

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 1, 2005

New Issue – Book Entry Only

Ratings: "____" Moody's
"____" S&P
(See Ratings herein)

In the opinion of Bond Counsel, under existing law (i) interest on the Notes will be excludible from gross income of the holders thereof for purposes of federal income taxation and (ii) interest on the Notes will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, all subject to the qualifications described herein under the heading "TAX EXEMPTION." Interest on the Notes is also exempt from income taxation and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky.

\$8,225,000*

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT (KENTUCKY)
GENERAL OBLIGATION NOTES
(NOT BANK QUALIFIED)**

\$5,395,000*
**Various Purpose
General Obligation Notes
(Series 2005A)**

\$2,830,000*
**Fire Equipment
General Obligation Notes
(Series 2005B)**

Dated Date: April 1, 2005

Due: April 1 as shown on the inside front cover

Principal and interest on the Notes is payable at the principal office of U.S. Bank National Association, Louisville, Kentucky, as Paying Agent and Note Registrar (the "Registrar and Paying Agent"). The Series 2005A Notes and the Series 2005B Notes are not subject to optional redemption prior to maturity.

The Notes will be issued only as fully registered Notes, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC. The Notes will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each April 1 and October 1, commencing on October 1, 2005. Principal of and interest on the Notes will be paid directly to DTC by the Registrar and Paying Agent.

The Lexington-Fayette Urban County Government deems this Preliminary Official Statement to be final for purposes of the Securities and Exchange Commission Rule 15c2-12(b)(1) (the "Rule"), except for certain information on the cover page hereof and certain pages herein which have been omitted in accordance with the Rule and will be supplied with the Final Official Statement.

The Notes are offered when, as and if issued, subject to the approval of legality and tax exemption by Peck, Shaffer & Williams LLP, Bond Counsel, Louisville, Kentucky. The Notes are expected to be available for delivery on or about April 28, 2005.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

FIRST KENTUCKY SECURITIES CORPORATION

Dated: April __, 2005

*Preliminary; subject to Permitted Adjustment.

\$5,395,000*
SERIES A NOTES

| Year (April 1) | Principal Amount | Interest Rate | Yield |
|---------------------------|-----------------------------|--------------------------|--------------|
| 2006 | \$1,755,000 | _____% | _____% |
| 2007 | \$1,795,000 | _____% | _____% |
| 2008 | \$1,845,000 | _____% | _____% |

\$2,830,000*
SERIES B NOTES

| Year (April 1) | Principal Amount | Interest Rate | Yield |
|---------------------------|-----------------------------|--------------------------|--------------|
| 2006 | \$370,000 | _____% | _____% |
| 2007 | \$380,000 | _____% | _____% |
| 2008 | \$390,000 | _____% | _____% |
| 2009 | \$400,000 | _____% | _____% |
| 2010 | \$415,000 | _____% | _____% |
| 2011 | \$430,000 | _____% | _____% |
| 2012 | \$445,000 | _____% | _____% |

*Preliminary; subject to Permitted Adjustment.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

MAYOR

Teresa Isaac

COUNCIL MEMBERS AT LARGE

Mike Scanlon (Vice Mayor)

Chuck Ellinger II

David B. Stevens, M.D.

COUNCIL MEMBERS BY DISTRICT

1st District
George A. Brown, Jr.

5th District
Bill Farmer, Jr.

9th District
Jay McChord

2nd District
Jacques J. Wigginton

6th District
Kevin O. Stinnett

10th District
Sandy Shafer

3rd District
Dick DeCamp

7th District
William Cegelka

11th District
Richard Moloney

4th District
Linda Gorton

8th District
George Myers

12th District
Ed Lane

CHIEF ADMINISTRATIVE OFFICER

Milton Dohoney

COMMISSIONER OF FINANCE

Donna Alexander Counts

CLERK OF THE URBAN COUNTY COUNCIL

Liz Damrell

NOTE REGISTRAR

U.S. Bank National Association

Louisville, Kentucky

FINANCIAL ADVISOR

First Kentucky Securities Corporation

Frankfort, Kentucky

BOND COUNSEL

Peck, Shaffer & Williams LLP

Louisville, Kentucky

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REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Notes of the Lexington-Fayette Urban County Government. No dealer, broker, salesman or other person has been authorized by the Lexington-Fayette Urban County Government to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Lexington-Fayette Urban County Government. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Lexington-Fayette Urban County Government since the date hereof.

Upon issuance, the Notes will not be registered by the Lexington-Fayette Urban County Government under any federal or state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency except the Lexington-Fayette Urban County Government will have, at the request of the Lexington-Fayette Urban County Government, passed upon the accuracy or adequacy of this Official Statement or approved the Notes for sale.

All financial and other information presented in this Official Statement has been provided by the Lexington-Fayette Urban County Government from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the Lexington-Fayette Urban County Government. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the Lexington-Fayette Urban County Government preliminary to sale of the Notes should be regarded as part of the Lexington-Fayette Urban County Government's contract with the successful bidder or the holders from time to time of the Notes.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes ("KRS") or uncodified, or to the provisions of the Kentucky Constitution or the Lexington-Fayette Urban County Government's ordinances or resolutions, are references to such provisions as they presently exist. Any of these provisions may from time to time be amended, repealed or supplemented.

As used in this Official Statement, "debt service" means principal of, interest and any premium on, the obligations referred to; "Urban County Government" means the Lexington-Fayette Urban County Government and "State" or "Kentucky" means the Commonwealth of Kentucky.

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INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of Lexington-Fayette Urban County Government \$5,395,000* Various Purpose General Obligation Notes (Series 2005A) (the "Series A Notes") and \$2,830,000* Fire Equipment General Obligation Notes (Series 2005B) (the "Series B Notes" and, together with the Series A Notes, the "Notes").

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Notes to potential investors is made only by means of the entire Official Statement.

The Issuer

The Notes are being issued by the Lexington-Fayette Urban County Government, a political subdivision of the Commonwealth of Kentucky created on January 1, 1974 by the merger of the City of Lexington with the County of Fayette. It exists as the single unit of general local government exercising jurisdiction throughout the geographical boundaries of Fayette County, Kentucky.

Sources of Payment for the Notes

The Notes are general obligation debt of the Lexington-Fayette Urban County Government. The basic security for the Notes is the Lexington-Fayette Urban County Government's ability to levy an annual tax to pay the interest on and principal of the Notes as and when the same become due and payable. (See "Security and Source of Payment for the Notes," herein).

Purpose of the Notes

The Series A Notes are being issued for the purpose of (i) financing the acquisition of certain equipment and vehicles including a fiber network, police cars, dump trucks and various other vehicles and equipment for the benefit of numerous departments of the Lexington-Fayette Urban County Government and (ii) paying certain costs related to the issuance of the Notes. (See "DESCRIPTION OF THE PROJECT" herein.)

The Series B Notes are being issued for the purpose of (i) financing the acquisition and installation of certain fire equipment including fire engines, EMS units, fire aerial units and various other equipment and (ii) paying certain costs related to the issuance of the Notes. (See "DESCRIPTION OF THE PROJECT" herein.)

* Preliminary; subject to Permitted Adjustment.

Description of the Notes

The Notes mature as indicated on the cover page hereof. The Notes are being offered in the denominations of \$5,000 or any integral multiple thereof. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC.

Redemption

The Notes are not subject to optional redemption prior to maturity (see "DESCRIPTION OF THE NOTES – Redemption," herein).

The Notes will be fully registered and may be transferred at the principal corporate trust office of the Registrar and Paying Agent, without cost except for any taxes or other governmental charges.

As a precondition to the exchange or transfer of any Note, the Lexington-Fayette Urban County Government or the Registrar and Paying Agent may charge the Noteholder for any tax or excise required to be paid with respect to the exchange or transfer. Neither the Lexington-Fayette Urban County Government nor the Registrar and Paying Agent shall be required to make any transfer during the 15 days immediately preceding the mailing of a notice of redemption nor to transfer any Note selected for redemption in whole or in part.

Principal and any redemption premium is payable to the registered owner upon presentation and surrender at the principal corporate trust office of the Registrar and Paying Agent. Interest will be payable by check or draft mailed by the Registrar and Paying Agent to the person who is the registered owner as of the 15th day of the calendar month preceding the month of the applicable interest payment date.

Payment of Notes and Registrar and Paying Agent

Principal of the Notes will be paid in lawful money of the United States of America at the offices of U.S. Bank National Association, Louisville, Kentucky (the "Registrar and Paying Agent"), and interest shall be mailed by the Registrar and Paying Agent to the record date registered holders at the address of such holder maintained on the registration book of the Registrar and Paying Agent. The record dates for April 1 and October 1 interest payment dates shall be the preceding March 15 and September 15, respectively.

Interest

The Notes shall be dated April 1, 2005 and bear interest at the rates set forth on the cover hereof, payable semi-annually on April 1 and October 1, beginning October 1, 2005.

Tax Exemption

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Notes is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Notes. Interest on the Notes is also exempt from income taxation and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The Lexington-Fayette Urban County Government has not designated the Notes as "qualified tax-exempt obligations" with respect to certain financial institutions under Section 265 of the Internal Revenue Code of 1986, as amended.

See *Appendix E* hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the Notes.

Parties to the Issuance of the Notes

The Registrar and Paying Agent is U.S. Bank National Association, Louisville, Kentucky. Legal matters incident to the issuance of the Notes and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Louisville, Kentucky, Bond Counsel. The Financial Advisor to the Lexington-Fayette Urban County Government is First Kentucky Securities Corporation, Frankfort, Kentucky.

Authority for Issuance

Authority for the issuance of the Notes is provided by Sections 66.011 through 66.171 of the Kentucky Revised Statutes and an ordinance (the "Ordinance") expected to be adopted by the Lexington-Fayette Urban County Council (the "Urban County Council") on April 14, 2005.

Offering and Delivery of the Notes

The Notes are offered when, as and if issued by the Lexington-Fayette Urban County Government. The Notes will be delivered on or about April 28, 2005 in Lexington, Kentucky, Cincinnati, Ohio or in New York, New York through the Depository Trust Company (DTC).

Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the Lexington-Fayette Urban County Government are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Notes, including the

authorizing ordinances and the note forms, are available from the Lexington-Fayette Urban County Government.

The Lexington-Fayette Urban County Government deems this Preliminary Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) (the "Rule"), except for certain information on the cover page hereof and certain pages herein which have been omitted in accordance with the Rule and will be supplied with the Final Official Statement.

Additional Information

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Notes, is available from First Kentucky Securities Corporation, at 305 Ann Street, Suite 400, Frankfort, KY 40602, telephone (502) 875-4611, Attn: John B. Banks, Jr.

DESCRIPTION OF THE NOTES

The Notes are dated April 1, 2005 and bear interest from April 1, 2005 at the rates set forth on the cover page of this Official Statement. The Notes are being issued as fully registered Notes in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Notes is payable semi-annually on April 1 and October 1, commencing October 1, 2005. Interest on all Notes is payable by check or draft mailed to the registered holder by the Registrar and Paying Agent. Principal is payable when due to the registered holder upon surrender of the Notes at the principal corporate office of the Registrar and Paying Agent.

Redemption

The Notes are not subject to optional redemption prior to maturity.

Book Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and

dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Lexington-Fayette Urban County Government, subject to any statutory or regulatory requirements as may be in effect from time to

time. Payment of principal and interest to DTC is the responsibility of the Lexington-Fayette Urban County Government or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Lexington-Fayette Urban County Government or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

The Lexington-Fayette Urban County Government may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Lexington-Fayette Urban County Government believes to be reliable, but the Lexington-Fayette Urban County Government takes no responsibility for the accuracy thereof.

Security and Source of Payment for Notes

The Notes are general obligations of the Lexington-Fayette Urban County Government and the full faith, credit and taxing power of the Lexington-Fayette Urban County Government is irrevocably pledged to the payment of principal of and interest on the Notes when due.

The basic security for the general obligation debt of the Lexington-Fayette Urban County Government, including the Notes, is the Lexington-Fayette Urban County Government's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of the Notes as and when the same become due and payable. The tax must be levied in sufficient amount to pay, as the same become due, the principal of and interest on the Notes as well as the principal of and interest on all outstanding general obligation bonds and Notes of the Lexington-Fayette Urban County Government. The Constitution of the State mandates the collection of a tax sufficient to pay the interest on an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. The Ordinance levies such annual tax which shall be collected to the extent other lawfully available monies of the Lexington-Fayette Urban County Government are not provided. The Ordinance also creates a sinking fund into which the proceeds of such tax or other lawfully available monies of the Lexington-Fayette Urban County Government are to be deposited for payment of the interest on and principal of the Notes and shall not be used for any other purpose.

Chapter 9 of the Federal Bankruptcy Code contains provisions relating to the adjustment of debts of a State's political subdivisions, public agencies and instrumentalities ("eligible entity"), such as the Lexington-Fayette Urban County Government. Under the Bankruptcy Code and in certain circumstances described therein, an eligible entity may be authorized to initiate Chapter 9 proceedings without prior notice to or consent of its creditors, which proceedings may result in material and adverse modification or alteration of the rights of its secured and unsecured creditors, including holders of its bonds and notes.

