing Activities	
Advances to other fund	(76,449)
Transfer from other fund	93,924
Transfer to other fund	(366,486)
Net cash used in non-capital financing activities	<u>(349,011)</u>
Cash Flows from Capital and Related Financing Activities	
Purchases and construction of capital assets	(3,585,413)
Purchase of capacity reserve	(4,558,204)
Proceeds from capital debt	7,871,564
Bond issuance costs paid	(266,861)
Principal paid on capital debt	(8,970,000)
Interest and fees paid on capital debt	(1,489,456)
Proceeds from capital contribution fees	3,859,914
Net cash used in capital and related financing activities	<u>(7,138,456)</u>
Cash Flows from Investing Activities	
Purchases of investments	(565,191)
Interest received	226,087
Net cash used in investing activities	<u>(339,104)</u>
Net decrease in cash and cash equivalents	(5,369,773)
Cash and cash equivalents, beginning of year	15,509,003
Cash and cash equivalents, end of year	<u>\$ 10,139,230</u>

- CONTINUED -

TOWN OF LEXINGTON, SOUTH CAROLINA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

- CONTINUED -

	Business-Type Activities
	Enterprise Fund
	<hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 911,791
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,389,780
Increase in accounts receivable	(29,728)
Increase in inventory	(39,972)
Increase in accounts payable	205,028
Decrease in customer deposits	(500)
Increase in accrued expenses	20,399
Net cash provided by operating activities	<u>\$ 2,456,798</u>
Non-cash Capital Supplementary Information:	
Revenue bond principal accretion and discount amortization	\$ 135,687
Revenue bond premium and deferred amount on refunding amortization	218,605
Contributed capital assets from developers	1,207,014

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

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

1. Summary of Significant Accounting Policies

A. Reporting Entity

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 accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Boards (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Using the criteria of GASB Statement No. 14, "The Financial Reporting Entity," the accompanying 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 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 government-wide financial statements to emphasize that it is legally separate from the government. The Town does not have any discretely presented component units. Its blended 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 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 reflected as governmental activities non-current liabilities in the Town's statement of net assets.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The Government-wide financial statements consists of a Statement of Net Assets and the Statement of Activities and reports information of the government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally those activities financed by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets reports all financial and capital resources of the Town and reports the difference between assets and liabilities as “net assets” not fund balance or equity. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues and reflects the “net (expenses) revenues” of the Town’s individual functions before applying ‘general’ revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are derived directly from the program itself or from parties outside the reporting government’s taxpayers or citizenry, as a whole, and thus reduce the net cost of the function to be financed from the government’s general revenues. Program revenues include (1) charges to customers who purchase, use or directly benefit from goods and services provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources are reported as general revenues rather than as program revenues. All revenues are ‘general’ revenues unless they are required to be reported as program revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, and proprietary funds. The focus of governmental and proprietary fund financial statements is on ‘major’ funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with ‘non-major’ funds being aggregated and displayed in a single column.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Government-Wide and Fund Financial Statements (Continued)

The Town reports the following major governmental funds:

General Fund-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.

Hospitality Tax Special Revenue Fund-The fund used to account for the proceeds of the 2% Local Hospitality Tax that are legally restricted to expenditures for specific tourism related purposes.

The Town reports the following major proprietary fund:

The Waterworks and Sewer Utility Enterprise Fund-The Waterworks and Sewer Utility Enterprise Fund is used to account for operations of the combined waterworks and sewerage system. The system encompasses sewer transportation and treatment, and water distribution.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is a conceptual description of the timing of the accounting measurements made.

Government-wide financial statements and the proprietary fund use the economic resources measurement focus and the accrual basis of accounting, in accordance with GASB Statement Number 34. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available.)

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

“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. For this purpose, revenues are considered available if they are collected within sixty days after year-end. 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. Expenditures for compensated absences and claims and judgments, are recorded only when payment is due.

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

Proprietary Fund statements reflect net assets and revenues, expenses and changes in net assets using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis concept, revenues are recognized when earned and expenses are recognized when incurred.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the Government-Wide and Proprietary Fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The Town has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for its proprietary fund operations.

D. Assets, Liabilities and Net Assets or Equity

Deposits and 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 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 are reported at fair value.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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, 2005, 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.

Restricted Assets

Certain proceeds of the Town’s long-term debt as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is restricted by legal or contractual requirements, including bond covenants. These accounts are set up to report resources set aside to fund certain capital projects, accumulate funds for the repayment of debt requirements, and to accumulate funds for unexpected contingencies or asset renewals and replacements.

Capital Assets and Depreciation

All property, plant, equipment and infrastructure 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) are valued at historical cost or estimated historical cost if actual historical cost is not available in the applicable governmental or business-type activities columns in the government-wide financial statements. Donated property, plant and equipment are valued at estimated fair value on the date donated.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are defined by the Town as those assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of two years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the enterprise fund during the year was \$2,001,700. Of this amount, \$100,838 was included as part of the cost of capital assets under construction during the year.

Depreciation is provided 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
Infrastructure	15-40 Years
Distribution Systems	15-75 Years
Machinery and Equipment	5-10 Years

Compensated Absences

All permanent, full-time employees of the Town accrue 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. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Compensated absences of governmental activities have in prior years typically been funded by the General Fund.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Long-Term Liabilities

In the government-wide financial statements, and the proprietary fund financial statements, long-term liabilities are recorded in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, issuance costs and deferred amounts on refunding are amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of the applicable bond premiums, discounts and deferred amounts.

Fund Equity Reservations and Designations

In the fund financial statements, 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 capital 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.

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, Hospitality Tax Special Revenue, 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.

TOWN OF LEXINGTON, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

2. Stewardship, Compliance and Accountability (Continued)

A. Budgets and Budgetary Accounting (Continued)

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, Assistant 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 budgets may be adjusted to transfer budgeted amounts among line items with the approval of the Department Director, Mayor and the Finance Director. The authority to adjust department budgets does not extend to personnel or capital improvements budgets.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Hospitality Tax Special Revenue, 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, 2005.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Deposits and Investments

The Town had the following investments at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Rating</u>
State Treasury's investment pool	\$ 6,846,251	0.25	Unrated
Evergreen treasury money market fund	3,268,917	0.16*	AAA
US treasury money market fund	316,033	0.25*	AAA
FHLMC – discount note	565,191	1.00	A
Total fair value	<u>\$ 10,996,392</u>		
Portfolio weighted average maturity		.262	

*Maximum weighted average maturity

Interest rate risk:

In accordance with its investment policy, the Town manages its exposure to declines in fair values by generally limiting direct investment to securities with maturities of less than two (2) years.

Credit risk:

State statute and Town policy limit the Town's investments to 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 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.

Statutes also allow the State Treasurer to assist local governments in investing funds. The State Treasurer also provides oversight for the State Treasurer's Local Government Investment Pool (LGIP), of which, the fair value of the Town's investments are the same as the value of the pooled shares. Permitted investments for the LGIP are (1) obligations of the United States, its agencies and instrumentalities; (2) obligations of corporations, states, and political subdivisions which bear an investment grade rating at minimum two rating

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Deposits and Investments (Continued)

agencies; (3) certificates of deposit, if the certificates are secured collaterally by securities of the types described in (1) and (2) of this paragraph and held by a third party as escrow agent or custodian and are of a market value not less than the amount of the certificates of deposit so secured, including interest; except that this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; (4) obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank; (5) repurchase agreements, if collateralized by securities of the types described in items (1) and (2) of this paragraph and held by a third party as escrow agent or custodian and of a market value not less than the amount of the repurchase agreement so collateralized, including interest; and (6) guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of at least two nationally recognized rating services.

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. The Town is under no contractual agreements which further restrict investment alternatives.

Concentration of credit risk:

The Town's investment policy does not allow for an investment of more than 50% of the Town's total investment portfolio in any one issuer or type of security, with the exception of United States Treasuries and authorized pools. At June 30, 2005, the Town had investments in Federal Home Loan Mortgage Corporation discount notes representing 5.14% of the total investment portfolio.

Custodial credit risk – deposits:

In the case of deposits, this is the risk that in the event of bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At June 30, 2005, the reported carrying amount of the Town's cash deposits with financial institutions was \$6,363,238 and the financial institutions' balances totaled \$6,294,419. Of the balance, \$145,244 was covered by federal depository insurance and \$6,149,176 was collateralized by securities held by the financial institution's agent in the Town's name. The Town had \$1,100 on hand at June 30, 2005.

Custodial credit risk – investments:

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

3. Deposits and Investments (Continued)

that are in the possession of an outside party. Of the Town's investments, \$565,191 is exposed to custodial credit risk.

A reconciliation of cash and temporary investments and investments as shown on the Statement of Net Assets follows:

Cash on hand	\$ 1,100
Carrying amount of cash deposits	6,363,238
Carrying amount of temporary investments	10,431,201
Carrying amount of investments	<u>565,191</u>
Total	<u>\$ 17,360,730</u>
Cash and temporary investments	\$ 11,123,221
Cash and temporary investments-restricted	5,672,318
Investments-restricted	<u>565,191</u>
Total	<u>\$ 17,360,730</u>

4. Receivables

Receivables at June 30, 2005, consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise Fund</u>	<u>Total</u>
Fees and Services	\$ 27,615	\$ -	\$ 1,261,685	\$1,289,300
Property and other taxes	139,584	119,400	-	258,984
Due from other governments	114,495	237,209	-	351,704
Other	3,769	1,800	6,825	12,394
Less, allowance for doubtful accounts	<u>(41,213)</u>	<u>-</u>	<u>(44,304)</u>	<u>(85,517)</u>
	<u>\$ 244,250</u>	<u>\$ 358,409</u>	<u>\$ 1,224,206</u>	<u>\$1,826,865</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

4. Receivables (Continued)

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.

5. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2005, were as follows:

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 210,996	\$ 18
Special Revenue Funds:		
Police Grants and Programs	5,768	186,220
Victims' Assistance	4,445	-
Community Development Block Grant	-	34,989
Debt Service Fund	15	-
Enterprise Fund	3	-
	<u>\$ 221,227</u>	<u>\$ 221,227</u>

The balances between funds results mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures (primarily reimbursable grants) occur, transactions are recorded in the accounting system, and payments between funds are made. In addition to the above current interfund receivables and payables, a non-current advance is due from the General Fund to the Enterprise Fund in the amount of \$1,622,520. The advance was made by the Enterprise Fund as part of the funding for the construction of the Municipal Complex.