Section 66.400 of the Kentucky Revised Statutes permits a political subdivision, such as the Urban County Government, for the purpose of enabling such subdivision to take advantage of the provisions of the Bankruptcy Code, and for that purpose only, to file a petition stating that the subdivision is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan for the composition or readjustment of its debts, and to take such further proceedings as are set forth in the Bankruptcy Code as they relate to such subdivision. No taxing subdivision is permitted, in availing itself of the provisions of the Bankruptcy Code, to scale down, cut down or reduce the principal sum of its securities except that interest thereon may be reduced in whole or in part.

PURPOSE OF THE NOTES

The Series A Notes are being issued for the purpose of (i) financing the acquisition of certain equipment and vehicles including a fiber network, police cars, dump trucks and various other vehicles and equipment for the benefit of numerous departments of the Lexington-Fayette Urban County Government and (ii) paying certain costs related to the issuance of the Series A Notes.

The Series B Notes are being issued for the purpose of (i) financing the acquisition and installation of certain fire equipment including fire engines, EMS units, fire aerial units and various other equipment and (ii) paying certain costs related to the issuance of the Series B Notes.

DESCRIPTION OF THE PROJECT

The Project consists of the acquisition of certain equipment and vehicles including a fiber network, police cars, computer equipment and various other equipment for the benefit of numerous departments of the Lexington-Fayette Urban County Government and the acquisition and installation of fire equipment including fire pumpers and fire aerial units.

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SOURCES AND USES OF FUNDS

Series A Notes

Sources

| | |
|------------------------------|----------|
| Par Amount of Series A Notes | \$ _____ |
| Accrued Interest | _____ |
| Premium | _____ |
| Total Sources | _____ |

Uses

| | |
|---|----------|
| Deposit to Acquisition Fund for the Project | \$ _____ |
| Original Issue Discount | _____ |
| Underwriter's Discount | _____ |
| Costs of Issuance | _____ |
| Accrued Interest | _____ |
| Total Uses | _____ |

Series B Notes

Sources

| | |
|------------------------------|----------|
| Par Amount of Series B Notes | \$ _____ |
| Accrued Interest | _____ |
| Premium | _____ |
| Total Sources | _____ |

Uses

| | |
|---|----------|
| Deposit to Acquisition Fund for the Project | \$ _____ |
| Original Issue Discount | _____ |
| Underwriter's Discount | _____ |
| Costs of Issuance | _____ |
| Accrued Interest | _____ |
| Total Uses | _____ |

INVESTMENT CONSIDERATIONS

The Notes, like all obligations of state and local government, are subject to changes in value due to changes in the condition of the tax-exempt bond market and/or changes in the financial condition of the Lexington-Fayette Urban County Government.

Prospective purchasers of the Notes may need to consult their own tax advisors prior to any purchase of the Notes as to the impact of the Internal Revenue Code of 1986, as amended, upon their acquisition, holding or disposition of the Notes.

It is possible under certain market conditions, or if the financial condition of the Lexington-Fayette Urban County Government should change, that the market price of the Notes could be adversely affected.

With regard to the risk involved in a lowering of the Lexington-Fayette Urban County Government's bond rating, see "RATINGS" herein. With regard to creditors' rights, see "Security and Source of Payment for Notes" herein.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Organization

The Lexington-Fayette Urban County Government is an urban county government created from the merger of the City of Lexington and the County of Fayette in 1974 and operates pursuant to Chapter 67A of the Kentucky Revised Statutes. The Lexington-Fayette Urban County Government operates under a Mayor-Council form of government where executive and administrative functions are vested with the Mayor and legislative authority is vested with the Urban County Council.

The Mayor is the chief executive officer and is elected to serve a four-year term. The Urban County Council has fifteen members, including twelve members elected from single-member districts in Fayette County who serve two-year terms and three members elected at-large who serve four-year terms. The Vice-Mayor is the at-large member who receives the most votes in the general election.

The Mayor is assisted in the administration of the government by a Chief Administrative Officer (the "CAO") and department commissioners who are appointed by the Mayor with approval of the Urban County Council. The Lexington-Fayette Urban County Government has seven departments, headed by the CAO or department commissioners, which are responsible for administering programs and implementing policies. Each department is divided into divisions that are managed by division directors.

The Lexington-Fayette Urban County Government has 3,585 authorized full-time time positions. Of these positions, 36% are sworn police, fire and community correction personnel, 7% serve in appointed positions and the remaining 57% are civil service positions.

The CAO is charged with the responsibility of providing supervision, direction and management of the Lexington-Fayette Urban County Government. The CAO insures policies established by the Mayor, Council and Charter are followed, and develops programs to meet current and future organizational and community needs. In addition, the CAO provides supervision over the Department of Administrative Services. Included in this department are the divisions of Budgeting, Community Development, Government Communications, Historic Preservation, Human Resources, Internal Audit, Planning and Risk Management.

The Department of Finance is responsible for the custody, investment and disbursement of all funds; debt management; retirement fund administration; coordination of the annual financial audit and publication of the Comprehensive Annual Financial Report. This department includes the divisions of Accounting, Computer Services, Purchasing and Revenue.

The Department of Public Safety includes the divisions of Police, Fire and Emergency Services, Building Inspection, Community Corrections, Environmental and Emergency Management, and Code Enforcement.

The Department of Public Works is responsible for providing a broad range of public services including solid waste collection and recycling, sanitary sewer conveyance and treatment, stormwater control, street maintenance, and construction design and maintenance. This department is also responsible for developing long-range capital plans for sanitary sewer and stormwater facilities. The divisions in this department include Engineering, Sanitary Sewers, Solid Waste, Streets and Roads, and Traffic Engineering.

The Department of Social Services provides human resources services to Fayette County residents including providing assistance to families and children, coordinating a community-wide effort to implement the new welfare reform programs and organizing programs for senior citizens. The divisions in this department include Adult Services, Family Services and Youth Services.

The Department of General Services includes the divisions of Fleet Services, Building Maintenance and Construction and Parks and Recreation. In addition, the Commissioner's office oversees the management of the Lexington-Fayette Urban County Government telephone system, utilities, parking facilities and coordinates special events.

The Department of Law provides legal services for the government and has two primary functions. The Corporate Counsel function prepares all legal instruments for the government and provides advice to its employees and agencies. These activities include managing the preparation of legal opinions, ordinances, resolutions, contracts and other legal documents. The Litigation function represents the Lexington-Fayette Urban County Government in civil cases and lawsuits and coordinates representation of cases handled by outside attorneys.

Financial Management

The Mayor of the Lexington-Fayette Urban County Government submits a proposed annual operating and a five-year capital improvement budget to the Urban County Council at least sixty days prior to the beginning of the next fiscal year. The Council, upon receipt of the proposed budget, conducts a series of public hearings on the proposed budget. The Charter of the Lexington-Fayette Urban County Government provides that the Urban County Council may amend the budget; however, the adopted budget shall provide for all expenditures required by law or by other provisions of the Charter and for all debt service requirements. Other budgetary policies include that the budget must be balanced for each fund; total available funds must equal or exceed total anticipated expenditures.

The Urban County Council adopts a line-item budget ordinance and must approve all budget amendments. Budgetary control is maintained at the division level and is facilitated by the use of encumbrance accounting. As purchase orders are issued, corresponding amounts of a division's appropriations are reserved for later payment. Requests for disbursements which will result in an overrun of budgeted expenditures must be accompanied by a request for a budget amendment. At year-end, open encumbrances are recorded as reservations of fund balance.

The diverse nature of governmental operations requires that the accounting system be organized on a fund or account group basis where each fund is considered a separate accounting entity with a separate set of self-balancing accounts. Resources are allocated to the individual

funds based upon the type of activity to be funded. There are four basic fund types used by the Lexington-Fayette Urban County Government: governmental fund types, proprietary fund types, fiduciary fund types, and account groups.

The majority of general governmental operations are financed by the General Fund in the governmental fund type category. The General Fund is composed of two sub-funds: the General Services District and the Urban Services District. In December 1996 the Urban County Council adopted an ordinance which established an Economic Contingency Designation within the General Services District subfund to provide sufficient working capital to address emergency budgetary needs. As stated in the ordinance, the ultimate goal of the Lexington-Fayette Urban County Government is to have an economic contingency balance of at least five percent of General Fund revenues. At the end of fiscal year 2004, there was a balance of \$5,878,356 in the Economic Contingency Fund.

The Lexington-Fayette Urban County Government's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The accounts of general governmental operations are maintained on a modified accrual basis where revenues are recognized in the period in which they become available and measurable, and expenditures are recognized at the time the liability is incurred. Proprietary and Pension Trust Funds are maintained on an accrual basis with all revenues and expenses recognized when transactions occur, regardless of when cash is received or disbursed.

The Charter of the Lexington-Fayette Urban County Government requires an independent financial audit be conducted annually. Each year an audit is conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. In addition, the audit is also designed to meet the requirements of the federal Single Audit Act of 1984, the Single Audit Act Amendment of 1996, and related OMB circular A-133.

Cash Management and Investment Policy

The Department of Finance is responsible for the custody, investment and disbursement of all funds of the Lexington-Fayette Urban County Government in accordance with state law (Kentucky Revised Statute 66.480) and the procedures and standards adopted by the Urban County Council. It is the policy of the Lexington-Fayette Urban County Government to invest funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the Lexington-Fayette Urban County Government. In order to ensure liquidity and reduce market and maturity risk, weekly, monthly, and annual cash flow forecasts are developed.

The funds of the Lexington-Fayette Urban County Government may be invested in the following types of investment instruments:

- A. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian;

B. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

- (i) United States Treasury;
- (ii) Export-Import Bank of the United States;
- (iii) Farmers Home Administration;
- (iv) Government National Mortgage Corporation; and
- (v) Merchant Marine Notes;

C. Obligations of any corporation of the United States government, including but limited to:

- (i) Federal Home Loan Mortgage Corporation;
- (ii) Federal Farm Credit Banks;
- (iii) Banks for Cooperatives;
- (iv) Federal Intermediate Credit Banks;
- (v) Federal Land Banks;
- (vi) Federal Home Loan Banks;
- (vii) Federal National Mortgage Association; and
- (viii) Tennessee Valley Authority;

D. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety Notes, permitted by section KRS 41.240(4);

E. Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

F. Commercial paper rated in the highest category by a nationally recognized rating agency;

G. Notes or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

H. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and

I. Shares of mutual funds, each of which shall have the following characteristics:

- (i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

(ii) The management company of the investment company shall have been in operation for at least five (5) years; and

(iii) All of the securities in the mutual fund shall be eligible investments under this section.

Investments in the above instruments are subject to the following conditions and limitations:

A. The combined investments at any one time in the categories of the investments authorized in subsections (E), (F), and (H) (as identified on the previous page) shall not exceed 20 percent of the total invested funds;

B. No investment shall be purchased on a margin or through the use of any similar leveraging technique;

C. Repurchase agreements are to be entered into only with primary dealers. Primary dealers include banks which are members of the Federal Reserve, SEC-registered broker-dealers and those government security dealers included in the "List of Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York (NY Fed)". The securities held as collateral for repurchase agreements shall be held in safekeeping by an independent third-party custodian in the name of the Lexington-Fayette Urban County Government. The securities serving as collateral will be marked to market periodically to ensure they have not fallen below the required collateralization level.

Debt Limitation

Kentucky Constitution Section 158 provides that cities shall not incur indebtedness to an amount exceeding the following maximum percentages on the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness:

(a) Cities having a population of fifteen thousand (15,000) or more, ten percent (10%);

(b) Cities having a population of less than fifteen thousand (15,000) but not less than three thousand, five percent (5%); and

(c) Cities having a population of less than three thousand (3,000), three percent (3%).

Nothing shall prevent the issue of renewal Notes, or Notes to fund the floating indebtedness of any Urban County Government, county, or taxing district. Subject to the limits and conditions set forth in that section and elsewhere in the Constitution, the General Assembly has the power to establish additional limits on indebtedness and conditions under which debt may be incurred by cities.

KRS 66.041 provides the same limitations as are set forth in the Constitution except that the limitations apply to "net indebtedness". In calculating "net indebtedness," KRS 66.031 provides that certain obligations of a municipality are not to be considered in the calculation, including self-supporting obligations, revenue bonds, and special assessment debt. (For a complete list of exempt debt see the Statement of Indebtedness attached as *Appendix D*.)

Other infrequently-issued types of obligations are also excluded from the calculation of net indebtedness. The Lexington-Fayette Urban County Government has no such obligations outstanding. Notes issued in anticipation of bonds excluded from the calculation of net indebtedness are also excluded from such calculation.

Appendix D of this Official Statement is a Statement of Indebtedness for the Lexington-Fayette Urban County Government, certified by the Commissioner of Finance, calculating the amount of the outstanding obligations of the Lexington-Fayette Urban County Government (including the Notes) which are subject to the total direct debt limit (10% limit). The total principal amount of general obligation debt that could be issued by the Lexington-Fayette Urban County Government, subject to the 10% total direct debt limitation is \$2,330,957,514 and the Lexington-Fayette Urban County Government's net debt subject to such limitation presently outstanding (including the Notes) is \$283,134,974* leaving a balance of approximately \$2,047,822,540* borrowing capacity issuable within such limitation.

However, as described below, the Lexington-Fayette Urban County Government's ability to incur debt in these amounts is restricted by tax limitations. In the case of general obligation debt, both the debt limitations and tax limitations must be met.

Tax Limitation

The Kentucky Constitution Section 157 also indirectly imposes a debt limitation on general obligation indebtedness of Cities by limiting the tax rates cities may impose upon the value of taxable property, as follows:

- (a) cities having a population of fifteen thousand or more, one dollar and fifty cents on each hundred dollars of assessed value;
- (b) cities having a population of less than fifteen thousand and not less than ten thousand, one dollar on each hundred dollars of assessed value; and
- (c) cities having a population of less than ten thousand, seventy-five cents on the hundred dollars.

Section 159 of the Kentucky Constitution requires the collection of an annual tax sufficient to pay the interest on contracted indebtedness and to retire indebtedness over a period not exceeding forty years. The two constitutional provisions operate as a limit on general obligation debt. Because the indirect debt limit results from tax limitations and the requirement to levy taxes to pay debt charges, it has application only to debts which are payable from taxes either initially or in the event other pledged non-tax revenues prove to be insufficient. It does not

* Preliminary; subject to change.

have any application where the type of debt being issued does not pledge the credit of the municipality or when the debt is payable solely out of the revenues of non-tax sources, such as utility income.

Appendix D of this Official Statement contains a Statement of Indebtedness, certified by the Lexington-Fayette Urban County Government, setting forth the property tax rate currently levied by the Lexington-Fayette Urban County Government (.2904 per \$100 of assessed valuation) and certifying that the issuance of the Notes will not cause such rate to increase to an amount which would exceed the maximum permissible rate.

LEGAL MATTERS

General Information

Legal matters incident to the issuance of the Notes and with regard to the tax-exempt status thereof are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Bond Counsel. Upon delivery of the Notes of the Lexington-Fayette Urban County Government to the successful bidder therefor, the Notes will be accompanied by an approving opinion dated the date of such delivery, rendered by Peck, Shaffer & Williams LLP. A draft of such legal opinion for the Notes is attached as *Appendix E*.

Bond Counsel has performed certain functions to assist the Lexington-Fayette Urban County Government in the preparation by the Lexington-Fayette Urban County Government of its Official Statement. However, said firm assumes no responsibility for, and will express no opinion regarding the accuracy or completeness of this Official Statement or any other information relating to the Lexington-Fayette Urban County Government or the Notes that may be made available by the Lexington-Fayette Urban County Government or others to the bidders or holders of the Notes or others.

The engagement of said firm as Bond Counsel is limited to the preparation of certain of the documents contained in the transcript of proceedings with regard to the Notes, and an examination of such transcript proceedings incident to rendering its legal opinion. In its capacity as Bond Counsel, said firm has reviewed the information in this Official Statement under Sections entitled "General Information" as to legal matters, "Authority for Issuance", "Security and Source of Payment for Notes", "Debt Limitation", "Tax Limitation" and "Tax Exemption", which review did not include any independent verification of financial statements and statistical data included therein, if any.

Transcript and Closing Certificates

A complete transcript of proceedings, a no-litigation certificate and other appropriate closing documents will be delivered by the Lexington-Fayette Urban County Government when the Notes are delivered to the original purchaser. The Lexington-Fayette Urban County Government will also provide to the original purchaser, at the time of such delivery, a certificate from the Lexington-Fayette Urban County Government's Mayor and/or Commissioner of Finance addressed to such purchaser relating to the accuracy and completeness of this Official Statement.

Litigation

To the knowledge of the Lexington-Fayette Urban County Government, no litigation or administrative action or proceeding is pending or threatened directly affecting the Notes, the security for the Notes or the improvements being financed from the proceeds of the Notes. A No-Litigation Certificate to that effect will be delivered to the purchaser at the time of the delivery of the Notes.

Tax Exemption

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming continued compliance of the Lexington-Fayette Urban County Government with certain covenants designed to meet the requirements of Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Notes is excludible from gross income for Federal income tax purposes. Bond Counsel for the Notes is also of the opinion that interest on the Notes is not a specific item of tax preference under Section 57 of the Code for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from taxation, including personal income taxation, by the Commonwealth of Kentucky and its political subdivisions.

A copy of the opinion of Bond Counsel for the Notes is set forth in *Appendix E*, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Notes. The Lexington-Fayette Urban County Government has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Notes being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the tax status of the interest on the Notes.

Certain requirements and procedures contained or referred to in the Note documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Notes is of the opinion that interest on the Notes will be excludible from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Noteholder's Federal, state or local tax liabilities. The nature and extent of these other tax

consequences may depend upon the particular tax status of the Noteholder or the Noteholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Noteholder or potential Noteholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Notes on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Notes is of the opinion that interest on the Notes will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed by such corporations. Receipt of tax-exempt interest, ownership or disposition of the Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

The Lexington-Fayette Urban County Government has not designated the Notes as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

RATINGS

As noted on the cover page of this Official Statement, Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "____" and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned its municipal bond rating of "____" to this issue of Notes. The ratings when assigned and in effect from time to time reflect only the views of the rating organizations. The explanation of its views and the meaning and significance of the rating may be obtained from the respective rating agency.

There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the marketability and/or market price of the Notes.

The Lexington-Fayette Urban County Government presently expects to furnish each rating agency with information and material that it may request on future general obligation bond issues. However, the Lexington-Fayette Urban County Government assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of debt for

which a rating is not requested, may result in the suspension or withdrawal of the rating agencies' ratings on outstanding General Obligation Notes.

CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the "Rule") and so long as the Notes are outstanding the Lexington-Fayette Urban County Government (the "Obligated Person") will agree pursuant to a Continuing Disclosure Certificate dated as of April 15, 2005, to be delivered on the date of delivery of the Notes, to cause the following information to be provided:

(i) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth, to its state information depository ("SID"), certain annual financial information and operating data, including audited financial statements, generally consistent with the information contained in *Appendix B* and *Appendix C* of this Official Statement (the "Annual Financial Information"); such Annual Financial Information to be supplied by reference to the Obligated Person's Comprehensive Annual Financial Report ("CAFR") which will be provided within nine months of the end of the fiscal year ending on June 30; provided that the audited financial statements may not be available by such date, but will be supplied immediately upon delivery thereof by the auditors for the Obligated Person and;

(ii) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, if any, notice of the occurrence of the following events, if material, with respect to the Notes:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (g) Modifications to rights of security holders;
- (h) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
- (i) Defeasances;

- (j) Release, substitution or sale of property securing repayment of the securities;
- (k) Rating changes; and
- (l) The cure of any payment or nonpayment related default.

The Continuing Disclosure Certificate provides bondholders with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the Continuing Disclosure Certificate does not constitute a default under the Note Legislation. The Continuing Disclosure Certificate may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Noteholders are advised that the Continuing Disclosure Certificate copies of which are available at the office of the Obligated Party should be read in its entirety for more complete information regarding its contents.

For purposes of this transaction with respect to events as set forth in the Rule:

- (a) there are no debt service reserve funds applicable to the Notes;
- (b) there are no liquidity providers applicable to the Notes; and
- (c) there is no property securing the repayment of the Notes.

The Lexington-Fayette Urban County Government has met all prior reporting requirements before the reporting date.

UNDERWRITING

The Series A Notes are being purchased for reoffering by _____ (the "Underwriter") at an aggregate purchase price of \$_____ (reflecting the par amount of the Series A Notes, plus premium of \$_____, less underwriter's discount of \$_____, plus accrued interest of \$_____). The Series B Notes are being purchased for reoffering by the Underwriter at an aggregate purchase price of \$_____ (reflecting the par amount of the Series B Notes, plus premium of \$_____, less underwriter's discount of \$_____, plus accrued interest of \$_____). The initial public offering prices which produce the yields set forth on the cover page of this Official Statement may be changed by the Underwriter and the Underwriter may offer and sell the Notes to certain dealers (including dealers depositing Notes into investment trusts) and others at prices lower than the offering prices which produce the yields set forth on the cover page.

FINANCIAL ADVISOR

First Kentucky Securities Corporation, Frankfort, Kentucky (the "Financial Advisor") has been employed as Financial Advisor in connection with the issuance of the Notes. The Financial Advisor's fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery thereof. The Financial Advisor reserves the right to submit a bid for the Notes at the competitive sale on April 14, 2005 either alone or in connection with an underwriting syndicate.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the Lexington-Fayette Urban County Government from official and other sources and is believed by the Lexington-Fayette Urban County Government to be reliable, but such information other than that obtained from official records of the Lexington-Fayette Urban County Government has not been independently confirmed or verified by the Lexington-Fayette Urban County Government and its accuracy is not guaranteed. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Notes.

This Official Statement has been duly executed and delivered for and on behalf of the Lexington-Fayette Urban County Government by its Mayor.

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT**

By: /s/ Teresa Isaac
Mayor

Dated: April __, 2005

APPENDIX A

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
GENERAL OBLIGATION NOTES**

ESTIMATED DEBT SERVICE REQUIREMENTS FOR THE NOTES

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
GENERAL OBLIGATION NOTES**

Estimated Debt Service Requirements

Series 2005A

| Maturity Date | Principal | Interest | Total | Fiscal Year Total |
|----------------------|---------------------------|----------------------------|------------------------------|--------------------------|
| 10/01/2005 | | \$73,393.75 | \$73,393.75 | |
| 04/01/2006 | \$1,755,000 | 73,393.75 | 1,828,393.75 | \$1,901,787.50 |
| 10/01/2006 | | 51,895.00 | 51,895.00 | |
| 04/01/2007 | 1,795,000 | 51,895.00 | 1,846,895.00 | 1,898,790.00 |
| 10/01/2007 | | 27,213.75 | 27,213.75 | |
| 04/01/2012 | <u>1,845,000</u> | <u>27,213.75</u> | <u>1,872,213.75</u> | <u>1,899,427.50</u> |
| Totals | <u><u>\$5,395,000</u></u> | <u><u>\$305,005.00</u></u> | <u><u>\$5,700,005.00</u></u> | |

Series 2005B

| Maturity Date | Principal | Interest | Total | Fiscal Year Total |
|----------------------|---------------------------|----------------------------|------------------------------|--------------------------|
| 10/01/2005 | | \$43,662.50 | \$43,662.50 | |
| 04/01/2006 | \$370,000 | 43,662.50 | 413,662.50 | \$457,325.00 |
| 10/01/2006 | | 39,130.00 | 39,130.00 | |
| 04/01/2007 | 380,000 | 39,130.00 | 419,130.00 | 458,260.00 |
| 10/01/2007 | | 33,905.00 | 33,905.00 | |
| 04/01/2008 | 390,000 | 33,905.00 | 423,905.00 | 457,810.00 |
| 10/01/2008 | | 28,152.50 | 28,152.50 | |
| 04/01/2009 | 400,000 | 28,152.50 | 428,152.50 | 456,305.00 |
| 10/01/2009 | | 21,952.50 | 21,952.50 | |
| 04/01/2010 | 415,000 | 21,952.50 | 436,952.50 | 458,905.00 |
| 10/01/2010 | | 15,208.75 | 15,208.75 | |
| 04/01/2011 | 430,000 | 15,208.75 | 445,208.75 | 460,417.50 |
| 10/01/2011 | | 7,898.75 | 7,898.75 | |
| 04/01/2012 | <u>445,000</u> | <u>7,898.75</u> | <u>452,898.75</u> | <u>460,797.50</u> |
| Totals | <u><u>\$2,830,000</u></u> | <u><u>\$379,820.00</u></u> | <u><u>\$3,209,820.00</u></u> | |