TOWN OF LEXINGTON, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

5. Interfund Receivables, Payables and Transfers (Continued)

Individual fund interfund transfer balances at June 30, 2005, were as follows:

	Interfund	
	Transfers Out	Transfers In
General Fund	\$ 592,665	\$ 392,566
Special Revenue Funds:		
Accommodations Tax	26,080	-
Community Development Block Grant	-	5,229
History Book	-	8,573
Debt Service Fund	-	409,939
Capital Projects Funds		
Streetscape	480,561	-
Streets and Infrastructure	-	555,561
Enterprise Fund	366,486	93,924
	\$ 1,465,792	\$ 1,465,792

The General Fund transfers out include \$409,939 to the Debt Service Fund to fund debt service requirements, \$93,924 to the Enterprise Fund related to the funding of the Municipal Complex, \$75,000 to the Streets and Infrastructure Fund, \$5,229 to the Community Development Block Grant Fund for local match, and \$8,573 to the History Book Fund. The General Fund received transfers in from the Enterprise Fund of \$366,486 related to the funding of the Municipal Complex, and \$26,080 from the Accommodations Tax Fund representing amounts collected in the Accommodations Tax Fund that by state law may be transferred to the General Fund without restriction. The Streetscape Fund transferred a residual balance of \$480,561 to the Streets and Infrastructure Fund to fund roadway improvements and repairs.

6. Components of Restricted Cash and Temporary Investments and Restricted Investments

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 cash and temporary investments and restricted investments on the statement of net assets because their use is limited by applicable bond covenants. The revenue bond current debt service retirement

TOWN OF LEXINGTON, SOUTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

6. Components of Restricted Cash and Temporary Investments and Restricted Investments (Continued)

Waterworks and Sewer System Enterprise Fund (Continued):

accounts are 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. The construction account is used for resources set aside to fund infrastructure projects.

Carrying balances of restricted cash and temporary investments in the Waterworks and Sewer System Enterprise Fund at June 30, 2005, are as follows:

	Cash and Temporary Investments
Renewal and Replacement Fund	\$ 106,579
Debt Service Fund 2001A	444,868
Debt Service Fund 2001B	108,745
Debt Service Reserve Fund 2004	10,305
Debt Service Fund 2004	227,442
Construction Fund 2004	2,370,473
Operations and Maintenance Fund	504
	\$ 3,268,916
	Restricted Investments
Debt Service Reserve Fund 2004	\$ 565,191

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 cash and temporary investments on the statement of net assets 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.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

6. Components of Restricted Cash and Temporary Investments and Restricted Investments (Continued)

Debt Service Fund (Continued):

Carrying balance at the year ended June 30, 2005, is as follows:

	Cash and Temporary Investments
Reserve Account	\$ 316,033

Capital Projects Fund:

Certain proceeds of the Series 2002 General Obligation Bonds are classified as restricted cash and temporary investments because their use is limited to specific projects by authorizing ordinances and bond documents.

Carrying balance at the year ended June 30, 2005, is as follows:

	Cash and Temporary Investments
Capital Projects Accounts	\$ 538,795

Special Revenue Funds:

Certain proceeds received in the Special Revenue Funds are classified as restricted cash and temporary investments because their use is limited to specific programs by the grantor, donor, other governments' legal restrictions, or authorizing ordinances.

Carrying balances of restricted cash and temporary investments in the Special Revenue Funds at June 30, 2005, are as follows:

	Cash and Temporary Investments
Police Grants and Programs	\$ 2,859
Golden Hills Tax District	76,682
Downtown Restoration	22,660

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

6. Components of Restricted Cash and Temporary Investments and Restricted Investments (Continued)

Special Revenue Funds (Continued):

Disaster Fund	12,760
Alcohol Permits	32,600
Drug Fund	5,182
Victim's Assistance	26,135
Hospitality Tax	1,315,576
Accommodations Tax	8,876
	<hr/>
	<u>\$ 1,503,330</u>

7. Capital Assets

The following is a summary of capital asset activity in governmental activities for the year ended June 30, 2005:

	<u>Balances</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances</u> <u>June 30, 2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,300,184	\$ 258,830	\$ -	\$ 3,559,014
Construction in progress	2,894,322	820,911	(3,543,769)	171,464
Total capital assets, not being depreciated	<hr/> 6,194,506	<hr/> 1,079,741	<hr/> (3,543,769)	<hr/> 3,730,478
Capital assets, being depreciated:				
Buildings	5,065,974	3,690,290	-	8,756,264
Vehicles and equipment	1,337,538	201,169	(105,893)	1,432,814
Streets and roadways	6,151,428	611,388	-	6,762,816
Sidewalks	689,329	165,015	-	854,344
Storm drainage	1,105,614	170,068	-	1,275,682
Total capital assets, being depreciated	<hr/> 14,349,883	<hr/> 4,837,930	<hr/> (105,893)	<hr/> 19,081,920
Less accumulated depreciation for:				
Buildings	634,162	138,222	-	772,384
Vehicles and equipment	970,056	143,989	(105,893)	1,008,152
Streets and roadways	1,294,627	280,177	-	1,574,804
Sidewalks	99,759	19,296	-	119,055
Storm drainage	464,219	79,377	-	543,596
Total accumulated depreciation	<hr/> 3,462,823	<hr/> 661,061	<hr/> (105,893)	<hr/> 4,017,991
Total capital assets, being depreciated, net	<hr/> 10,887,060	<hr/> 4,176,869	<hr/> -	<hr/> 15,063,929
Governmental activities capital assets, net	<hr/> <u>\$ 17,081,566</u>	<hr/> <u>\$ 5,256,610</u>	<hr/> <u>\$ (3,543,769)</u>	<hr/> <u>\$ 18,794,407</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

7. Capital Assets (Continued)

The following is a summary of capital asset activity in business-type activities for the year ended June 30, 2005:

	<u>Balances</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances</u> <u>June 30, 2005</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 137,434	\$ -	\$ -	\$ 137,434
Construction in progress	1,811,127	3,318,230	(3,046,453)	2,082,904
Total capital assets, not being depreciated	<u>1,948,561</u>	<u>3,318,230</u>	<u>(3,046,453)</u>	<u>2,220,338</u>
Capital assets, being depreciated:				
Buildings and system	42,756,765	4,253,468	-	47,010,233
Vehicles, machinery and equipment	2,020,600	19,082	-	2,039,682
Total capital assets, being depreciated	<u>44,777,365</u>	<u>4,272,550</u>	<u>-</u>	<u>49,049,915</u>
Less accumulated depreciation for:				
Buildings and system	7,402,893	963,305	-	8,366,198
Vehicles, machinery and equipment	1,381,713	132,747	-	1,514,460
Total accumulated depreciation	<u>8,784,606</u>	<u>1,096,052</u>	<u>-</u>	<u>9,880,658</u>
Total capital assets, being depreciated, net	<u>35,992,759</u>	<u>3,176,498</u>	<u>-</u>	<u>39,169,257</u>
Business-type activities capital assets, net	<u>\$ 37,941,320</u>	<u>\$ 6,494,728</u>	<u>\$ (3,046,453)</u>	<u>\$ 41,389,595</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<u>Governmental activities:</u>		
General government		\$ 105,217
Public safety		136,357
Parks, streets and sanitation		<u>419,487</u>
Total depreciation expense – governmental activities		<u>\$ 661,061</u>
<u>Business-type activities:</u>		
Water and sewer		<u>\$ 1,096,052</u>
Total depreciation expense – business-type activities		<u>\$ 1,096,052</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

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 (“MGD”) in Cayce’s sewer treatment facility (the “Plant”). In addition, the Town and Cayce agreed during the year ended June 30, 1999, to share the cost of construction of the Highway 321 Region Sewer Line (“regional line”) to facilitate the Town’s use of purchased capacity. During the year ended June 30, 2004, the Town amended its agreement with Cayce as described in *Note 13*. Under the amended agreement, the Town purchased for \$3,900,000 the final 2 MGD of the total of 6.4 MGD of capacity made available by the original agreement. Accordingly, the cumulative total purchase price of reserving sewer capacity equaling \$11,040,242 and the Town’s share of cost incurred on the regional line of \$773,579 are being amortized to the Town’s Waterworks and Sewer System Enterprise Fund (the “System”) operations, with amortization expense totaling \$158,282 recognized during the year ended June 30, 2005.

During the year ended June 30, 2005, the Town entered an agreement with the Lexington County Joint Municipal Water and Sewer Commission (the “Commission”) as described in *Note 13* to acquire for a total of approximately \$1,100,000 wastewater transport capacity in a sewer line that will interconnect the Commission’s service area and the Town’s Regional Sewer System to Cayce’s Plant. Accordingly, the costs incurred to acquire the transport capacity of \$658,204 through June 30, 2005 are being deferred until the line is completed at which time the Town will begin to amortize the cost to operations of the System.

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 MGD of water capacity 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, 2005. Additionally, the Town has deferred \$8,767 in costs associated with future expansion of capacity at the LMWTF.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

8. Deferred Charges (Continued)

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, 2005, net of accumulated amortization (\$2,202,454, 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, 2005.

9. Long-Term Debt

The following is a summary of long-term debt of the Town for the year ended June 30, 2005:

	<u>Balances</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Certificates of participation:					
Current interest certificates	\$ 390,000	\$ -	\$ (190,000)	\$ 200,000	\$ 200,000
Capital appreciation certificates	2,730,000	-	-	2,730,000	-
Less deferred amount:					
For issuance discount	(1,099,770)	-	106,697	(993,073)	-
Total certificates of participation	2,020,230	-	(83,303)	1,936,927	200,000
Notes payable	116,578	-	(30,084)	86,494	31,360
General obligation bonds	2,280,000	-	(95,000)	2,185,000	95,000
Special source bonds	-	3,615,000	(3,615,000)	-	-
Capital leases	-	178,205	(28,588)	149,617	29,024
Compensated absences	240,336	138,683	(107,380)	271,639	121,560
Governmental activities					
Long-term liabilities	<u>\$ 4,657,144</u>	<u>\$ 3,931,888</u>	<u>\$ (3,959,355)</u>	<u>\$ 4,629,677</u>	<u>\$ 476,944</u>
Business-type activities:					
Revenue bonds payable:					
Revenue bonds	33,200,000	7,865,000	(970,000)	40,095,000	1,105,000
Less deferred amounts:					
For issuance discount	(676,914)	-	135,687	(541,227)	-
For issuance premium	85,532	6,564	(3,281)	88,815	-
On refunding	(2,881,374)	-	221,886	(2,659,488)	-
Total revenue bonds payable	29,727,244	7,871,564	(615,708)	36,983,100	1,105,000

TOWN OF LEXINGTON, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

	<u>Balances</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities					
(Continued):					
Bond anticipation notes	8,000,000	-	(8,000,000)	-	-
Contract payable	2,559,018	-	-	2,559,018	-
Capital lease	488,775	-	-	488,775	-
Compensated absences	67,952	39,049	(30,426)	76,575	34,286
Business-type activities					
Long-term liabilities	<u>\$ 40,842,989</u>	<u>\$ 7,910,613</u>	<u>\$ (8,646,134)</u>	<u>\$ 40,107,468</u>	<u>\$ 1,139,286</u>

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

The annual debt service requirements to amortize all certificates outstanding as of June 30, 2005, including interest components are as follows:

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Certificates of Participation (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 200,000	\$ 5,750	\$ 205,750
2007	210,000	-	210,000
2008	210,000	-	210,000
2009	210,000	-	210,000
2010	210,000	-	210,000
2011-2015	1,050,000	-	1,050,000
2016-2019	840,000	-	840,000
Subtotal	2,930,000	5,750	2,935,750
Less: Deferred amount	(993,073)	-	(993,073)
Total	<u>\$ 1,936,927</u>	<u>\$ 5,750</u>	<u>\$ 1,942,677</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 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, 2005, including interest component are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	31,360	8,616	39,976
2007	33,663	6,313	39,976
2008	16,983	1,243	18,226
2009	4,488	68	4,556
Total	<u>\$ 86,494</u>	<u>\$ 16,240</u>	<u>\$ 102,734</u>

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.