APPENDIX B

**FINANCIAL, ECONOMIC AND DEMOGRAPHIC DATA OF
LEXINGTON, FAYETTE COUNTY, KENTUCKY**

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | | |
| Licenses and Permits | \$178,722,488 | \$164,438,347 | \$159,917,384 | \$155,993,550 | \$150,115,533 |
| Taxes | 15,729,458 | 14,547,490 | 13,539,941 | 12,513,674 | 13,904,666 |
| Charges for Services | 20,411,654 | 20,489,827 | 17,638,314 | 16,198,920 | 13,455,129 |
| Fines and Forfeitures | 245,150 | 236,226 | 382,532 | 279,558 | 407,111 |
| Intergovernmental | 3,693,236 | 2,079,144 | 1,941,787 | 1,786,032 | 1,662,247 |
| Property Sales | 438,709 | | 33,617 | 367,425 | 1,011,609 |
| Investment Income | 90,639 | 127,728 | 334,302 | 1,399,319 | 1,182,639 |
| Other | 1,138,913 | 1,483,755 | 1,711,660 | 1,847,097 | 1,654,839 |
| Total Revenues | <u>220,470,247</u> | <u>203,402,517</u> | <u>195,499,537</u> | <u>190,385,575</u> | <u>183,393,773</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General Government | 3,730,299 | 5,764,876 | 5,123,217 | 5,011,101 | 4,236,648 |
| Administrative Services | 18,072,225 | 12,482,256 | 10,701,895 | 12,060,186 | 11,843,978 |
| Finance | 6,456,623 | 6,102,657 | 6,083,192 | 5,656,743 | 5,114,681 |
| Public Works | 10,868,943 | 11,751,475 | 13,258,063 | 13,752,449 | 11,671,011 |
| Public Safety | 100,220,031 | 96,007,435 | 93,167,687 | 89,790,896 | 78,359,130 |
| Social Services | 7,882,554 | 6,514,891 | 6,269,807 | 6,333,898 | 6,417,544 |
| General Services | 21,142,469 | 23,117,565 | 22,140,994 | 22,299,082 | 21,276,011 |
| Law | 1,630,466 | 1,879,329 | 1,576,323 | 1,552,463 | 1,587,512 |
| Outside Agencies | 23,234,738 | 23,052,711 | 23,258,846 | 23,672,691 | 22,633,574 |
| Debt Service | 20,447,860 | 18,851,660 | 19,360,248 | 17,420,469 | 16,176,071 |
| Total Expenditures | <u>213,686,208</u> | <u>205,524,855</u> | <u>200,940,272</u> | <u>197,549,978</u> | <u>179,316,160</u> |
| Excess Revenues over Expenditures | 6,784,039 | (2,122,338) | (5,440,735) | (7,164,403) | 4,077,613 |
| Other Financing Sources (Uses) | 479,708 | 2,320,376 | (973,404) | (1,511,884) | (1,029,332) |
| Net Change in Fund Balance | 7,263,747 | 198,038 | (6,414,139) | (8,676,287) | 3,048,281 |
| Fund Balances, July 1 | 22,336,326 | 22,138,288 | 30,560,745 | 41,264,593 | 39,973,658 |
| Restatement | | | (2,008,318) | | |
| Residual Equity Transfer | | | | (2,027,561) | (1,757,346) |
| Fund Balances, June 30 | <u>\$29,600,073</u> | <u>\$22,336,326</u> | <u>\$22,138,288</u> | <u>\$30,560,745</u> | <u>\$41,264,593</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
GENERAL FUND
BALANCE SHEET SCHEDULE
For the Fiscal Years Ended June 30

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Cash | \$11,068,453 | | | \$87,588 | \$364,832 |
| Investments | 9,620,675 | 13,491,080 | 15,144,603 | 23,526,763 | 33,047,024 |
| Receivables: | | | | | |
| Property Taxes | 42,352 | 161,306 | 542,260 | 463,382 | 382,551 |
| Other | 14,385,792 | 12,915,022 | 12,166,403 | 9,943,097 | 8,964,873 |
| Less Allowance for Uncollectible Accounts | (1,413,274) | (1,407,609) | (1,498,357) | (657,037) | (592,112) |
| Due From Other Funds | 9,581,038 | 8,431,794 | 6,361,554 | 4,533,819 | 5,661,487 |
| Due From Component Units | 305,239 | 305,239 | 455,975 | 305,239 | 305,239 |
| Inventories | 695,941 | 750,972 | 786,814 | 708,345 | 710,073 |
| Total Assets | <u>\$44,286,216</u> | <u>\$34,647,804</u> | <u>\$33,959,252</u> | <u>\$38,911,196</u> | <u>\$48,843,967</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities: | | | | | |
| Accounts and Contracts Payable | \$2,635,153 | \$2,646,600 | \$2,345,407 | \$2,397,308 | \$2,699,998 |
| Accrued Liabilities | 7,281,080 | 6,862,813 | 5,790,748 | | |
| Payroll Taxes and Employee Withholdings | | | | 989,183 | 824,396 |
| Grant Match Liabilities | | | | 1,154,422 | 1,301,435 |
| Due to Other Funds | 2,659,600 | 1,074,902 | 1,433,199 | 993,693 | 270,122 |
| Due to Component Units | 885,170 | 1,112,583 | 1,114,474 | 1,358,546 | 1,119,790 |
| Deferred Revenue and Other | 1,225,140 | 614,580 | 1,137,136 | | |
| Reserve for Special Improvements | | | | 9,618 | 9,618 |
| Other Liabilities | | | | 1,447,681 | 1,354,015 |
| Total Liabilities | <u>14,686,143</u> | <u>12,311,478</u> | <u>11,820,964</u> | <u>8,350,451</u> | <u>7,579,374</u> |
| Fund Balance: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 3,473,224 | 6,345,782 | 4,595,676 | 5,865,274 | 5,592,934 |
| Unreserved: | | | | | |
| Designated for Payroll | 3,300,418 | 2,890,562 | 2,859,554 | 2,241,726 | 1,684,209 |
| Designated for Economic Contingency | 5,878,356 | 5,825,468 | 5,745,936 | 5,607,306 | 5,303,539 |
| Designated for Working Capital | 3,864,830 | 3,600,360 | 4,757,915 | 7,575,459 | 7,148,324 |
| Disignated for Pay Adjustments | 906,180 | | | | |
| Undesignated | 12,177,065 | 3,674,154 | 4,179,207 | 8,730,980 | 20,881,587 |
| Designated for Lexington Center Corp. | | | | 540,000 | 654,000 |
| Total Fund Balance | <u>29,600,073</u> | <u>22,336,326</u> | <u>22,138,288</u> | <u>30,560,745</u> | <u>41,264,593</u> |
| Total Liabilities and Fund Balance | <u>\$44,286,216</u> | <u>\$34,647,804</u> | <u>\$33,959,252</u> | <u>\$38,911,196</u> | <u>\$48,843,967</u> |

Lexington-Fayette Urban County Government
Outstanding Debt as of April 1, 2005

| | Issue Date | Final Maturity | Original Issue | Bonds Retired | Outstanding Principal |
|--|---------------|-------------------|----------------------|----------------------|--------------------------|
| General Obligation Bonds | | | | | |
| Series 1999A, Detention Center Project | Apr-1999 | May-2024 | \$67,115,000 | \$4,215,000 | \$62,900,000 |
| Series 1999B, Public Library Project | Nov-1999 | Nov-2019 | 3,570,000 | 455,000 | 3,115,000 |
| Series 2000A, Golf Course Issue | Feb-2000 | Feb-2020 | 8,460,000 | 1,395,000 | 7,065,000 |
| Series 2000C, Public Safety Notes | Apr-2000 | Apr-2005 | 6,315,000 | 6,315,000 | |
| Series 2000D, Stormwater | Dec-2000 | Dec-2010 | 10,675,000 | 3,700,000 | 6,975,000 |
| Series 2000E, Building Purchase & Pool | Dec-2000 | Dec-2020 | 9,335,000 | 1,240,000 | 8,095,000 |
| Series 2001B, Purchase of Development Rights | Nov-2001 | Dec-2022 | 7,635,000 | 825,000 | 6,810,000 |
| Series 2002A, Equipment Notes | May-2002 | May-2005 | 5,090,000 | 3,365,000 | 1,725,000 |
| Series 2002B, Government Center Improvements | May-2002 | May-2012 | 2,330,000 | 415,000 | 1,915,000 |
| Series 2002C, Stormwater & Boulevard | Dec-2002 | Dec-2022 | 4,570,000 | 535,000 | 4,035,000 |
| Series 2003A, Equipment Notes | May-2003 | May-2006 | 4,465,000 | 1,460,000 | 3,005,000 |
| Series 2003B, Fire Equipment Notes | Dec-2003 | Dec-2010 | 1,455,000 | 200,000 | 1,255,000 |
| Series 2003A, Refunding Bonds | Dec-2003 | Feb-2011 | 19,185,000 | 3,840,000 | 15,345,000 |
| Series 2004A, Equipment Notes | May-2004 | May-2007 | 4,240,000 | | 4,240,000 |
| Series 2004B, Equipment Notes | May-2004 | May-2011 | 2,350,000 | | 2,350,000 |
| Series 2004C, Multi-Purpose Project | Jul-2004 | Jul-2024 | 9,640,000 | | 9,640,000 |
| Series 2000, KLC Lease | May-2002 | May-2012 | 360,000 | 45,000 | 315,000 |
| Subtotal | | | <u>166,790,000</u> | <u>28,005,000</u> | <u>138,785,000</u> |
| Detention Center Corporation | | | | | |
| Adult Detention Center, 1996 Loan | Oct-1996 | Oct-2006 | 1,527,900 | 1,240,403 | 287,497 |
| Subtotal | | | <u>1,527,900</u> | <u>1,240,403</u> | <u>287,497</u> |
| Public Facilities Corporation | | | | | |
| Mortgage Revenue Bonds, Series 1995 | Nov-1995 | Nov-2015 | 4,360,000 | 1,440,000 | 2,920,000 |
| Mortgage Revenue Bonds, Series 1998 | Jul-1998 | Oct-2031 | 69,120,000 | 3,810,000 | 65,310,000 |
| Subtotal | | | <u>73,480,000</u> | <u>5,250,000</u> | <u>68,230,000</u> |
| Public Parking Corporation | | | | | |
| Revenue Refunding Bonds, Series 1993 | May-1993 | Aug-2004 | 2,825,000 | 2,825,000 | |
| Mortgage Revenue Refunding Bonds, Series 1998 | Mar-1998 | Feb-2010 | 7,260,000 | 3,810,000 | 3,450,000 |
| Subtotal | | | <u>10,085,000</u> | <u>6,635,000</u> | <u>3,450,000</u> |
| Sanitary Sewer System | | | | | |
| Refunding Revenue Bonds, Series 1993 | Aug-1993 | Jul-2005 | 15,545,000 | 13,955,000 | 1,590,000 |
| Refunding Revenue Bonds, Series 1996 | Jun-1996 | Jul-2009 | 14,860,000 | 10,870,000 | 3,990,000 |
| Revenue Bonds, Series 2001A | May-2001 | Jul-2021 | 25,150,000 | 600,000 | 24,550,000 |
| Refunding Revenue Bonds, Series 2001 B | May-2001 | Jul-2012 | 16,860,000 | 430,000 | 16,430,000 |
| Subtotal | | | <u>72,415,000</u> | <u>25,855,000</u> | <u>46,560,000</u> |
| Airport Corporation | | | | | |
| Mortgage Revenue Bonds, Series 1994 | Jun-1994 | Apr-2024 | 14,400,000 | 12,200,000 | 2,200,000 |
| Mortgage Revenue Bonds, Series 1998 | Apr-1998 | Jul-2028 | 20,500,000 | 2,800,000 | 17,700,000 |
| Mortgage Revenue Bonds, Series 2003 | Nov-2003 | Jul-2033 | 29,050,000 | | 29,050,000 |
| Note | Jul-2003 | May-2008 | 739,521 | 162,966 | 576,555 |
| Subtotal | | | <u>64,689,521</u> | <u>15,162,966</u> | <u>49,526,555</u> |
| Lexington Center Corporation | | | | | |
| Capital Appreciation Bonds | Jun-1993 | Oct-2012 | 35,973,400 | 24,739,981 | 11,233,419 |
| Mortgage Revenue Bonds, Series 2001A | Oct-2001 | Oct-2021 | 20,000,000 | | 20,000,000 |
| Mortgage Revenue Refunding Bonds, Series 2003A | Sep-2003 | Oct-2006 | 8,655,000 | 2,770,000 | 5,885,000 |
| Subtotal | | | <u>64,628,400</u> | <u>27,509,981</u> | <u>37,118,419</u> |
| Total | | | <u>\$453,615,821</u> | <u>\$109,658,351</u> | <u>\$343,957,470</u> |

Note 1: In addition to the above, the Lexington-Fayette Urban County Government is contingently liable for 37 1/2% of the debt service on the outstanding principal amount of the Kentucky State Property and Buildings Commission Economic Development Revenue Bonds, Project No. 30 relating to the Vine Center Parking Garage Sub-Project. With annual payments ranging from \$147,000 to \$212,000, this contingent liability represents less than 1.1% of debt service through FY2008.

Note 2: Industrial Revenue Bonds, Industrial Development Bonds, Multi-Family and Single Family Housing Bonds, and Sewer Assessments Bonds are not included in this schedule of overlapping debt as they are not secured by the full faith and credit of Lexington-Fayette Urban County Government.

Lexington-Fayette Urban County Government
 Combined Debt Service Schedule
 as of April 1, 2005

| Fiscal Year | General Obligation | | Lease Revenue | | | | | | Subtotal | Less Subsidized Payments * | Total | |
|--------------|----------------------|--------------------|--------------------|----------------------|--------------------|---------------------|------------------|---------------------|---------------------|----------------------------|----------------------|----------------------|
| | Prior Issues | Current Issue | LFUCG Corporations | | | | Outside Agencies | | | | | |
| | | | Detention Center | Public Facilities | Public Parking | Sanitary Sewer | Airport | Lexington Center | | | | |
| 2005 | \$8,899,129 | | \$32,356 | \$73,483 | | | | \$628,842 | \$9,633,810 | \$4,838,016 | \$4,795,794 | |
| 2006 | 18,126,442 | 2,359,113 | 194,138 | 4,832,539 | 791,306 | 5,890,865 | | 1,149,300 | 37,123,103 | 15,109,706 | 22,013,397 | |
| 2007 | 16,583,767 | 2,357,050 | 72,712 | 4,833,135 | 783,684 | 5,590,819 | | 1,240,260 | 35,798,303 | 15,456,390 | 20,341,913 | |
| 2008 | 14,245,073 | 2,357,238 | | 4,835,094 | 790,028 | 5,590,981 | | 2,194,354 | 33,185,016 | 15,248,768 | 17,936,248 | |
| 2009 | 12,534,982 | 456,305 | | 4,833,059 | 789,840 | 5,581,263 | | 1,988,585 | 29,122,242 | 14,796,616 | 14,325,626 | |
| 2010 | 11,915,869 | 458,905 | | 4,838,159 | 786,000 | 5,569,225 | | 1,846,918 | 28,116,516 | 14,408,143 | 13,708,373 | |
| 2011 | 11,704,035 | 460,418 | | 4,835,534 | | 5,569,219 | | 2,206,663 | 27,237,195 | 14,529,268 | 12,707,927 | |
| 2012 | 8,788,107 | 460,798 | | 4,833,534 | | 5,566,781 | | 2,062,170 | 23,928,653 | 14,139,182 | 9,789,471 | |
| 2013 | 8,453,925 | | | 4,836,784 | | 5,559,300 | | 2,219,090 | 23,016,354 | 14,013,955 | 9,002,399 | |
| 2014 | 8,218,488 | | | 4,834,881 | | 1,981,125 | | 2,474,033 | 19,730,467 | 10,970,036 | 8,760,431 | |
| 2015 | 8,219,897 | | | 4,832,694 | | 1,984,625 | | 1,625,868 | 18,952,925 | 10,192,034 | 8,760,891 | |
| 2016 | 8,212,249 | | | 4,838,633 | | 1,979,750 | | 1,887,025 | 19,174,278 | 10,413,104 | 8,761,174 | |
| 2017 | 8,214,940 | | | 4,491,309 | | 1,981,375 | | 1,770,075 | 18,780,560 | 10,366,111 | 8,414,449 | |
| 2018 | 8,222,659 | | | 4,487,275 | | 1,984,125 | | 1,929,255 | 19,010,754 | 10,593,760 | 8,416,994 | |
| 2019 | 8,214,190 | | | 4,492,475 | | 1,982,875 | | 1,861,458 | 19,001,356 | 10,583,071 | 8,418,285 | |
| 2020 | 8,214,396 | | | 4,486,653 | | 1,982,500 | | 1,894,225 | 19,089,389 | 10,681,320 | 8,408,069 | |
| 2021 | 7,216,324 | | | 4,489,553 | | 1,982,750 | | 1,926,428 | 18,186,266 | 10,480,389 | 7,705,877 | |
| 2022 | 6,480,063 | | | 4,490,663 | | 1,983,375 | | 1,958,065 | 17,544,312 | 10,573,586 | 6,970,726 | |
| 2023 | 5,912,994 | | | 4,489,725 | | | | 2,089,138 | 12,491,857 | 6,089,138 | 6,402,719 | |
| 2024 | 5,726,331 | | | 4,491,356 | | | | 2,168,515 | 12,386,202 | 6,168,515 | 6,217,687 | |
| 2025 | 716,625 | | | 4,485,300 | | | | 2,096,763 | 7,298,688 | 6,096,763 | 1,201,925 | |
| 2026 | | | | 4,486,172 | | | | 2,150,575 | 6,636,747 | 6,150,575 | 486,172 | |
| 2027 | | | | 4,488,331 | | | | 2,278,540 | 6,766,871 | 6,278,540 | 488,331 | |
| 2028 | | | | 4,491,266 | | | | 2,379,810 | 6,871,076 | 6,379,810 | 491,266 | |
| 2029 | | | | 4,489,591 | | | | 2,504,668 | 6,994,259 | 6,504,668 | 489,591 | |
| 2030 | | | | 3,903,297 | | | | 1,727,830 | 5,631,127 | 5,290,946 | 340,181 | |
| 2031 | | | | 3,902,641 | | | | 1,784,468 | 5,687,109 | 5,347,584 | 339,525 | |
| 2032 | | | | 3,902,503 | | | | 1,890,258 | 5,792,761 | 5,453,374 | 339,387 | |
| 2033 | | | | | | | | 1,944,635 | 1,944,635 | 1,944,635 | | |
| 2034 | | | | | | | | 2,073,165 | 2,073,165 | 2,073,165 | | |
| Total | \$194,820,485 | \$8,909,827 | \$299,206 | \$123,325,639 | \$3,940,858 | \$62,760,953 | | \$57,950,979 | \$45,198,049 | \$497,205,996 | \$281,171,168 | \$216,034,828 |

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*Includes reimbursement from the Administrative Office of the Courts of the Commonwealth of Kentucky and direct payment of debt by the Airport Corporation, Lexington Center Corporation, Public Library Corporation (1999B General Obligation Bonds), and Sanitary Sewer Fund.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NET ASSETS
LAST THREE FISCAL YEARS

| | Fiscal Year | | |
|---|----------------------|----------------------|----------------------|
| | 2002 | 2003 | 2004 |
| Governmental Activities | | | |
| Investment in Capital Assets, net of related debt | \$96,437,482 | \$106,003,137 | \$108,187,766 |
| Restricted | 3,295,838 | 2,238,907 | 1,253,571 |
| Unrestricted | 17,913,410 | 15,083,835 | 15,892,881 |
| Total governmental activities net assets | <u>\$117,646,730</u> | <u>\$123,325,879</u> | <u>\$125,334,218</u> |
| Business-type Activities | | | |
| Investment in Capital Assets, net of related debt | \$223,391,310 | \$224,820,344 | \$245,267,827 |
| Restricted | 24,443,625 | 31,352,044 | 31,575,194 |
| Unrestricted (deficit) | (5,543,560) | (6,993,925) | (204,318) |
| Total business-type activities net assets | <u>\$242,291,375</u> | <u>\$249,178,463</u> | <u>\$276,638,703</u> |
| Primary Government | | | |
| Investment in Capital Assets, net of related debt | \$319,828,792 | \$330,823,481 | \$353,455,593 |
| Restricted | 27,739,463 | 33,590,951 | 32,828,765 |
| Unrestricted | 12,369,850 | 8,089,910 | 15,688,563 |
| Total primary government net assets | <u>\$359,938,105</u> | <u>\$372,504,342</u> | <u>\$401,972,921</u> |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 CHANGES IN NET ASSETS
 LAST THREE FISCAL YEARS
 (Accrual Basis of Accounting)

| | Fiscal Year | | |
|-------------------------------------|----------------------|----------------------|----------------------|
| | 2002 | 2003 | 2004 |
| Expenses | | | |
| Governmental Activities: | | | |
| General Government | \$3,713,179 | \$9,744,039 | \$21,293,008 |
| Administrative Services | 24,084,195 | 24,993,517 | 18,938,746 |
| Health, Dental and Vision Insurance | 6,904,830 | 10,480,431 | 10,592,090 |
| Finance | 6,118,259 | 6,280,716 | 6,876,648 |
| Public Works | 29,947,045 | 37,484,504 | 33,960,939 |
| Public Safety | 3,524,226 | 7,078,379 | 7,232,363 |
| Police | 40,089,633 | 43,399,766 | 42,794,170 |
| Fire and Emergency Services | 34,632,768 | 36,207,002 | 36,841,543 |
| Community Corrections | 22,459,847 | 24,505,670 | 24,478,660 |
| Building Inspection | 1,824,812 | | |
| Social Services | 8,519,665 | 8,931,694 | 9,070,442 |
| General Services | 12,733,803 | 12,854,362 | 16,242,299 |
| Parks and Recreation | 13,917,342 | 14,012,815 | 13,380,436 |
| Law | 1,622,237 | 1,824,518 | 1,642,220 |
| Outside Agencies | 32,291,743 | 32,704,463 | 27,718,643 |
| Special Projects | 2,044,329 | | |
| Interest on Long-Term Debt | 5,642,956 | 5,840,627 | 5,739,105 |
| Debt Service - Other | 8,604,257 | 5,957,246 | 6,444,538 |
| Total governmental activities | <u>258,675,126</u> | <u>282,299,749</u> | <u>283,245,850</u> |
| Business-type Activities: | | | |
| Sanitary Sewer System | 20,800,028 | 21,319,274 | 22,347,738 |
| Public Facilities | 9,046,445 | 13,568,097 | 13,500,561 |
| Public Parking | 997,765 | 967,952 | 941,821 |
| Landfill | 4,882,616 | 4,662,162 | 5,423,413 |
| Right of Way | | 75,665 | 261,494 |
| Extended School Program | 1,215,530 | 1,230,845 | 1,387,203 |
| Prisoners' Account System | 693,371 | 1,053,084 | 1,360,709 |
| Enhanced 911 | 2,418,817 | 2,650,745 | 2,300,114 |
| LexVan Program | | | 17,545 |
| Small Business Development | | | 108,343 |
| Total business-type activities | <u>40,054,572</u> | <u>45,527,824</u> | <u>47,648,941</u> |
| Total primary government | <u>\$298,729,698</u> | <u>\$327,827,573</u> | <u>\$330,894,791</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 CHANGES IN NET ASSETS
 LAST THREE FISCAL YEARS (contd.)
 (Accrual Basis of Accounting)

| | Fiscal Year | | |
|---|------------------------|------------------------|------------------------|
| | 2002 | 2003 | 2004 |
| Program Revenues | | | |
| Governmental Activities: | | | |
| Charges for Services | \$31,320,919 | \$35,905,736 | \$33,999,515 |
| Operating Grants and Contributions | 18,230,166 | 22,330,711 | 33,101,398 |
| Capital Grants and Contributions | 23,018,287 | 12,607,442 | 13,256,243 |
| Total governmental activities | <u>72,569,372</u> | <u>70,843,889</u> | <u>80,357,156</u> |
| Business-type Activities: | | | |
| Charges for Services | 46,372,642 | 51,414,204 | 54,421,012 |
| Operating Grants and Contributions | 913,305 | 117,840 | 125,744 |
| Total business-type activities | <u>47,285,947</u> | <u>51,532,044</u> | <u>54,546,756</u> |
| Total primary government | <u>\$119,855,319</u> | <u>\$122,375,933</u> | <u>\$134,903,912</u> |
| Net (Expense)/Revenue | | | |
| Governmental activities | (\$186,105,754) | (\$211,455,860) | (\$202,888,694) |
| Business-type activities | 7,231,375 | 6,004,220 | 6,897,815 |
| Total primary government | <u>(\$178,874,379)</u> | <u>(\$205,451,640)</u> | <u>(\$195,990,879)</u> |
| General Revenues and Other Changes in Net Assets | | | |
| Governmental Activities: | | | |
| Property Taxes | \$37,203,745 | \$40,127,166 | \$41,964,425 |
| Licenses and Permits | 160,060,473 | 165,005,241 | 178,942,755 |
| Grants and Contributions Not Restricted to Specific Programs: | | | |
| Community Development Block Grant | 1,784,030 | 8,547,728 | 3,567,315 |
| Income on Investments | 2,604,234 | 804,561 | 507,868 |
| Sale of Assets | 87,186 | 1,617,773 | 457,849 |
| Bond Refunding | | | (19,185,000) |
| Miscellaneous | 1,087,959 | 938,222 | 918,323 |
| Transfers | 1,877,610 | 94,318 | (1,136,353) |
| Total governmental activities | <u>204,705,237</u> | <u>217,135,009</u> | <u>206,037,182</u> |
| Business-type Activities: | | | |
| Income on Investments | 1,850,750 | 977,186 | 662,485 |
| Sale of Assets | 1,374 | | 3,587 |
| Bond Refunding | | | 18,760,000 |
| Transfers | (1,877,610) | (94,318) | 1,136,353 |
| Total business-type activities | <u>(25,486)</u> | <u>882,868</u> | <u>20,562,425</u> |
| Total primary government | <u>\$204,679,751</u> | <u>\$218,017,877</u> | <u>\$226,599,607</u> |
| Change in Net Assets | | | |
| Governmental activities | \$18,599,483 | \$5,679,149 | \$3,148,488 |
| Business-type activities | 7,205,889 | 6,887,088 | 27,460,240 |
| Prior Period Adjustment-Governmental Activities | | | (1,140,149) |
| Total primary government | <u>\$25,805,372</u> | <u>\$12,566,237</u> | <u>\$29,468,579</u> |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (Modified Accrual Basis of Accounting)