The annual debt service requirements to amortize all general obligation bonds outstanding as of June 30, 2005, including interest components are as follows:

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 95,000	\$ 103,735	\$ 198,735
2007	100,000	99,935	199,935
2008	105,000	93,935	198,935
2009	110,000	87,635	197,635
2010	115,000	81,035	196,035
2011-2015	650,000	326,950	976,950
2016-2020	820,000	165,158	985,158
2021-2024	190,000	9,025	199,025
Total	<u>\$ 2,185,000</u>	<u>\$ 967,408</u>	<u>\$ 3,152,408</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 are not included on the statement of net assets.

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 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.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

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, 2005 equaled \$2,348,773 (net of discount of \$541,227 with principal accretion recognized during the year of \$135,687).

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, 2005 of \$21,957,963 (net unamortized premium and deferred amount on refunding equaled \$82,450 and (\$2,659,487), respectively). Amortization of the premium and deferred amount equaled (\$3,083) and \$221,886, 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

TOWN OF LEXINGTON, SOUTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

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:

Redemption Dates (Both Dates Inclusive)	Redemption Price
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 \$4,890,000 outstanding at June 30, 2005.

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.

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

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

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.

Series 2004 Revenue Bonds:

The Town of Lexington, South Carolina Combined Waterworks and Sewer System Revenue Bonds, Series 2004 require semi-annual interest payments at rates of 2.00% to 5.00% and annual principal installments ranging from \$85,000 to \$410,000. The Series 2004 Bonds were issued for \$7,865,000 with a net premium of \$6,564. Premium amortization equaled \$200 for the year-ended June 30, 2005. The Series 2004 Bonds refunded the outstanding balance of the Series 2003 Bond Anticipation Note (net of unexpended proceeds from the BAN).

Optional Redemption:

The Series 2004 Bonds maturing on or prior to February 1, 2014, are not subject to redemption prior to maturity. The Series 2004 Bonds maturing after February 1, 2014, are subject to redemption prior to maturity, at the option of the Town, on or after February 1, 2014, as a whole at any time or in part on any interest payment date in maturities as designated by the Town (but only in integral multiples of \$5,000) and by lot within the maturity, at a redemption price of 100% of the principal amount with interest accrued on such principal amount to the date fixed for redemption.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

Forward Delivery Agreement:

In conjunction with the issuance of the Series 2004 Revenue Bonds, the Town entered into an agreement with a third party financial institution with a Moody's rating of Aa2 to provide for the Town to realize in the form of an up front payment an estimated discounted value of investment of the Debt Service Reserve Fund at a specified rate. The net up front payment was \$5,209. The financial institution must from time to time deliver to the Town's trustee for the Series 2004 Debt Service Reserve Fund securities that are either direct obligations of the United States of America or obligations unconditionally guaranteed by the United States which have an aggregate purchase price which is as close as possible to but does not exceed the reserve amount and which mature no later than the next interest payment date on the Series 2004 bonds. Interest earned on the securities delivered to the trustee accrues to the benefit of the Town. The contract provides that upon the occurrence of certain events including partial or completed termination (depletion of the reserve fund to pay debt service), or other defaults by the Town or the financial institution a termination amount may be required. Any termination amount required to be paid by the Town would be made from excess revenues of the system and would represent a junior lien on the gross revenues of the water and sewer utility. Were the Town to exercise an option to refund, defease, repurchase or redeem the Series 2004 Bonds, the agreement could require payment of a termination amount unless the debt service reserve fund for any new debt issued as part of any refunding or other redemption of the Series 2004 Bonds continues to be invested according to the terms of the agreement.

The annual debt service requirements to amortize revenue bonds outstanding as of June 30, 2005 including interest components are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,105,000	\$ 1,761,712	\$ 2,866,712
2007	1,125,000	1,719,952	2,844,952
2008	1,150,000	1,673,863	2,823,863
2009	795,000	1,620,939	2,415,939
2010	810,000	1,612,861	2,422,861
2011-2015	4,335,000	7,993,071	12,328,071
2016-2020	5,805,000	6,811,243	12,616,243
2021-2025	8,945,000	4,982,798	13,927,798
2026-2030	10,940,000	2,803,275	13,743,275
2031-2032	5,085,000	365,744	5,450,744

TOWN OF LEXINGTON, SOUTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Revenue Bonds and Bond Anticipation Notes (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Subtotal	40,095,000	31,345,458	71,440,458
Less: Deferred amounts	(3,111,900)	-	(3,111,900)
Total	<u>\$ 36,983,100</u>	<u>\$ 31,345,458</u>	<u>\$ 68,328,558</u>

Bond Anticipation Note, Series 2003:

The Town issued Bond Anticipation Note, Series 2003 for \$8,000,000 during the year ended June 30, 2004. Principal and interest of 1.28% per annum matured on September 17, 2004 for \$8,101,547. The proceeds from the Series 2004 Revenue Bonds and unexpended proceeds from the BAN were used to repay the principal and interest at maturity.

Contract Payable

As discussed in *Note 8*, the Town agreed to pay West Columbia \$2.98 million for the non-exclusive use of 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 statement of net assets. 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.

The annual debt service requirements to amortize the contract payable as of June 30, 2005 including interest components are as follows:

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

9. Long-Term Debt (Continued)

Contract Payable (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ -	\$ -
2007	-	-	-
2008	-	-	-
2009	-	55,562	55,562
2010	209,902	106,822	316,724
2011-2015	1,187,956	391,589	1,579,545
2016-2019	1,161,160	107,352	1,268,512
Total	<u>\$ 2,559,018</u>	<u>\$ 661,325</u>	<u>\$ 3,220,343</u>

Capital Leases

Governmental activities:

During the year ended June 30, 2005, the Town entered into a \$178,205 capital lease purchase agreement for financing the acquisition of vehicles and equipment. The agreement provides for semi-annual payment of interest at a rate of 3.05% and principal payments ranging from \$28,588 to \$30,209 through January, 2008. Vehicles and equipment acquired during the year with proceeds from the agreement totaled \$137,268, with accumulated depreciation at year end of \$10,413. Certain assets acquired under the agreement did not meet capitalization criteria. Accordingly, these assets totaling \$33,140 were expensed during the year. The remaining proceeds from the agreement were used subsequent to year end to acquire vehicles and equipment pursuant to the terms of the agreement.

The annual debt service requirements to amortize the governmental activities capital lease payable as of June 30, 2005, including interest component are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 29,024	\$ 2,282	\$ 31,306
2007	59,384	3,229	62,613
2008	61,209	1,404	62,613
Total	<u>\$ 149,617</u>	<u>\$ 6,915</u>	<u>\$ 156,532</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

Capital Leases (Continued)

Business-type activities:

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 statement of net assets. 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.

The annual debt service requirements to amortize the capital lease payable as of June 30, 2005 including interest component are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ -	\$ -	\$ -
2007	-	-	-
2008	-	-	-
2009	18,757	11,498	30,255
2010	38,869	21,640	60,509
2011-2015	224,419	78,126	302,545
2016-2019	206,730	20,181	226,911
Total	<u>\$ 488,775</u>	<u>\$ 131,445</u>	<u>\$ 620,220</u>

The waterlines acquired under the capital lease are recorded as capital assets – waterworks system in the statement of net assets at a historic cost of \$778,428, with current book value of \$708,992 net of accumulated depreciation.

10. Capital Contribution Fees and Other Contributed Capital

A summary of contributions from developers and receipts of capital contribution fees during the year ended June 30, 2005, were as follows:

Governmental activities:

Capital asset contributions from developers	<u>\$ 1,064,577</u>
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TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

10. Capital Contribution Fees and Other Contributed Capital (Continued)

Business-type activities:

Capital contribution fees received	\$ 3,769,914
Capital asset contributions from developers	<u>1,207,014</u>
Total capital contribution fees and other capital contributions recognized	<u>\$ 4,976,928</u>

The Town has outstanding contracts that allow certain developers to pay capital contribution fees on an installment basis. Total capital contribution fees outstanding approximate \$2,800,000 at June 30, 2005. Upon payment of periodic installments, the Town recognizes non-operating revenue and developers may claim the applicable number of capital contribution certificates.

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. Through year-end June 30, 2005, the Town provided office space and a Town employee served as LEDA's executive director. LEDA also was awarded grants from Hospitality and Accommodations taxes totaling approximately \$60,000 to promote tourism. Subsequent to year-end, LEDA was reorganized so that the Town no longer provides staffing or office space to LEDA.

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 "system"). The original terms of the 208 Plan included in part a requirement for several service

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

12. Contingencies (Continued)

Litigation(Continued):

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 in 2001 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. The DHEC board overturned the decision of the Administrative Law Judge and held that DHEC had final authority to approve amendments to the 208 Plan. The related jurisdictional case is now pending in the Richland County Court of Common Pleas. The Town expects that final resolution of the issues in this case will take several years, extending well beyond the five-year extension period granted by COG. Such circumstances will give the Town sufficient time to coordinate with the City of Cayce on expansions and upgrades, which will replace Coventry Woods WWTP capacity. Furthermore, the Town believes that ultimately the decision of the Administrative Law Judge will be upheld. Accordingly, it is improbable that any fine will be imposed or upheld.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

12. Contingencies (Continued)

Litigation(Continued):

I-20 Waste System Treatment plant:

In addition to the litigation relating to closure of Coventry Woods WWTP, the Town has supported Carolina Water System (“CWS”) in litigation with the Lexington County Joint Municipal Water and Sewer Commission (“JMWSC”) regarding attempts by the JMWSC to condemn the I-20 Wastewater Treatment Plant owned by CWS. The Town has taken the position that such action would contravene amendments to the Section 208 Plan. The Town is involved in various ways in seven related cases filed in the Lexington County Court of Common Pleas, regarding this matter, either as an intervenor, a defendant, or a plaintiff.

The Town has involved itself in this litigation, primarily to preserve the integrity of the Section 208 Plan and does not expect that the outcome of such litigation, even if adverse to the Town, will materially impact the finances of the System or the potential growth of the System.

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, 2005. The Town reserves sewer treatment capacity to provide the future service at the inception of the installment contracts. At year end, unredeemed capital contribution certificates representing future taps into the system total approximately 2,900.

Additionally, the Town has outstanding commitments to contractors and others for approximately \$1,500,000.

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. During the year ended June 30, 2004, the Town and Cayce amended the agreement to provide for Cayce to sell the Town 2 MGD of capacity, the remaining available under the agreement, at the price of \$1.95 per gallon.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

13. Commitments (Continued)

Wastewater Treatment Service Agreement (Continued):

The amended conditional agreement required the following:

- 1) The Lexington County Joint Municipal Water and Sewer Commission (the “Commission”) to commit by formal action to build a wastewater line to Cayce’s wastewater treatment plant (The line will be up sized to accommodate the transport needs of the Town of Lexington),
- 2) The Town to agree to transfer all ownership and capacity rights in the Highway 321 Regional Sewer Line (“The Swansea Force Main”) upon Cayce’s request following the completion of the sewer line referred to in condition (1) above, and
- 3) The Town to pay for the 2 MGD of capacity in full by December 31, 2004 at a total cost of \$3,900,000.

All of the conditions were met during the year-ended June 30, 2005. As a result, the Town will be provided the additional 2 MGD of treatment capacity by December, 2007 and will have rights to capacity in the Commission’s interconnecting line.

Under the amended agreement, the Town remains obligated to pay its’ “pro rata” share of the capacity in the plant for the cost of future capital replacement or improvement to the Plant (replacements and improvements that do not expand capacity), upon receipt of a statement from Cayce setting forth in reasonable detail the calculation of such cost.

Regional Sewer Line Interconnection Agreement:

During the year ended June 30, 2005, the Town and the Commission entered into an agreement that provided for the Commission to upsize an interconnection line to Cayce’s Plant. The line when completed will allow the Town to connect its Regional Sewer System to Cayce’s Plant through the Commission’s interconnection line. The new line will be solely owned by the Commission and the Town’s only interest in the line will be the contractual rights to non-exclusive utilization of the line for wastewater transport. The Town agreed to pay the pro rata cost of upsizing the line to accommodate its anticipated flows. The costs include engineering, design, construction and inspection and total approximately \$1,100,000 with an approximate balance to completion of \$450,000 at June 30, 2005 (the Town’s agreement with Cayce also requires that the Town assign its interest in the Highway 321 Regional Sewer Line to Cayce upon completion of the Commission’s interconnection line). The Town also must pay during the term of the agreement a pro rata share of any modifications or improvements to the interconnection line to satisfy regulatory requirements, which do not increase the actual capacity of the line. The Town will also be

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

13. Commitments (Continued)

Regional Sewer Line Interconnection Agreement (Continued):

responsible to pay for its flows through the line in accordance with the terms and conditions of the Town's wastewater treatment agreement with Cayce.

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 MGD 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, 2005, for employees enrolled in the SCRS and PORS, was approximately \$4,297,057, of which \$2,962,665 was for substantially all employees covered by the SCRS and \$1,334,392 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, 2005, 2004, and 2003 were \$202,222, \$186,992, and \$162,387, 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, 2005, 2004, and 2003 were \$142,780, \$131,195, and \$111,128, respectively, which equal 100% of required contributions.

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

15. Post Employment Benefits Other than Pension

During the year ended June 30, 2004, the Town adopted a policy to pay health insurance benefits until age 65 for retirees who retire with 20 years of service and retire between the ages of 62 and 65. The Town's contributions are financed on a pay-as-you go basis.

On June 30, 2005, the Town had one retiree receiving benefits under the policy. The average age of the participants was approximately 64 with monthly premium costs averaging approximately \$276 per participant. The total expenses incurred by the Town for the year ended June 30, 2005, were \$3,312.

TOWN OF LEXINGTON, SOUTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

— CONTINUED —

16. 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.

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 \$153,780 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 \$495,572 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 \$105,774 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.

17. Subsequent Events

The Town entered a capital lease purchase agreement totaling \$421,885 for the acquisition of vehicles and equipment. The agreement provides for interest at a rate of 3.4% and a term of five (5) years.

The Town approved construction contracts for the construction of water and sewer lines totaling approximately \$1,600,000.

OTHER FINANCIAL INFORMATION

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINING 'NON-MAJOR' GOVERNMENTAL FINANCIAL
STATEMENTS

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	Special Revenue									
	Police Grants and Programs	Golden Hills Tax District	Downtown Restoration	Disaster Fund	Alcohol Permits	Sidewalk Fund	Drug Fund	Cans to Trees	Victims Assistance	CDBG
Assets										
Cash and temporary investments	\$ 7,401	\$ -	\$ -	\$ -	\$ -	\$ 152,545	\$ -	\$ 8,629	\$ -	\$ -
Receivables, net:										
Taxes	-	-	-	-	-	-	-	-	-	-
Other	1,500	-	-	-	300	-	-	-	-	-
Due from grantor	189,932	-	-	-	-	-	-	-	-	47,277
Due from other funds	5,768	-	-	-	-	-	-	-	4,445	-
Restricted cash and temporary investments	2,859	76,682	22,660	12,760	32,600	-	5,182	-	26,135	-
Total assets	\$ 207,460	\$ 76,682	\$ 22,660	\$ 12,760	\$ 32,900	\$ 152,545	\$ 5,182	\$ 8,629	\$ 30,580	\$ 47,277
Liabilities and Fund Balances										
Accounts payable	\$ 3,321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60	\$ -	\$ -	\$ 12,288
Accrued Liabilities	-	-	-	-	-	-	-	-	1,298	-
Due to other funds	186,220	-	-	-	-	-	-	-	-	34,989
Deferred revenue	7,504	-	-	-	-	-	-	-	-	-
Total liabilities	197,045	-	-	-	-	-	60	-	1,298	47,277
Fund balances:										
Reserved for debt service	-	-	-	-	-	-	-	-	-	-
Unreserved/undesignated	10,415	76,682	22,660	12,760	32,900	152,545	5,122	8,629	29,282	-
Total fund equity	10,415	76,682	22,660	12,760	32,900	152,545	5,122	8,629	29,282	-
Total liabilities and fund balances	\$ 207,460	\$ 76,682	\$ 22,660	\$ 12,760	\$ 32,900	\$ 152,545	\$ 5,182	\$ 8,629	\$ 30,580	\$ 47,277

					Capital Projects			Debt Service	Total Nonmajor Governmental Funds
Concerts in the Park	History Book	Veterans Monument	Accommodations Tax	Totals	Streetscape	Streets and Infrastructure	Totals	Debt Service	
\$ 4,153	\$ -	\$ 26,120	\$ -	\$ 198,848	\$ -	\$ -	\$ -	\$ -	\$ 198,848
-	-	-	12,150	12,150	-	-	-	-	12,150
-	-	-	-	1,800	-	-	-	-	1,800
-	-	-	-	237,209	-	-	-	-	237,209
-	-	-	-	10,213	-	-	-	15	10,228
-	-	-	8,876	187,754	20,191	518,604	538,795	316,033	1,042,582
<u>\$ 4,153</u>	<u>\$ -</u>	<u>\$ 26,120</u>	<u>\$ 21,026</u>	<u>\$ 647,974</u>	<u>\$ 20,191</u>	<u>\$ 518,604</u>	<u>\$ 538,795</u>	<u>\$ 316,048</u>	<u>\$ 1,502,817</u>
\$ 485	\$ -	\$ -	\$ -	\$ 16,154	\$ 19,812	\$ 3,080	\$ 22,892	\$ -	\$ 39,046
-	-	-	-	1,298	-	-	-	-	1,298
-	-	-	-	221,209	-	-	-	-	221,209
-	-	-	-	7,504	-	-	-	-	7,504
485	-	-	-	246,165	19,812	3,080	22,892	-	269,057
-	-	-	-	-	-	-	-	316,048	316,048
3,668	-	26,120	21,026	401,809	379	515,524	515,903	-	917,712
3,668	-	26,120	21,026	401,809	379	515,524	515,903	316,048	1,233,760
<u>\$ 4,153</u>	<u>\$ -</u>	<u>\$ 26,120</u>	<u>\$ 21,026</u>	<u>\$ 647,974</u>	<u>\$ 20,191</u>	<u>\$ 518,604</u>	<u>\$ 538,795</u>	<u>\$ 316,048</u>	<u>\$ 1,502,817</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	Police Grants and Programs	Golden Hills Tax District	Special Revenue							CDBG
			Downtown Restoration	Disaster Fund	Alcohol Permits	Sidewalk Fund	Drug Fund	Cans to Trees Fund	Victims Assistance	
Revenue										
Grant revenue	\$ 297,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151,686
Road assessment	-	17,850	-	-	-	-	-	-	-	-
Alcohol permits	-	-	-	-	33,600	-	-	-	-	-
Fines and forfeitures	11,724	-	-	-	-	-	5,381	-	29,878	-
Accommodations tax	-	-	-	-	-	-	-	-	-	-
Interest income	-	1,591	528	260	-	3,117	175	-	-	-
Other income	5,988	-	-	8,735	-	-	-	-	-	138
Total revenue	315,404	19,441	528	8,995	33,600	3,117	5,556	-	29,878	151,824
Expenditures										
Current:										
Public safety	163,623	-	-	-	-	-	5,082	-	-	-
Victim's assistance	10,982	-	-	-	-	-	-	-	43,714	-
Street maintenance	-	410	-	-	-	-	-	-	-	-
Parks and appearance	-	-	-	8,735	-	-	-	-	-	-
Housing rehabilitation	-	-	-	-	-	-	-	-	-	157,053
Tourism related	-	-	-	-	35,186	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Capital outlay	145,047	-	-	-	1,869	-	1,958	-	-	-
Total expenditures	319,652	410	-	8,735	37,055	-	7,040	-	43,714	157,053
Other Financing Sources (Uses)										
Transfers in (out)	-	-	-	-	-	-	-	-	-	5,229
Total other financing sources	-	-	-	-	-	-	-	-	-	5,229
Excess (deficiency) of revenue and other financing sources (uses) over (under) expenditures	(4,248)	19,031	528	260	(3,455)	3,117	(1,484)	-	(13,836)	-
Fund balances, beginning of year	14,663	57,651	22,132	12,500	36,355	149,428	6,606	8,629	43,118	-
Fund balances, end of year	\$ 10,415	\$ 76,682	\$ 22,660	\$ 12,760	\$ 32,900	\$ 152,545	\$ 5,122	\$ 8,629	\$ 29,282	\$ -