| | Fiscal Year | | | | | | | | | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| General Fund | | | | | | | | | | |
| Reserved | \$4,787,778 | \$2,769,964 | \$4,710,928 | \$3,849,506 | \$3,750,230 | \$5,592,934 | \$5,865,274 | \$4,595,676 | \$6,345,782 | \$3,473,224 |
| Unreserved | | | | | | | | | | |
| Designated for Economic Contingency | | | 4,034,671 | 4,352,261 | 5,002,728 | 5,303,539 | 5,607,306 | 5,745,936 | 5,825,468 | 5,878,356 |
| Designated for Payroll | | 235,880 | 516,550 | 845,590 | 1,229,957 | 1,684,209 | 2,241,726 | 2,859,554 | 2,890,562 | 3,300,418 |
| Designated for Working Capital | 6,355,031 | 2,716,159 | 7,054,968 | 6,691,313 | 7,459,448 | 7,148,324 | 7,575,459 | 4,757,915 | 3,600,360 | 3,864,830 |
| Designated for Pay Adjustments | | | | | | | | | | 906,180 |
| Designated for Lexington Center Corp. | 353,000 | 529,000 | 707,000 | 882,000 | 768,000 | 654,000 | 540,000 | | | |
| Designated for Debt | | | | | 528,234 | | | | | |
| Designated for Claims and Judgments | | 2,850,000 | | | | | | | | |
| Designated for Landfill | 5,846,750 | | | | | | | | | |
| Designated for Cultural Center | 500,000 | | | | | | | | | |
| Undesignated | 14,253,181 | 22,865,003 | 16,140,855 | 19,917,257 | 21,235,061 | 20,881,587 | 8,730,980 | 4,179,207 | 3,674,154 | 12,177,065 |
| Total | <u>\$32,095,740</u> | <u>\$31,966,006</u> | <u>\$33,164,972</u> | <u>\$36,537,927</u> | <u>\$39,973,658</u> | <u>\$41,264,593</u> | <u>\$30,560,745</u> | <u>\$22,138,288</u> | <u>\$22,336,326</u> | <u>\$29,600,073</u> |
| Urban Services | | | | | | | | | | |
| Reserved | \$266,299 | \$140,999 | \$883,708 | \$615,173 | \$2,782,958 | \$798,108 | \$2,069,789 | \$3,525,288 | \$3,031,240 | \$1,419,156 |
| Unreserved | | | | | | | | | | |
| Designated for Payroll | | 22,200 | 48,616 | 77,869 | 100,496 | 127,015 | 158,555 | 191,011 | 233,899 | 302,654 |
| Undesignated | 2,673,753 | 5,991,142 | 6,078,591 | 7,816,983 | 9,503,322 | 13,464,874 | 16,168,353 | 16,720,062 | 15,193,297 | 18,167,725 |
| Total | <u>\$2,940,052</u> | <u>\$6,154,341</u> | <u>\$7,010,915</u> | <u>\$8,510,025</u> | <u>\$12,386,776</u> | <u>\$14,389,997</u> | <u>\$18,396,697</u> | <u>\$20,436,361</u> | <u>\$18,458,436</u> | <u>\$19,889,535</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | \$2,035,382 | \$4,041,438 | \$5,515,869 | \$8,507,153 | \$54,940,471 | \$20,540,550 | \$21,926,669 | \$11,484,513 | \$12,562,673 | \$9,770,889 |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenues funds | 1,658,740 | 2,569,673 | 3,633,277 | 4,515,560 | 4,639,046 | 3,695,720 | 2,907,391 | 1,953,071 | 3,462,414 | 3,486,847 |
| Capital projects funds | | | | (2,197,499) | (4,333,995) | (4,425,450) | (3,221,473) | 9,501,913 | 5,883,281 | 1,014,962 |
| Federal and State Grants | | | | | | | | 1,294,046 | 1,169,455 | 329,493 |
| Total | <u>\$3,694,122</u> | <u>\$6,611,111</u> | <u>\$9,149,146</u> | <u>\$10,825,214</u> | <u>\$55,245,522</u> | <u>\$19,810,820</u> | <u>\$21,612,587</u> | <u>\$24,233,543</u> | <u>\$23,077,823</u> | <u>\$14,602,191</u> |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (Modified Accrual Basis of Accounting)

| | Fiscal Year | | | | | | | | | |
|--|---------------------|---------------------|--------------------|--------------------|---------------------|-----------------------|----------------------|----------------------|----------------------|--------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Revenues | | | | | | | | | | |
| Licenses and Permits | \$118,616,419 | \$115,101,448 | \$122,798,439 | \$129,379,308 | \$140,106,975 | \$150,863,316 | \$156,766,735 | \$160,717,826 | \$165,274,588 | \$179,533,692 |
| Taxes | 26,410,244 | 27,610,341 | 28,696,289 | 29,910,260 | 31,024,465 | 33,863,033 | 34,100,242 | 37,203,745 | 40,127,166 | 41,964,425 |
| Charges for Services | 10,949,423 | 9,909,169 | 10,442,277 | 11,242,630 | 15,123,431 | 13,455,129 | 16,236,396 | 20,404,416 | 20,489,827 | 20,449,154 |
| Fines and Forfeitures | 190,848 | 161,091 | 182,694 | 167,013 | 274,002 | 407,111 | 279,558 | 382,532 | 236,226 | 245,150 |
| Local Contributions | 26,296 | 16,730 | | | | | | 2,325,000 | | |
| Intergovernmental | 15,004,290 | 17,822,515 | 17,680,919 | 17,492,022 | 20,154,798 | 22,187,033 | 33,095,607 | 38,269,881 | 41,632,430 | 47,380,792 |
| Exactions | | | | | | | | 561,670 | 1,754,136 | 1,754,558 |
| Grant Match | 2,346,006 | 2,611,893 | 3,118,636 | 2,863,309 | 3,686,128 | 3,085,475 | 3,938,607 | 2,271,624 | 2,766,839 | 2,450,210 |
| Property Sales | 317,440 | 176,579 | 271,033 | 468,842 | 185,177 | 1,122,090 | 448,380 | 87,186 | 138,315 | 457,849 |
| Income on Investments | 1,262,888 | 1,908,083 | 1,798,109 | 2,722,250 | 3,037,034 | 4,502,957 | 4,058,755 | 1,562,701 | 773,032 | 451,123 |
| Other | 2,883,177 | 2,974,543 | 2,787,368 | 3,101,936 | 2,868,964 | 3,289,571 | 4,356,229 | 3,554,903 | 5,667,056 | 4,230,933 |
| Total Revenues | 178,007,031 | 178,292,392 | 187,775,764 | 197,347,570 | 216,460,974 | 232,775,715 | 253,280,509 | 267,341,484 | 278,859,615 | 298,917,886 |
| Expenditures | | | | | | | | | | |
| General Government | 9,309,062 | 8,385,869 | 8,795,515 | 8,642,971 | 5,730,821 | 6,110,943 | 6,638,002 | 9,869,176 | 9,552,502 | 21,330,624 |
| Administrative Services | 3,746,663 | 4,586,015 | 6,336,844 | 6,596,728 | 10,752,753 | 12,754,916 | 13,081,228 | 15,961,216 | 17,683,142 | 29,924,619 |
| Finance | 3,041,747 | 3,094,761 | 4,034,742 | 4,137,945 | 4,772,212 | 5,129,343 | 5,656,743 | 6,096,794 | 6,118,472 | 6,488,798 |
| Public Works | 21,728,481 | 20,275,591 | 24,752,145 | 25,534,121 | 30,380,578 | 31,857,753 | 35,092,859 | 40,375,022 | 42,235,913 | 36,175,381 |
| Public Safety | 51,627,353 | 54,714,193 | 60,414,100 | 65,350,273 | 71,592,929 | 78,803,752 | 90,116,892 | 98,744,205 | 103,806,458 | 106,315,766 |
| Social Services | 4,782,861 | 5,209,470 | 5,571,114 | 5,895,957 | 6,154,800 | 6,417,544 | 6,333,898 | 9,288,878 | 9,929,597 | 11,162,991 |
| General Services | 20,263,302 | 16,858,190 | 18,668,449 | 20,513,685 | 20,085,066 | 24,744,941 | 23,545,747 | 25,560,791 | 25,270,975 | 23,757,464 |
| Law | 925,271 | 3,806,121 | 1,003,567 | 1,205,675 | 1,309,346 | 1,587,512 | 1,552,463 | 1,576,323 | 1,879,329 | 1,630,466 |
| Outside Agencies | 16,556,632 | 17,744,407 | 19,312,239 | 19,840,591 | 22,145,267 | 22,633,574 | 23,672,691 | 31,840,555 | 32,513,602 | 27,557,006 |
| Special Projects | 12,514,857 | 15,191,555 | 15,557,334 | 14,974,707 | 17,970,485 | 19,617,032 | 28,490,679 | 2,044,329 | | |
| Debt Service: | | | | | | | | | | |
| Principal | | | 864 | 268 | 0 | 1,040,000 | 3,455,000 | 7,743,568 | 9,711,219 | 10,404,328 |
| Interest and Other | 10,606,206 | 10,491,786 | 13,044,220 | 13,087,421 | 12,428,666 | 16,280,100 | 15,429,992 | 14,348,596 | 11,914,692 | 12,150,607 |
| Capital | 116,879 | 207,673 | 3,874,256 | 2,081,315 | 22,603,640 | 56,106,029 | 23,009,888 | 22,324,958 | 22,168,069 | 17,883,186 |
| Total Expenditures | 155,219,314 | 160,565,631 | 181,365,389 | 187,861,657 | 225,926,563 | 283,083,439 | 276,076,082 | 285,774,411 | 292,783,970 | 304,781,236 |
| Excess (Deficiency) of Revenues over (under) Expenditures | 22,787,717 | 17,726,761 | 6,410,375 | 9,485,913 | (9,465,589) | (50,307,724) | (22,795,573) | (18,432,927) | (13,924,355) | (5,863,350) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers In | 1,058,057 | 2,831,580 | 4,055,180 | 2,469,541 | 1,195,900 | 2,558,258 | 3,260,939 | 810,599 | 2,620,303 | 1,820,461 |
| Transfers Out | (1,795,470) | (5,323,134) | (4,776,852) | (3,476,155) | (3,472,376) | (2,095,188) | (5,704,885) | (2,194,686) | (3,666,134) | (2,956,814) |
| Property Sales | | | | | | | | | 1,479,458 | |
| Bond and Note Proceeds | | | 1,527,900 | | 66,113,187 | 19,753,684 | 22,371,699 | 15,415,000 | 10,490,000 | 6,590,000 |
| Line of Credit | | | | | | | | | | 445,187 |
| Premium (Discount) on Bonds Issued | | | | | | | | (148,782) | 65,121 | 183,730 |
| Total Other Financing Sources (Uses) | (737,413) | (2,491,554) | 806,228 | (1,006,614) | 63,836,711 | 20,216,754 | 19,927,753 | 13,882,131 | 10,988,748 | 6,082,564 |
| Net Change in Fund Balances | \$22,050,304 | \$15,235,207 | \$7,216,603 | \$8,479,299 | \$54,371,122 | (\$30,090,970) | (\$2,867,820) | (\$4,550,796) | (\$2,935,607) | \$219,214 |
| Debt Service as a percentage of noncapital expenditures | 6.8% | 6.5% | 7.3% | 7.0% | 6.1% | 7.6% | 7.5% | 8.4% | 8.0% | 7.9% |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 CHANGES IN FUND BALANCE, GENERAL FUND
 LAST TEN FISCAL YEARS
 (Budgetary Basis of Accounting)