					Capital Projects			Debt Service	Total Nonmajor Governmental Funds
Concerts in the Park	History Book	Veterans Monument	Accommodations Tax	Totals	Streetscape	Streets and Infrastructure	Totals	Debt Service	
\$ -	\$ -	\$ -	\$ -	\$ 449,378	\$ -	\$ -	\$ -	\$ -	\$ 449,378
-	-	-	-	17,850	-	-	-	-	17,850
-	-	-	-	33,600	-	-	-	-	33,600
-	-	-	-	46,983	-	-	-	-	46,983
-	-	-	46,596	46,596	-	-	-	-	46,596
-	-	-	510	6,181	4,653	6,645	11,298	4,493	21,972
9,150	-	26,312	-	50,323	-	15,360	15,360	-	65,683
9,150	-	26,312	47,106	650,911	4,653	22,005	26,658	4,493	682,062
-	-	-	-	168,705	-	-	-	-	168,705
-	-	-	-	54,696	-	-	-	-	54,696
-	-	-	-	410	-	-	-	-	410
20,667	-	192	-	29,594	-	-	-	-	29,594
-	-	-	-	157,053	-	-	-	-	157,053
-	8,573	-	26,448	70,207	-	-	-	-	70,207
-	-	-	-	-	-	-	-	409,941	409,941
-	-	-	-	148,874	2,732	107,225	109,957	-	258,831
20,667	8,573	192	26,448	629,539	2,732	107,225	109,957	409,941	1,149,437
-	8,573	-	(26,080)	(12,278)	(480,561)	555,561	75,000	409,939	472,661
-	8,573	-	(26,080)	(12,278)	(480,561)	555,561	75,000	409,939	472,661
(11,517)	-	26,120	(5,422)	9,094	(478,640)	470,341	(8,299)	4,491	5,286
15,185	-	-	26,448	392,715	479,019	45,183	524,202	311,557	1,228,474
\$ 3,668	\$ -	\$ 26,120	\$ 21,026	\$ 401,809	\$ 379	\$ 515,524	\$ 515,903	\$ 316,048	\$ 1,233,760

TOWN OF LEXINGTON, SOUTH CAROLINA

INDIVIDUAL FUND
SCHEDULES

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND
BALANCE SHEET

JUNE 30, 2005

(With comparative amounts at June 30, 2004)

	<u>2005</u>	<u>2004</u>
Assets		
Cash and temporary investments	\$ 4,054,059	\$ 3,935,053
Receivables, net:		
Fees and services	27,615	88,999
Property taxes, net	98,371	109,567
Other governments	114,495	104,773
Other	3,769	665
Due from other funds	210,996	49,317
Prepaid items	127,860	959
Restricted cash and temporary investments	45,244	-
Total assets	<u>\$ 4,682,409</u>	<u>\$ 4,289,333</u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ 172,100	\$ 94,861
Accrued liabilities	119,739	99,757
Due to other funds	18	256,070
Other liabilities	34,050	21,185
Deferred revenue	104,649	104,732
Advance from other fund	1,622,520	1,290,004
Total liabilities	<u>2,053,076</u>	<u>1,866,609</u>
Fund balance:		
Reserved for prepaid items	127,860	959
Unreserved:		
Designated for:		
Vehicle replacement	76,561	75,000
Streets and infrastructure	638,450	810,000
Undesignated	1,786,462	1,536,765
Total fund balance	<u>2,629,333</u>	<u>2,422,724</u>
Total liabilities and fund balance	<u>\$ 4,682,409</u>	<u>\$ 4,289,333</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

GENERAL FUND

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

YEAR ENDED JUNE 30, 2005

(With comparative amounts for the year ended June 30, 2004)

	2005		Variance Positive (Negative)	2004
	Budget	Actual		Actual
Revenue				
Property taxes	\$ 1,992,000	\$ 2,101,280	\$ 109,280	\$ 1,942,182
Franchises, licenses and permits	3,219,100	3,340,848	121,748	2,866,907
Other governments	315,000	295,054	(19,946)	314,860
Fines and forfeitures	275,000	186,964	(88,036)	251,414
Interest income	27,000	62,801	35,801	37,489
Charges for services	36,100	10,175	(25,925)	23,958
Miscellaneous	14,500	29,046	14,546	17,494
Total revenue	<u>5,878,700</u>	<u>6,026,168</u>	<u>147,468</u>	<u>5,454,304</u>
Expenditures				
General Government				
Building Department:				
Personnel	359,420	356,208	3,212	323,026
Contractual services	3,910	2,894	1,016	2,904
Repairs and maintenance	3,500	5,724	(2,224)	5,097
Supplies	12,810	11,576	1,234	7,757
Other operating	13,310	9,484	3,826	10,452
Total building department	<u>392,950</u>	<u>385,886</u>	<u>7,064</u>	<u>349,236</u>
Administration Department:				
Personnel	608,970	589,352	19,618	535,926
Contractual services	5,010	6,035	(1,025)	3,171
Repairs and maintenance	1,813	694	1,119	839
Supplies	9,532	9,985	(453)	6,698
Other operating	36,045	31,065	4,980	40,780
Allocation of personnel expenditures	(304,485)	(294,676)	(9,809)	(267,963)
Allocation of other expenditures	(26,200)	(23,890)	(2,310)	(25,745)
Total administration department	<u>330,685</u>	<u>318,565</u>	<u>12,120</u>	<u>293,706</u>
Finance:				
Personnel	457,528	440,041	17,487	392,766
Contractual services	7,360	8,934	(1,574)	8,129
Repairs and maintenance	4,300	2,904	1,396	1,421
Supplies	5,350	3,169	2,181	16,708
Other operating	84,764	82,811	1,953	59,943
Allocation of personnel expenditures	(228,764)	(220,021)	(8,743)	(196,383)
Allocation of other expenditures	(50,887)	(48,909)	(1,978)	(43,100)
Total finance	<u>279,651</u>	<u>268,929</u>	<u>10,722</u>	<u>239,484</u>

- CONTINUED -

TOWN OF LEXINGTON, SOUTH CAROLINA

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

- CONTINUED -

	2005		Variance	2004
	Budget	Actual	Positive (Negative)	Actual
Expenditures (Continued)				
General Government (Continued)				
Council:				
Personnel	99,717	98,201	1,516	96,194
Contractual services	42,890	40,017	2,873	6,749
Repairs and maintenance	45,000	49,593	(4,593)	37,069
Supplies	3,000	2,477	523	5,261
Other operating	368,785	364,813	3,972	291,684
Contributions	5,900	5,900	-	9,128
Allocation of personnel expenditures	(49,858)	(49,101)	(757)	(48,097)
Allocation of other expenditures	(232,788)	(231,400)	(1,388)	(174,946)
Total council	<u>282,646</u>	<u>280,500</u>	<u>2,146</u>	<u>223,042</u>
Total general government	<u>1,285,932</u>	<u>1,253,880</u>	<u>32,052</u>	<u>1,105,468</u>
Public Safety				
Personnel	1,934,126	1,853,584	80,542	1,697,543
Contractual services	71,850	58,255	13,595	56,896
Repairs and maintenance	34,900	38,981	(4,081)	45,888
Supplies	77,590	94,909	(17,319)	33,606
Other operating	106,074	92,730	13,344	151,739
Total public safety	<u>2,224,540</u>	<u>2,138,459</u>	<u>86,081</u>	<u>1,985,672</u>
Parks, Streets and Sanitation				
Personnel	546,130	543,690	2,440	502,368
Contractual services	532,250	534,377	(2,127)	521,514
Repairs and maintenance	30,500	29,874	626	29,171
Supplies	60,430	55,360	5,070	42,541
Other operating	195,220	194,503	717	189,617
Total parks and appearances	<u>1,364,530</u>	<u>1,357,804</u>	<u>6,726</u>	<u>1,285,211</u>
Capital Outlay	319,296	1,012,716	(693,420)	2,365,651
Debt Service	35,894	34,806	1,088	39,976
Total expenditures	<u>5,230,192</u>	<u>5,797,665</u>	<u>(567,473)</u>	<u>6,781,978</u>
Other Financing Sources (Uses)				
Proceeds from capital lease	186,034	178,205	(7,829)	-
Transfers in	-	392,566	392,566	741,907
Transfers out	(761,653)	(592,665)	168,988	(520,363)
Total other financing sources (uses)	<u>(575,619)</u>	<u>(21,894)</u>	<u>553,725</u>	<u>221,544</u>
Excess of revenue over (under) expenditures and other financing sources (uses)	72,889	206,609	133,720	(1,106,130)
Fund balance, beginning of year	2,422,724	2,422,724	-	3,528,854
Fund balance, end of year	<u>\$ 2,495,613</u>	<u>\$ 2,629,333</u>	<u>\$ 133,720</u>	<u>\$ 2,422,724</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2005

(With comparative total amounts at June 30, 2004)

	Police Grants and Programs	Golden Hills Tax District	Downtown Restoration	Disaster Fund	Alcohol Permits	Sidewalk Fund	Drug Fund	Cans to Trees
Assets								
Cash and temporary investments	\$ 7,401	\$ -	\$ -	\$ -	\$ -	\$ 152,545	\$ -	\$ 8,629
Receivables, net:								
Taxes	-	-	-	-	-	-	-	-
Other	1,500	-	-	-	300	-	-	-
Due from grantor	189,932	-	-	-	-	-	-	-
Due from other funds	5,768	-	-	-	-	-	-	-
Restricted cash and temporary investments	2,859	76,682	22,660	12,760	32,600	-	5,182	-
Total assets	\$ 207,460	\$ 76,682	\$ 22,660	\$ 12,760	\$ 32,900	\$ 152,545	\$ 5,182	\$ 8,629
Liabilities and Fund Balances								
Accounts payable	\$ 3,321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60	\$ -
Construction payable	-	-	-	-	-	-	-	-
Accrued Liabilities	-	-	-	-	-	-	-	-
Due to other funds	186,220	-	-	-	-	-	-	-
Deferred revenue	7,504	-	-	-	-	-	-	-
Total liabilities	197,045	-	-	-	-	-	60	-
Fund balances:								
Unreserved/undesignated	10,415	76,682	22,660	12,760	32,900	152,545	5,122	8,629
Total fund equity	10,415	76,682	22,660	12,760	32,900	152,545	5,122	8,629
Total liabilities and fund balances	\$ 207,460	\$ 76,682	\$ 22,660	\$ 12,760	\$ 32,900	\$ 152,545	\$ 5,182	\$ 8,629

Victims Assistance	CDBG	Concerts in the Park	Hospitality Tax	History Book	Veterans Monument	Accommodations Tax	Totals	
							2005	2004
\$ -	\$ -	\$ 4,153	\$ -	\$ -	\$ 26,120	\$ -	\$ 198,848	\$ 178,147
-	-	-	107,250	-	-	12,150	119,400	111,979
-	-	-	-	-	-	-	1,800	5,780
-	47,277	-	-	-	-	-	237,209	49,427
4,445	-	-	-	-	-	-	10,213	2,341
26,135	-	-	1,315,576	-	-	8,876	1,503,330	710,046
<u>\$ 30,580</u>	<u>\$47,277</u>	<u>\$ 4,153</u>	<u>\$ 1,422,826</u>	<u>-</u>	<u>\$ 26,120</u>	<u>\$ 21,026</u>	<u>\$ 2,070,800</u>	<u>\$ 1,057,720</u>
\$ -	\$12,288	\$ 485	\$ 261,800	\$ -	\$ -	\$ -	\$ 277,954	\$ 13,762
-	-	-	-	-	-	-	-	15,595
1,298	-	-	480	-	-	-	1,778	1,775
-	34,989	-	-	-	-	-	221,209	51,658
-	-	-	-	-	-	-	7,504	-
<u>1,298</u>	<u>47,277</u>	<u>485</u>	<u>262,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>508,445</u>	<u>82,790</u>
29,282	-	3,668	1,160,546	-	26,120	21,026	1,562,355	974,930
<u>29,282</u>	<u>-</u>	<u>3,668</u>	<u>1,160,546</u>	<u>-</u>	<u>26,120</u>	<u>21,026</u>	<u>1,562,355</u>	<u>974,930</u>
<u>\$ 30,580</u>	<u>\$47,277</u>	<u>\$ 4,153</u>	<u>\$ 1,422,826</u>	<u>\$ -</u>	<u>\$ 26,120</u>	<u>\$ 21,026</u>	<u>\$ 2,070,800</u>	<u>\$ 1,057,720</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

SPECIAL REVENUE FUNDS
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2005
 (With comparative total amounts at June 30, 2004)

	Police Grants and Programs	Golden Hills Tax District	Downtown Restoration	Disaster Fund	Alcohol Permits	Sidewalk Fund	Drug Fund	Cans to Trees Fund
Revenue								
Grant revenue	\$ 297,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Road assessment	-	17,850	-	-	-	-	-	-
Sidewalk proceeds	-	-	-	-	-	-	-	-
Alcohol permits	-	-	-	-	33,600	-	-	-
Recycling proceeds	-	-	-	-	-	-	-	-
Fines and forfeitures	11,724	-	-	-	-	-	5,381	-
Hospitality tax	-	-	-	-	-	-	-	-
Accommodations tax	-	-	-	-	-	-	-	-
Interest income	-	1,591	528	260	-	3,117	175	-
Other income	5,988	-	-	8,735	-	-	-	-
Total revenue	<u>315,404</u>	<u>19,441</u>	<u>528</u>	<u>8,995</u>	<u>33,600</u>	<u>3,117</u>	<u>5,556</u>	<u>-</u>
Expenditures								
Current:								
Public safety	163,623	-	-	-	-	-	5,082	-
Victims assistance	10,982	-	-	-	-	-	-	-
Street maintenance	-	410	-	-	-	-	-	-
Parks and appearance	-	-	-	8,735	-	-	-	-
Housing rehabilitation	-	-	-	-	-	-	-	-
Accommodations tax	-	-	-	-	-	-	-	-
Tourism related expenses	-	-	-	-	35,186	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	145,047	-	-	-	1,869	-	1,958	-
Total expenditures	<u>319,652</u>	<u>410</u>	<u>-</u>	<u>8,735</u>	<u>37,055</u>	<u>-</u>	<u>7,040</u>	<u>-</u>
Other Financing Sources (Uses)								
Proceeds from special source revenue bonds	-	-	-	-	-	-	-	-
Transfers in (out)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue and other financing sources (uses) over (under) expenditures	(4,248)	19,031	528	260	(3,455)	3,117	(1,484)	-
Fund balances, beginning of year of year	14,663	57,651	22,132	12,500	36,355	149,428	6,606	8,629
Fund balances, end of year	<u>\$ 10,415</u>	<u>\$ 76,682</u>	<u>\$ 22,660</u>	<u>\$ 12,760</u>	<u>\$ 32,900</u>	<u>\$ 152,545</u>	<u>\$ 5,122</u>	<u>\$ 8,629</u>

Victims Assistance	CDBG	Concerts in the Park	Hospitality Tax	History Book	Veterans Monument	Accommodations Tax	Totals	
							2005	2004
\$ -	\$ 151,686	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 449,378	\$ 201,779
-	-	-	-	-	-	-	17,850	18,270
-	-	-	-	-	-	-	-	16,147
-	-	-	-	-	-	-	33,600	35,500
-	-	-	-	-	-	-	-	702
29,878	-	-	-	-	-	-	46,983	47,905
-	-	-	1,236,308	-	-	-	1,236,308	771,779
-	-	-	-	-	-	46,596	46,596	52,717
-	-	-	37,502	-	-	510	43,683	4,392
-	138	9,150	-	-	26,312	-	50,323	88,849
29,878	151,824	9,150	1,273,810	-	26,312	47,106	1,924,721	1,238,040
-	-	-	-	-	-	-	168,705	147,406
43,714	-	-	-	-	-	-	54,696	48,864
-	-	-	-	-	-	-	410	1,364
-	-	20,667	-	-	192	-	29,594	26,885
-	157,053	-	-	-	-	-	157,053	662
-	-	-	-	-	-	26,448	26,448	27,189
-	-	-	261,800	8,573	-	-	305,559	154,111
-	-	-	3,764,443	-	-	-	3,764,443	-
-	-	-	284,236	-	-	-	433,110	145,697
43,714	157,053	20,667	4,310,479	8,573	192	26,448	4,940,018	552,178
-	-	-	3,615,000	-	-	-	3,615,000	-
-	5,229	-	-	8,573	-	(26,080)	(12,278)	(25,092)
-	5,229	-	3,615,000	8,573	-	(26,080)	3,602,722	(25,092)
(13,836)	-	(11,517)	578,331	-	26,120	(5,422)	587,425	660,770
43,118	-	15,185	582,215	-	-	26,448	974,930	314,160
\$ 29,282	\$ -	\$ 3,668	\$ 1,160,546	\$ -	\$ 26,120	\$ 21,026	\$ 1,562,355	\$ 974,930

TOWN OF LEXINGTON, SOUTH CAROLINA

DEBT SERVICE FUND
BALANCE SHEET

JUNE 30, 2005

(With comparative amounts at June 30, 2004)

	<u>2005</u>	<u>2004</u>
Assets		
Due from other funds	\$ 15	\$ -
Restricted cash and temporary investments	316,033	311,557
Total assets	<u>\$ 316,048</u>	<u>\$ 311,557</u>
Liabilities and Fund Balance		
Fund balance:		
Reserved for debt service	<u>\$ 316,048</u>	<u>\$ 311,557</u>
Total fund balance	316,048	311,557
Total liabilities and fund balance	<u>\$ 316,048</u>	<u>\$ 311,557</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2005

(With comparative actual amounts for the year ended June 30, 2004)

	2005		Variance Favorable (Unfavorable)	2004
	Budget	Actual		Actual
Revenue				
Interest earned on investments	\$ -	\$ 4,493	\$ 4,493	\$ 1,322
Total revenue	-	4,493	4,493	1,322
Expenditures				
Debt service	411,653	409,941	1,712	412,952
Total expenditures	411,653	409,941	1,712	412,952
Deficiency of revenue under expenditures	(411,653)	(405,449)	6,204	(411,630)
Other Financing Sources				
Transfers in	411,653	409,939	(1,714)	412,934
Total other financing source	411,653	409,939	(1,714)	412,934
Excess of revenue and other financing sources over expenditures	-	4,491	4,491	1,304
Fund balance, beginning of year	311,557	311,557	-	310,253
Fund balance, end of year	\$ 311,557	\$ 316,048	\$ 4,491	\$ 311,557

TOWN OF LEXINGTON, SOUTH CAROLINA

CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2005

(With comparative amounts at June 30, 2004)

	<u>Streetscape</u>	<u>Streets and Infrastructure</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
Assets				
Restricted cash and temporary investments	\$ 20,191	\$ 518,604	\$ 538,795	\$ 606,595
Total assets	<u>\$ 20,191</u>	<u>\$ 518,604</u>	<u>\$ 538,795</u>	<u>\$ 606,595</u>
Liabilities and Fund Balance				
Accounts payable	\$ 19,812	\$ 3,080	\$ 22,892	\$ 82,393
Fund balance:				
Unreserved/Undesignated	379	515,524	515,903	524,202
Total fund balance	<u>379</u>	<u>515,524</u>	<u>515,903</u>	<u>524,202</u>
Total liabilities and fund balance	<u>\$ 20,191</u>	<u>\$ 518,604</u>	<u>\$ 538,795</u>	<u>\$ 606,595</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2005
 (With comparative amounts for the year ended June 30, 2004)

	Streets and		Totals	
	Streetscape	Infrastructure	2005	2004
Revenue				
Grant revenue	\$ -	\$ -	\$ -	\$ 1,000
Other income	-	15,360	15,360	-
Interest earned on investments	4,653	6,645	11,298	10,178
Total Revenue	<u>4,653</u>	<u>22,005</u>	<u>26,658</u>	<u>11,178</u>
Expenditures				
Capital outlay	2,732	107,225	109,957	663,702
Total expenditures	<u>2,732</u>	<u>107,225</u>	<u>109,957</u>	<u>663,702</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,921</u>	<u>(85,220)</u>	<u>(83,299)</u>	<u>(652,524)</u>
Other Financing Sources (Uses)				
Transfer in (out)	(480,561)	555,561	75,000	-
Total other financing sources (uses)	<u>(480,561)</u>	<u>555,561</u>	<u>75,000</u>	<u>-</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures	<u>(478,640)</u>	<u>470,341</u>	<u>(8,299)</u>	<u>(652,524)</u>
Fund balance, beginning of year	479,019	45,183	524,202	1,176,726
Fund balance, end of year	<u>\$ 379</u>	<u>\$ 515,524</u>	<u>\$ 515,903</u>	<u>\$ 524,202</u>

TOWN OF LEXINGTON, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF NET ASSETS

JUNE 30, 2005
(With comparative amounts at June 30, 2004)

	<u>2005</u>	<u>2004</u>
Assets		
Cash and temporary investments	\$ 6,870,314	\$ 7,450,179
Receivables, net:		
Fees and services	1,217,381	1,181,065
Other	6,825	13,413
Due from other fund	1,622,523	1,546,074
Inventories-supplies	162,157	122,185
Restricted assets:		
Cash and temporary investments	3,268,916	8,058,824
Investments	565,191	-
Property, plant, and equipment, net	41,389,595	37,941,320
Deferred charges:		
Capacity reserve	15,524,165	11,209,633
Retail distribution rights	2,202,454	2,252,510
Bond issue cost, net of amortization	1,333,898	1,123,166
Total assets	<u>74,163,419</u>	<u>70,898,369</u>
Liabilities		
Liabilities:		
Accounts payable	385,114	180,086
Accrued liabilities	54,927	43,151
Deferred revenue	90,000	-
Current liabilities payable from restricted assets:		
Construction payables	378,041	626,141
Accrued interest	453,712	396,597
Revenue bonds-current	1,105,000	885,000
Customer deposits	3,500	4,000
Bond anticipation note	-	8,000,000
Revenue bonds payable	35,878,100	28,842,244
Contracts payable	2,559,018	2,559,018
Accrued compensated absences	76,575	67,952
Capital lease obligation	488,775	488,775
Total liabilities	<u>41,472,762</u>	<u>42,092,964</u>
Net Assets		
Invested in capital assets, net of related debt	22,064,484	15,006,879
Restricted for capital projects	58,258	905,457
Restricted for debt service	342,470	125,807
Unrestricted	10,225,445	12,767,262
Total net assets	<u>\$ 32,690,657</u>	<u>\$ 28,805,405</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