| | Fiscal Year | | | | | | | | | |
|--|---------------------|--------------------|----------------------|--------------------|--------------------|--------------------|-----------------------|----------------------|--------------------|--------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Revenues | | | | | | | | | | |
| Licenses and Permits | \$116,730,942 | \$115,890,320 | \$120,725,752 | \$129,093,656 | \$138,606,697 | \$150,426,657 | \$155,566,415 | \$159,054,097 | \$164,661,161 | \$177,623,046 |
| Taxes | 11,402,993 | 11,998,277 | 12,463,656 | 12,731,743 | 12,977,902 | 13,904,666 | 12,513,674 | 13,539,941 | 14,547,490 | 15,729,458 |
| Charges for Services | 10,811,400 | 9,783,182 | 10,324,150 | 11,160,169 | 15,114,957 | 13,455,129 | 16,198,920 | 17,671,856 | 20,402,491 | 20,279,414 |
| Fines and Forfeitures | 190,848 | 161,091 | 182,694 | 167,013 | 274,002 | 407,111 | 279,558 | 382,532 | 236,226 | 245,150 |
| Intergovernmental | 1,350,152 | 1,414,148 | 1,285,016 | 1,481,534 | 1,406,255 | 1,662,247 | 1,786,032 | 1,941,787 | 2,079,144 | 3,693,236 |
| Property Sales | 167,040 | 175,704 | 271,033 | 453,324 | 168,381 | 1,011,609 | 367,425 | 33,617 | 1,479,458 | 438,709 |
| Income on Investments | 847,915 | 1,044,870 | 828,951 | 1,538,252 | 1,284,191 | 1,182,639 | 1,399,319 | 334,302 | 127,728 | 90,639 |
| Other | 1,354,674 | 1,481,054 | 1,430,056 | 1,562,961 | 1,398,893 | 1,654,839 | 1,847,097 | 1,711,660 | 1,483,755 | 1,138,913 |
| Total Revenues | 142,855,964 | 141,948,646 | 147,511,308 | 158,188,652 | 171,231,278 | 183,704,897 | 189,958,440 | 194,669,792 | 205,017,453 | 219,238,565 |
| Expenditures and Other | | | | | | | | | | |
| Financing Sources (Uses) | | | | | | | | | | |
| General Government ^(1, 2, 7) | \$7,341,857 | \$6,263,477 | \$6,820,840 | \$6,465,834 | \$4,048,212 | \$4,269,422 | \$5,255,625 | \$4,843,238 | \$5,513,279 | \$3,680,801 |
| Administrative Services ^(2, 5) | 1,495,748 | 1,513,350 | 3,076,179 | 3,222,783 | 10,159,579 | 12,146,051 | 11,917,682 | 10,796,794 | 15,396,156 | 14,858,450 |
| Finance | 3,077,779 | 3,109,595 | 4,067,949 | 4,115,357 | 4,772,184 | 5,241,297 | 5,652,458 | 5,911,517 | 6,061,481 | 6,473,910 |
| Public Works ⁽³⁾ | 12,082,724 | 6,042,802 | 9,591,809 | 8,953,334 | 11,644,306 | 12,481,138 | 14,176,205 | 11,954,671 | 11,377,147 | 10,706,996 |
| Public Safety ^(1, 4) | 52,030,696 | 54,004,903 | 60,315,411 | 65,067,419 | 71,509,758 | 78,610,088 | 90,125,329 | 92,178,648 | 94,704,416 | 99,730,690 |
| Social Services ^(4, 7) | 4,818,021 | 5,230,683 | 5,549,041 | 5,991,328 | 6,105,080 | 6,374,415 | 6,397,213 | 6,244,601 | 6,590,974 | 7,871,084 |
| General Services | 19,082,193 | 16,795,858 | 18,741,616 | 18,913,261 | 19,968,701 | 21,249,518 | 22,107,660 | 21,735,067 | 22,410,805 | 21,644,848 |
| Housing & Community Dev ⁽⁵⁾ | 2,353,884 | 3,155,512 | 3,363,881 | 3,331,916 | | | | | | |
| Law ⁽⁶⁾ | 917,394 | 952,419 | 3,857,999 | 1,220,301 | 1,300,007 | 1,600,344 | 1,579,136 | 1,590,374 | 1,820,584 | 1,613,724 |
| Outside Agencies | 16,950,017 | 17,208,525 | 19,446,702 | 20,070,545 | 21,964,307 | 23,010,520 | 23,190,541 | 23,416,545 | 23,526,902 | 22,818,075 |
| Debt Service | 8,358,541 | 8,152,882 | 10,545,157 | 11,231,809 | 11,070,468 | 16,176,071 | 17,420,469 | 19,360,248 | 18,851,660 | 20,447,860 |
| Other Financing (Sources) Uses | 757,953 | 4,833,456 | 4,603,507 | 3,262,910 | 3,283,472 | 1,029,332 | 1,511,884 | 973,404 | (1,981,067) | (479,708) |
| Residual Equity Transfers | 539,380 | 9,158,232 | 2,527,592 | 1,828,255 | 2,638,332 | 1,757,346 | 2,027,561 | | | |
| Total Expenditures and Other Financing Sources (Uses) | 129,806,187 | 136,421,694 | 152,507,683 | 153,675,052 | 168,464,406 | 183,945,542 | 201,361,763 | 199,005,107 | 204,272,337 | 209,366,730 |
| Net Change in Fund Balance | \$13,049,777 | \$5,526,952 | (\$4,996,375) | \$4,513,600 | \$2,766,872 | (\$240,645) | (\$11,403,323) | (\$4,335,315) | \$745,116 | \$9,871,835 |

(1) Detention Center was moved from General Government to Public Safety in FY 1995.

(2) In FY 1997, Risk Management & Human Resources moved to a new division, Administrative Services. In addition, Public Information and Budgeting moved from General Government to Administrative Services. In FY 1999, Insurance was moved from General Government to Administrative Services.

(3) Landfill operations, previously in Public Works, were moved to an Enterprise Fund in FY 1996.

(4) Juvenile Detention operations were moved from Social Services to Public Safety in FY 1995.

(5) Department reorganization in FY 1999 moved Housing and Community Development to Administrative Services.

(6) A law suit in the amount of \$2,850,000 was settled in FY 1997.

(7) Department reorganization in FY 2004 moved the Mayor's Training Center to Social Services.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SANITARY SEWER SYSTEM
SUMMARY OF REVENUES AND EXPENSES
(In Thousands)

| | Fiscal Year | | | | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Revenues | | | | | | | | | | |
| Sewer Service Charges | \$19,857,447 | \$19,861,020 | \$20,594,392 | \$19,953,509 | \$20,705,758 | \$20,644,538 | \$20,410,572 | \$20,425,852 | \$24,298,724 | \$25,457,887 |
| Sewer Tap on Fees | 930,475 | 1,266,317 | 1,276,564 | 1,617,200 | 2,093,881 | 1,637,052 | 1,185,424 | 1,240,051 | 1,227,111 | 1,428,449 |
| Exactions | | | | | | | | 195,672 | 826,960 | 878,035 |
| Other Income | 491,711 | 92,186 | 21,828 | 18,937 | 116,850 | 199,296 | 215,435 | 231,850 | 181,146 | 193,694 |
| Total Revenues | 21,279,633 | 21,219,523 | 21,892,784 | 21,589,646 | 22,916,489 | 22,480,886 | 21,811,431 | 22,093,425 | 26,533,941 | 27,958,065 |
| Operating Expenses | | | | | | | | | | |
| Treatment Plant | 3,817,032 | 5,199,326 | 5,077,898 | 4,810,727 | 5,370,892 | 5,322,815 | 5,576,923 | 5,692,586 | 6,428,699 | 6,616,161 |
| Collection System | 2,477,381 | 2,600,705 | 2,707,152 | 2,685,817 | 2,694,955 | 2,879,393 | 2,988,797 | 3,001,129 | 3,048,143 | 3,179,687 |
| Administration | 3,894,575 | 3,888,000 | 3,507,602 | 3,719,330 | 3,665,749 | 3,715,358 | 4,024,325 | 3,557,429 | 3,931,198 | 4,656,945 |
| Utilities | 1,343,933 | | | | | | | | | |
| Depreciation | 5,020,833 | 5,070,470 | 4,951,552 | 4,978,938 | 5,073,118 | 5,281,504 | 5,649,147 | 5,764,369 | 5,908,134 | 6,291,982 |
| Total Operating Expenses | 16,553,754 | 16,758,501 | 16,244,204 | 16,194,812 | 16,804,714 | 17,199,070 | 18,239,192 | 18,015,513 | 19,316,174 | 20,744,775 |
| Operating Income | 4,725,879 | 4,461,022 | 5,648,580 | 5,394,834 | 6,111,775 | 5,281,816 | 3,572,239 | 4,077,912 | 7,217,767 | 7,213,290 |
| Net Nonoperating Revenues/(Expenses) | (1,903,179) | (1,555,968) | (1,029,839) | (732,694) | (960,476) | (626,073) | 556,461 | (954,809) | (1,138,325) | (1,074,183) |
| Capital Contributions | | | | | | | | 913,305 | 117,312 | 88,944 |
| Transfers In | | | | | | | | | | 10,000 |
| Transfers Out | (13,508) | (284,218) | (49,257) | (180,163) | (192,788) | | | | (1,014) | (4,400) |
| Net Income/Change in Net Assets | \$2,809,192 | \$2,620,836 | \$4,569,484 | \$4,481,977 | \$4,958,511 | \$4,655,743 | \$4,128,700 | \$4,036,408 | \$6,195,740 | \$6,233,651 |

Note: In FY 1996 the government began charging utility expenses at the division level.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NET ASSESSED VALUE
REAL, TANGIBLE, & INTANGIBLE PROPERTY
(In Thousands)

| Fiscal Year | Residential | Farms | Commercial | Oil, Mineral & Timber Rights | Tangible | Intangible | Total | Less Intangible | Total Taxable Assessed Value | Total Direct Tax Rate (Per \$100 of assessed value) |
|-------------|-------------|-----------|-------------|------------------------------|-------------|-------------|--------------|-----------------|------------------------------|---|
| 1995 | \$5,303,702 | \$294,443 | \$2,992,327 | | \$3,178,786 | \$4,185,524 | \$15,954,782 | \$4,185,524 | \$11,769,258 | 0.2965 |
| 1996 | 5,752,742 | 308,306 | 3,039,133 | | 3,269,574 | 4,138,272 | 16,508,027 | 4,138,272 | 12,369,755 | 0.2965 |
| 1997 | 6,137,094 | 325,921 | 3,123,884 | | 3,636,024 | 4,784,171 | 18,007,094 | 4,784,171 | 13,222,923 | 0.2965 |
| 1998 | 6,532,272 | 343,270 | 3,242,046 | | 3,597,853 | 2,284,417 | 15,999,859 | 2,284,417 | 13,715,442 | 0.2965 |
| 1999 | 6,920,397 | 373,289 | 3,404,515 | | 3,390,608 | 2,103,419 | 16,192,228 | 2,103,419 | 14,088,809 | 0.2965 |
| 2000 | 7,522,125 | 395,484 | 3,724,821 | 837 | 3,766,229 | 2,087,704 | 17,497,199 | 2,087,704 | 15,409,495 | 0.2965 |
| 2001 | 8,283,396 | 412,231 | 4,037,026 | 968 | 4,380,481 | 2,168,617 | 19,282,719 | 2,168,617 | 17,114,102 | 0.2955 |
| 2002 | 9,141,865 | 446,553 | 4,326,255 | | 4,213,642 | 2,073,358 | 20,201,673 | 2,073,358 | 18,128,316 | 0.2945 |
| 2003 | 9,823,997 | 465,697 | 4,543,167 | 870 | 4,303,219 | 4,208,933 | 23,345,884 | 4,208,933 | 19,136,951 | 0.2945 |
| 2004 | 10,486,256 | 545,897 | 4,695,549 | 806 | 4,397,630 | 3,183,438 | 23,309,575 | 3,183,438 | 20,126,137 | 0.2904 |

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Note: Property is assessed at 100% fair market value. Data entry problems in intangibles were corrected in Fiscal Year 1995. Financial institution deposits were moved from intangibles in 1998. Compliance issues with financial institution deposits were resolved in Fiscal Year 2003.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

| Fiscal Year | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of Levy | | Collections in Subsequent Years | Total Collections to Date | |
|-------------|----------------------------------|--|-----------|---------------------------------|---------------------------|-----------|
| | | Amount | % of Levy | | Amount | % of Levy |
| 1995 | \$23,753,354 | \$23,385,315 | 98.5% | \$463,977 | \$23,849,293 | 100.4% |
| 1996 | 24,927,855 | 24,564,405 | 98.5% | 322,324 | 24,886,728 | 99.8% |
| 1997 | 25,554,324 | 25,379,082 | 99.3% | 142,891 | 25,521,973 | 99.9% |
| 1998 | 26,940,017 | 26,993,769 | 100.2% | 244,417 | 27,238,186 | 101.1% |
| 1999 | 28,467,989 | 28,109,892 | 98.7% | 219,905 | 28,329,797 | 99.5% |
| 2000 | 31,037,271 | 30,855,685 | 99.4% | 89,107 | 30,944,792 | 99.7% |
| 2001 | 33,902,023 | 33,308,041 | 98.2% | 221,065 | 33,529,106 | 98.9% |
| 2002 | 37,350,328 | 36,419,100 | 97.5% | 241,290 | 36,660,389 | 98.2% |
| 2003 | 39,997,319 | 39,116,817 | 97.8% | 490,377 | 39,607,194 | 99.0% |
| 2004 | 41,930,263 | 40,877,962 | 97.5% | 496,473 | 41,374,436 | 98.7% |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 DIRECT AND OVERLAPPING PROPERTY TAX RATES
 LAST TEN FISCAL YEARS
 (RATE PER \$100)

| Fiscal Year | LFUCG Direct Rates | | | | | Overlapping Rates | | | | |
|----------------|--------------------|----------------|------------------|--------------------|-----------------|-----------------------------|--------------------------------|-----------------------|---------------------------------|--------|
| | General | Urban Services | | | Total Direct | Fayette County School | Commonwealth of Kentucky | Extension Services | Soil & Water Conservation | Total |
| | | Refuse | Street Lights | Street Cleaning | | | | | | |
| 1995 | 0.0810 | 0.1750 | 0.0311 | 0.0094 | 0.2965 | 0.5220 | 0.1720 | | | 0.9905 |
| 1996 | 0.0810 | 0.1750 | 0.0311 | 0.0094 | 0.2965 | 0.5270 | 0.1670 | | | 0.9905 |
| 1997 | 0.0810 | 0.1750 | 0.0311 | 0.0094 | 0.2965 | 0.5320 | 0.1630 | | | 0.9915 |
| 1998 | 0.0810 | 0.1750 | 0.0311 | 0.0094 | 0.2965 | 0.5390 | 0.1570 | | | 0.9925 |
| 1999 | 0.0810 | 0.1750 | 0.0311 | 0.0094 | 0.2965 | 0.5460 | 0.1530 | | | 0.9955 |
| 2000 | 0.0810 | 0.1750 | 0.0311 | 0.0094 | 0.2965 | 0.5400 | 0.1480 | | | 0.9845 |
| 2001 | 0.0800 | 0.1750 | 0.0311 | 0.0094 | 0.2955 | 0.5320 | 0.1410 | | | 0.9685 |
| 2002 | 0.0790 | 0.1750 | 0.0311 | 0.0094 | 0.2945 | 0.5280 | 0.1360 | | | 0.9585 |
| 2003 | 0.0790 | 0.1750 | 0.0311 | 0.0094 | 0.2945 | 0.5280 | 0.1350 | | | 0.9575 |
| 2004 | 0.0800 | 0.1750 | 0.0260 | 0.0094 | 0.2904 | 0.5330 | 0.1330 | 0.0032 | 0.0004 | 0.9600 |

Note: All taxpayers in Fayette County are subject to the General Service rate. Full Service rate is for taxpayers receiving complete urban services. Rates would be reduced for those taxpayers receiving less than full urban services.