(With comparative amounts for the year ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
Operating Revenue		
Water service	\$ 2,954,579	\$ 2,798,195
Sewer service	4,117,671	3,790,819
Tap and meter fees	109,088	92,627
Other income	312,725	261,254
Total operating revenue	<u>7,494,063</u>	<u>6,942,895</u>
Operating Expenses		
Salaries and benefits	2,256,972	2,072,056
Water treatment	1,293,019	985,808
Sewer treatment	427,837	295,093
Other contractual services	207,278	284,322
Materials and supplies	230,012	200,021
Electricity	128,658	117,166
Other operating expenses	648,716	537,350
Depreciation and amortization	1,389,780	1,356,553
Total operating expenses	<u>6,582,272</u>	<u>5,848,369</u>
Operating income	<u>911,791</u>	<u>1,094,526</u>
Non-Operating Revenue (Expenses)		
Interest income	226,087	199,511
Interest expense	(1,900,862)	(1,724,153)
Amortization of bond issuance costs	(56,130)	(44,159)
Total non-operating revenue (expenses)	<u>(1,730,905)</u>	<u>(1,568,801)</u>
Net loss before contributions and transfers	<u>(819,114)</u>	<u>(474,275)</u>
Capital Contributions:		
Capital contribution fees	3,769,914	2,669,455
Developer capital asset contributions	1,207,014	578,590
Total capital contributions	<u>4,976,928</u>	<u>3,248,045</u>
Transfers In	93,924	106,128
Transfers Out	<u>(366,486)</u>	<u>(715,514)</u>
Change in net assets	3,885,252	2,164,384
Net assets, beginning of year	<u>28,805,405</u>	<u>26,641,021</u>
Net assets, end of year	<u>\$ 32,690,657</u>	<u>\$ 28,805,405</u>

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

YEAR ENDED JUNE 30, 2005
(With comparative amounts for the year ended June 30, 2004)

	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	\$ 7,463,835	\$ 6,536,892
Cash paid to suppliers for goods or services	(2,770,464)	(2,328,024)
Cash paid to employees for services	(2,236,573)	(2,051,138)
Net cash provided by operating activities	2,456,798	2,157,730
Cash Flows from Non-Capital Financing Activities		
Advances to other fund	(76,449)	(1,159,400)
Transfer from other fund	93,924	106,128
Transfer to other fund	(366,486)	(715,514)
Net cash used in non-capital financing activities	(349,011)	(1,768,786)
Cash Flows from Capital and Related Financing Activities		
Purchases and construction of capital assets	(3,585,413)	(1,834,930)
Purchase of capacity reserve	(4,558,204)	(8,767)
Proceeds from capital debt	7,871,564	8,000,000
Bond issuance costs paid	(266,861)	(65,716)
Principal paid on capital debt	(8,970,000)	(8,355,000)
Interest and fees paid	(1,489,456)	(1,339,218)
Proceeds from capital contribution fees	3,859,914	2,669,455
Net cash used in capital and related financing activities	(7,138,456)	(934,176)
Cash Flows from Investing Activities		
Purchases of investments	(565,191)	-
Interest received	226,087	199,511
Net cash used in investing activities	(339,104)	199,511
Net decreases in cash and cash equivalents	(5,369,773)	(345,721)
Cash and cash equivalents, beginning of year	15,509,003	15,854,724
Cash and cash equivalents, end of year	\$ 10,139,230	\$ 15,509,003

- CONTINUED -

TOWN OF LEXINGTON, SOUTH CAROLINA

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF CASH FLOWS

- CONTINUED -

	<u>2005</u>	<u>2004</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 911,791	\$ 1,094,526
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,389,780	1,356,553
Increase in accounts receivable	(29,728)	(407,003)
Decrease (increase) in inventory	(39,972)	11,163
Decrease in prepaid items	-	19,762
Increase in accounts payable	205,028	60,811
Increase (decrease) in customer deposits	(500)	1,000
Increase in accrued expenses	20,399	20,918
Net cash provided by operating activities	<u>\$ 2,456,798</u>	<u>\$ 2,157,730</u>
Non-cash Capital Supplementary Information:		
Revenue bond principal accretion and discount amortization	\$ 135,687	\$ 131,254
Revenue bond premium and deferred amount on refunding amortization	218,605	238,659
Contributed capital assets from developers	1,207,014	578,590

TOWN OF LEXINGTON, SOUTH CAROLINA

**CAPITAL ASSETS USED IN THE OPERATIONS OF
GOVERNMENTAL FUNDS**

This schedule presents only the capital asset balances related to Governmental-type funds. Accordingly, the capital assets reported in Proprietary-type funds are excluded from these amounts.

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE

JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Governmental Funds Capital Assets:		
Land	\$ 3,559,014	\$ 3,300,184
Buildings	8,756,264	5,065,974
Vehicles and equipment	1,432,814	1,337,538
Streets and roadways	6,762,816	6,151,428
Sidewalks	854,344	689,329
Storm drainage	1,275,682	1,105,614
Construction in progress	171,464	2,894,322
Total governmental funds capital assets	<u>\$ 22,812,398</u>	<u>\$ 20,544,389</u>
Investments in Governmental Funds Capital Assets by Source:		
General fund	\$ 10,519,368	\$ 9,670,740
Special revenue funds	430,420	104,031
Capital projects funds	2,965,326	2,936,911
Donations	8,897,284	7,832,707
Total governmental funds capital assets	<u>\$ 22,812,398</u>	<u>\$ 20,544,389</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY

JUNE 30, 2005

Function and Activity	Land	Buildings	Vehicles and Equipment	Streets and Roadways	Sidewalks	Storm Drainage	Construction in Progress	Total
General government:								
Council	\$ -	\$ -	\$ 31,413	\$ -	\$ -	\$ -	\$ -	\$ 31,413
Administration	-	-	59,134	-	-	-	-	59,134
Finance	-	-	13,203	-	-	-	-	13,203
Information technology	-	-	5,692	-	-	-	-	5,692
Building department	-	-	76,188	-	-	-	-	76,188
Other-unclassified	1,715,661	5,947,737	56,252	-	-	-	-	7,719,650
Total general government	<u>1,715,661</u>	<u>5,947,737</u>	<u>241,882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,905,280</u>
Public Safety:								
Police	-	2,662,006	642,663	-	-	-	-	3,304,669
Victim's assistance	-	-	-	-	-	-	-	-
Police grants and programs	-	-	107,936	-	-	-	-	107,936
Total public safety	<u>-</u>	<u>2,662,006</u>	<u>750,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,412,605</u>
Parks, streets, and sanitation	<u>1,843,353</u>	<u>146,521</u>	<u>440,333</u>	<u>6,762,816</u>	<u>854,344</u>	<u>1,275,682</u>	<u>-</u>	<u>11,323,049</u>
Tourism related	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,464</u>	<u>171,464</u>
Total governmental funds capital assets	<u>\$ 3,559,014</u>	<u>\$ 8,756,264</u>	<u>\$ 1,432,814</u>	<u>\$ 6,762,816</u>	<u>\$ 854,344</u>	<u>\$ 1,275,682</u>	<u>\$ 171,464</u>	<u>\$ 22,812,398</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY

YEAR ENDED JUNE 30, 2005

Function and Activity	Governmental Funds Capital Assets June 30, 2004	Additions	Deductions	Governmental Funds Capital Assets June 30, 2005
General government:				
Council	\$ 31,413	\$ -	\$ -	\$ 31,413
Administration	50,248	21,273	12,387	59,134
Finance	13,203	-	-	13,203
Information technology	5,692	-	-	5,692
Building department	78,823	12,122	14,757	76,188
Other-unclassified	7,020,646	699,004	-	7,719,650
Total general government	<u>7,200,025</u>	<u>732,399</u>	<u>27,144</u>	<u>7,905,280</u>
Public Safety:				
Police	3,263,328	106,615	65,274	3,304,669
Victim's assistance	-	-	-	-
Police grants and programs	65,783	42,153	-	107,936
Total public safety	<u>3,329,111</u>	<u>148,768</u>	<u>65,274</u>	<u>3,412,605</u>
Parks, streets, and sanitation	<u>9,965,696</u>	<u>1,370,828</u>	<u>13,475</u>	<u>11,323,049</u>
Tourism related	<u>49,557</u>	<u>121,907</u>	<u>-</u>	<u>171,464</u>
Total governmental funds capital assets	<u>\$ 20,544,389</u>	<u>\$ 2,373,902</u>	<u>\$ 105,893</u>	<u>\$ 22,812,398</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

VICTIMS' ASSISTANCE

TOWN OF LEXINGTON, SOUTH CAROLINA

TOWN OF LEXINGTON, SOUTH CAROLINA
SCHEDULE OF COURT FINES, ASSESSMENTS, AND SURCHARGES
YEAR ENDED JUNE 30, 2005

Court Fines and Assessments:

Total Court fines and assessments collected	<u>\$ 469,997</u>
Total Court fines and assessments retained by Municipal Treasurer	<u>\$ 216,842</u>
Total Court fines and assessments remitted to State Treasurer	<u>\$ 253,155</u>

Surcharges:

Total surcharges collected	<u>\$ 8,329</u>
Total surcharges retained by Municipal Treasurer	<u>\$ 8,329</u>

Victim's Services:

Total Court fines and assessments allocated	<u>\$ 29,878</u>
Total surcharges allocated	<u>\$ 8,329</u>

TOWN OF LEXINGTON, SOUTH CAROLINA

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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TOWN OF LEXINGTON, SOUTH CAROLINA

Brittingham, Brown, Prince & Hancock

Certified Public Accountants, LLC

Established in 1957

James T. Brittingham, CPA (1924-1995)
Kerry R. Brown, CPA
Kenneth E. Prince, CPA
James T. Brittingham, Jr., CPA
William H. Hancock, CPA/PFS

Members:
American Institute of
Certified Public Accountants

South Carolina Association of
Certified Public Accountants

A. Scott Hendrix, MBA, CPA
Jeffrey M. Lee, CPA

IN ASSOCIATION WITH
Kenneth S. Sexton, CPA

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

To the Honorable Mayor
And Members of Town Council
Town of Lexington, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lexington (hereafter referred to as the Town), as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 12, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal components does not reduce to a relative low level the risk that misstatements caused by error or fraud in an amount that would be material in relation to the 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Town Council, management, and is not intended to be and should not be used by anyone other than those specified parties.

Brittingham Brown Prince & Hancock

December 12, 2005

TOWN OF LEXINGTON, SOUTH CAROLINA

Town of Lexington, South Carolina

Government-wide Expenses by Function
(Unaudited)

Fiscal Year	Governmental Activities							Business-Type Activities	Total
	General Government	Public Safety	Parks Streets & Sanitation	Victim's Assistance	Housing Rehabilitation	Tourism Related	Interest	Water and Sewer Enterprise	
2004	\$ 1,231,253	\$ 2,351,798	\$ 1,706,399	\$ 48,897	\$ -	\$ 184,862	\$ 250,309	\$ 7,616,681	\$ 13,390,199
2005	1,395,091	2,595,158	1,897,425	54,696	157,053	332,007	358,158	8,539,264	15,328,852

Town of Lexington, South Carolina

Government-wide Revenues
(Unaudited)

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous		
2004	\$ 8,143,485	\$ 209,753	\$ 3,424,141	\$ 4,827,039	\$ 341,246	\$ 252,892	\$ 3,922	\$ 17,202,478	
2005	8,745,760	207,811	6,336,946	5,767,948	321,134	348,362	15,651	21,743,612	

Town of Lexington, South Carolina

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

Fiscal Year	General Government	Public Safety	Parks Streets & Sanitation	Victims Assistance	Housing Rehabilitation	Tourism Related	Capital Outlay	Debt Service (2)	Total (1)
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
2004	1,105,468	2,133,078	1,313,460	48,864	662	181,300	3,175,050	452,928	8,410,810
2005	1,253,880	2,307,164	1,387,808	54,696	157,053	332,007	1,555,783	4,209,190	11,257,581

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

(2) 2005 amount includes repayment of \$3,615,000 special source revenue bonds issued during 2005 and all associated costs

Town of Lexington, South Carolina

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

Fiscal Year	Property Taxes	Franchises, Licenses & Permits	Hospitality Tax	Other Governments	Fines and Forfeitures	Grants and Other Revenues	Total
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
2004	1,942,182	2,866,907	771,779	564,517	299,319	260,140	6,704,844
2005	2,101,280	3,340,848	1,236,308	375,250	233,947	694,407	7,982,040

Town of Lexington, South Carolina

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

Fiscal Year	Total Tax Levy	Total Tax Collections	Percentage of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percentage Delinquent Taxes to Total Tax Levy
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%
2004	1,952,443	1,867,298	95.64%	75,966	3.89%
2005	2,069,605	2,041,104	98.62%	59,731	2.89%

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	
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%
2004	2003	32,437,320	668,795,610	11,874,310	113,088,666	44,311,630	781,884,276	5.67%
2005	2004	35,236,570	718,734,147	12,216,770	132,269,358	47,453,340	851,003,505	5.58%

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	Lexington Midlands							Total
		Town of Lexington	Lexington County	School District 1	Technical College	Recreation Commission	Riverbanks Zoo	Mental Health	
1996	1995	53.60	67.30	184.90	3.40	13.10	2.30	0.90	325.50
1997	1996	53.60	68.80	194.90	3.40	13.20	2.10	0.90	336.90
1998	1997	53.60	68.00	194.90	3.30	12.80	2.10	0.90	335.60
1999	1998	53.60	67.90	214.60	3.30	12.80	2.60	0.90	355.70
2000	1999	51.00	76.20	224.40	4.20	12.80	2.60	0.90	372.10
2001	2000	51.00	80.20	239.40	4.20	13.20	2.50	0.90	391.40
2002	2001 (1)	43.70	74.47	250.30	3.72	12.78	2.01	0.84	387.82
2003	2002	43.70	81.75	262.30	4.08	13.04	1.73	0.84	407.44
2004	2003	43.70	83.54	277.10	4.18	13.29	1.86	0.87	424.54
2005	2004	43.70	87.32	285.10	4.27	15.10	1.89	0.74	438.12

(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, 2005
(Unaudited)

Taxpayer	Type of Business	Assessed Value as of 12/31/04	Percentage of Total Assessed Valuation	Taxes Paid
South Carolina Electric & Gas	Manufacturing-Utility	\$ 1,187,440	2.50%	\$ 51,891
Lowes Home Centers	Retail	655,030	1.38%	28,625
Old Mill Apartments/Lexington	Apartment Complex	592,800	1.25%	25,905
W M Lexington Trust	Real Estate	509,470	1.07%	22,264
Edens & Avant Financing	Real Estate	431,590	0.91%	18,860
Shenandoah Apartments	Apartment Complex	404,250	0.85%	17,666
Thornhill LP	Apartment Complex	378,000	0.80%	16,519
Kohl's Department Stores, Inc.	Retail	363,890	0.77%	15,902
Inland Southeast Lexington LLC	Real Estate	360,970	0.76%	15,774
Time Warner Ent-Advance Newhouse	Cable television	327,930	0.69%	14,331
Chimney Ridge Apartments	Apartment Complex	307,200	0.65%	13,425
Lexington Chapin Retirement	Retirement home	295,050	0.62%	12,894
Baker & Baker Etal	Real Estate	288,750	0.61%	12,618
Lexington Senior Care Development	Real Estate	271,280	0.57%	11,855
Alltel South Carolina Inc	Manufacturing-Utility	262,240	0.55%	11,460
Emmco LLC	Financial services	232,110	0.49%	10,143
Herndon Chevrolet	Retail	222,650	0.47%	9,730
Lexington Place LLC	Real Estate	207,520	0.44%	9,069
Village Square Partners	Real Estate	196,590	0.41%	8,591
East Towne Lexington (E&A)	Real Estate	193,460	0.41%	8,454
	Total Principal Taxpayers	\$ 7,688,220	16.20%	\$ 335,975
	Town 2004 Tax Year Assessed Valuation	\$ 47,453,340	100.00%	

Source: Lexington County Property Appraiser's Office

Town of Lexington, South Carolina

Computation of Legal Debt Margin
Year Ended June 30, 2005
(Unaudited)

Total Assessed Value	<u>\$ 47,453,340</u>
Debt Limit-Eight (8%) percent of assessed value, without voter's approval	\$ 3,796,267
Amount of Debt Applicable to debt limit	<u>2,271,494</u>
Legal debt margin without a referendum	<u>\$ 1,524,773</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 \$1,936,927 as of June 30, 2005 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, 2005
 (Unaudited)

Political Subdivision	Assessed		Gross General Obligation Bonded Debt Outstanding		
	Total	Assessed Value Within the Town	General Gross Debt (1)	Percentage Applicable to the Town	Town's Share of Debt
Direct:					
Town of Lexington	\$ 47,453,340	\$ 47,453,340	\$ 4,208,421	100.00%	\$ 4,208,421
Overlapping:					
Lexington County	724,237,230	47,453,340	42,785,679	6.55%	2,803,395
Lexington County School District One	284,550,150	47,453,340	88,605,000	16.68%	14,776,317
Lexington County Recreation Commission	528,842,930	47,453,340	13,855,000	8.97%	1,243,216
Riverbanks Zoo	1,781,313,576	47,453,340	16,225,000	2.66%	432,226
Total Overlapping			<u>161,470,679</u>		<u>19,255,155</u>
Total			<u>\$ 165,679,100</u>		<u>\$ 23,463,576</u>

(1) = General gross debt for the Town of Lexington includes \$1,936,927 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
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
2004	16,300	44,311,630	4,416,808	9.97%	271
2005	16,900	47,453,340	4,208,421	8.87%	249

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

(2) From Assessed value of 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 Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
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%
2004	298,003	158,209	456,212	8,410,810	5.42%
2005	343,672	141,051	484,723	7,600,999	6.38%

(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.

Note: 2005 balances exclude amounts related to the Hospital Tax Special Source Revenue Bonds since these bonds were issued and repaid in fiscal year 2005 without expenditure of any proceeds for projects. Repayment was prompted by citizens' petition and advisory referendum which led to the repeal of the Hospitality Tax which was pledged for repayment of the bonds.

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	Debt Service Requirements			Legal Coverage
				Principal	Interest	Total	
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	2,478,107	2,630,425	420,000	1,268,962	1,688,962	1.56
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	8,181,271	4,049,662	4,131,609	855,000	1,360,808	2,215,808	1.86
2004	9,811,861	4,491,816	5,320,045	855,000	1,322,358	2,177,358	2.44
2005	11,490,064	5,192,492	6,297,572	970,000	1,471,839	2,441,839	2.58

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

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

	<u>CCF Revenue</u>	<u>% Increase (Decrease)</u>		<u>CCF Revenue</u>	<u>% Increase (Decrease)</u>
1996	\$ 755,677	0%	2001	\$ 1,251,965	-55.77
1997	1,141,028	60.22	2002	1,528,075	22.05
1998	1,644,136	50.99	2003	1,941,348	27.05
1999	1,021,407	44.09	2004	2,669,455	37.51
2000	2,830,716	177.14	2005	3,859,914	44.60

Town of Lexington, South Carolina

Demographic Statistics
June 30, 2005

Fiscal Year	Estimated Population (1)	Per Capita		School Enrollment (2)	Unemployment Rate (3)
		Personal Income (1)			
1996	6,180	\$ 19,480		13,675	3.20%
1997	6,500	19,870		14,416	2.90%
1998	7,300	24,973		15,234	1.86%
1999	7,800	27,286		15,822	1.70%
2000	9,800	28,902		16,314	2.20%
2001	10,500	28,635		16,831	2.30%
2002	13,000	29,317		17,268	3.20%
2003	14,500	30,048		17,829	3.30%
2004	16,300	N/A		18,229	3.50%
2005	16,900	N/A		18,688	4.80%

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

(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	
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
2004	668,795,610	270	19,336,607	6	5,340,122	673,226
2005	718,734,147	318	27,612,515	13	15,821,341	798,302

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, 2005

(Unaudited)

Date of Incorporation	January 28, 1861		
Form of Government	Council		
Area-Square Miles	10		
Building Permits:			
Permits Issued	541		
Zoning Permits	262		
Police Protection:			
Full-time sworn	32		
Civilian Staff	5		
Recreation:			
Parks and Playgrounds	2		
Number of meters billed:	Inside	Outside	Total
Water	5065	816	5881
Sewer	4961	3088	8049
Municipal Water Plants (decommissioned)	1		
Municipal Sewer Plants	1		
Election Data:			
Registered Voters	8,235		
Number of precincts	7		
Town of Lexington employees:			
Full Time	107		
Part Time	9		
Median age	33.3		
Male	49%		
Female	51%		
Median Family Income (2000 Census)	\$65,694		

Source: Town of Lexington Departments and Census