The annual increase in real property tax revenue, excluding new assessments, must be 4% or less. Any amount over 4% is subject to a recall vote.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 PRINCIPAL PROPERTY TAX PAYERS,
 CURRENT YEAR AND NINE YEARS AGO

| Name | 2004 | | | 1995 | | |
|-----------------------------|------------------------|------|--|------------------------|------|--|
| | Taxable Assessed Value | Rank | % of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | % of Total City Taxable Assessed Value |
| Fourth Quarter Properties | \$70,956,500 | 1 | 0.35% | | | |
| Ball Homes, Inc. | 59,390,400 | 2 | 0.30% | | | |
| Lexmark International Inc. | 56,251,100 | 3 | 0.28% | \$46,333,000 | 2 | 0.39% |
| Lexington Joint Venture | 50,463,800 | 4 | 0.25% | 42,376,500 | 5 | 0.36% |
| Meijer Stores Ltd | 35,879,400 | 5 | 0.18% | | | |
| W T Young | 34,269,000 | 6 | 0.17% | | | |
| Griffin Gate Assoc. | 26,700,000 | 7 | 0.13% | 24,242,000 | 8 | 0.21% |
| MCV Venture | 26,500,000 | 8 | 0.13% | 27,675,000 | 6 | 0.24% |
| Wal Mart Real Estate | 26,175,400 | 9 | 0.13% | 22,527,500 | 10 | 0.19% |
| Bluegrass Building Partners | 25,100,000 | 10 | 0.12% | | | |
| IBM Information Products | | | | 118,532,400 | 1 | 1.01% |
| Bank One | | | | 44,959,260 | 3 | 0.38% |
| Lexington Financial | | | | 37,300,000 | 4 | 0.32% |
| Humco, Inc. | | | | 24,771,200 | 7 | 0.21% |
| Good Samaritan Hospital | | | | 24,103,400 | 9 | 0.20% |
| Total | <u>\$411,685,600</u> | | <u>2.05%</u> | <u>\$412,820,260</u> | | <u>3.51%</u> |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 DIRECT AND OVERLAPPING
 LICENSE FEE RATES
 LAST TEN FISCAL YEARS

| Fiscal Year | LFUCG Direct Rate | Fayette County School | Total |
|----------------|----------------------|--------------------------|-------|
| 1995 | 2.50% | 0.50% | 3.00% |
| 1996 | 2.25% | 0.50% | 2.75% |
| 1997 | 2.25% | 0.50% | 2.75% |
| 1998 | 2.25% | 0.50% | 2.75% |
| 1999 | 2.25% | 0.50% | 2.75% |
| 2000 | 2.25% | 0.50% | 2.75% |
| 2001 | 2.25% | 0.50% | 2.75% |
| 2002 | 2.25% | 0.50% | 2.75% |
| 2003 | 2.25% | 0.50% | 2.75% |
| 2004 | 2.25% | 0.50% | 2.75% |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
TEN MAJOR OCCUPATIONAL WITHHOLDERS
CURRENT YEAR AND NINE YEARS AGO

| <u>Name</u> | <u>2004 Rank</u> | <u>1995 Rank</u> |
|---|------------------|------------------|
| University of Kentucky | 1 | 1 |
| Lexmark International | 2 | 2 |
| Fayette County Board of Education | 3 | 3 |
| Lexington-Fayette Urban County Government | 4 | 4 |
| St. Joseph Hospital | 5 | 8 |
| Baptist Healthcare | 6 | 7 |
| IBM Corporation | 7 | |
| Commonwealth of Kentucky | 8 | 6 |
| Department of Veterans Affairs | 9 | 5 |
| Ashland Oil, Inc. | 10 | 10 |
| Square D Company | | 9 |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

| Fiscal Year | Governmental Activities | | | Business-type Activities | | | Total Primary Government | % of Personal Income | Primary Government Debt Per Capita |
|-------------|---|------------------------|-----------------------------|--------------------------|------------------------|---------------------|--------------------------|----------------------|------------------------------------|
| | General Obligation Bonds, Notes, Leases | Mortgage Revenue Bonds | Lease Revenue Notes Payable | Revenue Bonds | Mortgage Revenue Bonds | Lease Revenue Notes | | | |
| 1995 | | \$11,065,000 | | \$49,002,790 | \$55,695,000 | \$9,971,818 | \$125,734,608 | 2% | \$512 |
| 1996 | | 9,855,000 | | 46,868,589 | 56,900,000 | 9,659,311 | 123,282,900 | 2% | 496 |
| 1997 | | 8,270,000 | 4,085,309 | 45,564,614 | 53,430,000 | 8,765,000 | 120,114,923 | 2% | 478 |
| 1998 | | 6,875,000 | 3,734,002 | 43,065,446 | 50,650,000 | 11,555,000 | 115,879,448 | 2% | 454 |
| 1999 | 67,115,000 | 5,410,000 | 3,231,725 | 40,470,755 | 116,075,000 | 11,470,000 | 243,772,480 | 3% | 942 |
| 2000 | 89,530,000 | 3,870,000 | 2,836,238 | 37,750,286 | 112,125,000 | 6,190,000 | 252,301,524 | 3% | 967 |
| 2001 | 108,430,000 | 2,255,000 | 2,419,811 | 59,578,753 | 108,010,000 | 2,280,000 | 282,973,564 | 3% | 1,078 |
| 2002 | 117,900,000 | 885,000 | 1,991,244 | 56,710,531 | 103,730,000 | | 281,216,775 | 3% | 1,067 |
| 2003 | 119,795,000 | 285,000 | 1,543,585 | 53,375,000 | 98,320,000 | | 273,318,585 | na | 1,024 |
| 2004 | 136,560,000 | | 434,255 | 50,040,000 | 73,940,000 | | 260,974,255 | na | na |

Note: Details regarding LFUCG outstanding debt can be found in the notes to the financial statements of the 2004 Comprehensive Annual Financial Report.
See page B-23 for personal income and population data.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 RATIOS OF GENERAL BONDED DEBT OUTSTANDING
 LAST SIX FISCAL YEARS

| Fiscal Year | General Obligation Bonds | % of Assessed Value of Property | Per Capita |
|----------------|-----------------------------|------------------------------------|------------|
| 1999 | \$67,115,000 | 0.48% | \$259 |
| 2000 | 89,530,000 | 0.58% | 343 |
| 2001 | 108,430,000 | 0.63% | 413 |
| 2002 | 117,900,000 | 0.65% | 447 |
| 2003 | 119,795,000 | 0.63% | 449 |
| 2004 | 136,560,000 | 0.68% | na |

Note: Details regarding LFUCG outstanding debt can be found in the notes to the financial statements.

General obligation debt was not issued prior to fiscal year 1999.

See page B-12 for property value data and page B-23 for population data.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SCHEDULE OF DIRECT AND OVERLAPPING INDEBTEDNESS
AS OF JUNE 30, 2004

| | Principal Outstanding |
|---|--------------------------|
| Kentucky Infrastructure, City of Lexington, and Lexington-Fayette Urban County Government Sewer Assessment Bonds | \$250,000 |
| Lexington Center Corporation | |
| Refunding and Improvement Mortgage Revenue Bonds, Series 1993 | 11,233,419 |
| Mortgage Revenue Bonds, Series 2001 | 20,000,000 |
| Refunding Bonds, Series 2003 | 8,530,000 |
| Lexington-Fayette Urban County Government Airport Corporation | |
| First Mortgage Revenue Bonds, Series 1994 | 2,300,000 |
| First Mortgage Revenue Bonds, Series 1998 | 17,900,000 |
| First Mortgage Revenue Bonds, Series 2003 | 29,050,000 |
| Note Payable | 656,500 |
| Fayette County School & Kentucky School Commission Bonds | 140,190,000 |
| Subtotal, Overlapping Debt | 230,109,919 |
| LFUCG, Direct Debt | 260,974,255 |
| Total Direct and Overlapping Indebtedness | \$491,084,174 |

Note In addition, the Urban County Government is contingently liable for 37 1/2% of the debt service on the outstanding principal amount of the Kentucky State Property and Buildings Commission Economic Development Revenue Bonds, Project No. 30 relating to the Vine Center Parking Garage Sub-Project.

Industrial Revenue Bonds, Industrial Development Bonds, Multi-Family and Single Family Housing Bonds are not included in this schedule of overlapping debt as they are not secured by the full faith and credit of Lexington-Fayette Urban County Government.

The following issue has been defeased:

| | Amount |
|---|-------------|
| Lexington-Fayette Urban County Government Airport Corporation Bonds | \$1,250,000 |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (In Thousands)

| | Fiscal Year | | | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Assessed Value | \$15,954,782 | \$16,508,027 | \$18,007,094 | \$15,999,859 | \$16,192,228 | \$17,497,199 | \$19,282,719 | \$20,201,673 | \$23,345,884 | \$23,309,575 |
| Debt limit (10% of Assessed Value) | \$1,595,478 | \$1,650,803 | \$1,800,709 | \$1,599,986 | \$1,619,223 | \$1,749,720 | \$1,928,272 | \$2,020,167 | \$2,334,588 | \$2,330,958 |
| Total net debt applicable to limit | | | | | 188,916 | 201,302 | 190,933 | 190,533 | 187,635 | 187,350 |
| Legal debt margin | \$1,595,478 | \$1,650,803 | \$1,800,709 | \$1,599,986 | \$1,430,307 | \$1,548,418 | \$1,737,339 | \$1,829,634 | \$2,146,953 | \$2,143,608 |
| Total net debt applicable to the limit as a percentage of debt limit | 0.00% | 0.00% | 0.00% | 0.00% | 11.67% | 11.50% | 9.90% | 9.43% | 8.04% | 8.04% |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(In Thousands)

| Fiscal Year | Sanitary Sewer System | | | | | | Public Facilities Corporation | | | | | | Detention Center Corporation | | | |
|-------------|-----------------------|--------------------------|-----------------------|--------------|----------|----------|-------------------------------|--------------------------|-----------------------|--------------|----------|----------|------------------------------|--------------|----------|----------|
| | Gross Revenue | Less: Operating Expenses | Net Available Revenue | Debt Service | | | Gross Revenue | Less: Operating Expenses | Net Available Revenue | Debt Service | | | Gross Revenue | Debt Service | | |
| | | | | Principal | Interest | Coverage | | | | Principal | Interest | Coverage | | Principal | Interest | Coverage |
| 1995 | \$22,419 | \$11,533 | \$10,886 | \$1,993 | \$2,963 | 2.20 | \$9,303 | \$616 | \$8,687 | \$2,375 | \$2,120 | 1.93 | \$872 | \$585 | \$272 | 1.02 |
| 1996 | 22,622 | 11,688 | 10,934 | 2,074 | 2,876 | 2.21 | 9,138 | 518 | 8,620 | 2,465 | 2,016 | 1.92 | 874 | 605 | 243 | 1.03 |
| 1997 | 23,488 | 11,293 | 12,195 | 1,304 | 2,124 | 3.56 | 11,887 | 683 | 11,204 | 2,710 | 2,124 | 2.32 | 1,006 | 635 | 212 | 1.19 |
| 1998 | 23,352 | 11,216 | 12,136 | 2,499 | 2,338 | 2.51 | 11,730 | 778 | 10,952 | 2,820 | 2,004 | 2.27 | 1,043 | 670 | 180 | 1.23 |
| 1999 | 24,305 | 11,732 | 12,573 | 2,595 | 2,230 | 2.61 | 11,381 | 855 | 10,526 | 2,950 | 1,880 | 2.18 | 1,073 | 710 | 145 | 1.25 |
| 2000 | 24,129 | 11,918 | 12,211 | 2,720 | 2,115 | 2.53 | 12,320 | 1,106 | 11,214 | 3,230 | 2,195 | 2.07 | 1,070 | 760 | 108 | 1.23 |
| 2001 | 23,668 | 12,590 | 11,078 | 2,842 | 1,993 | 2.29 | 10,210 | 1,024 | 9,186 | 3,360 | 2,053 | 1.70 | 896 | 745 | 70 | 1.10 |
| 2002 | 23,343 | 12,251 | 11,092 | 2,868 | 1,989 | 2.28 | 11,021 | 1,840 | 9,181 | 3,505 | 3,407 | 1.33 | 612 | 495 | 37 | 1.15 |
| 2003 | 27,196 | 13,408 | 13,788 | 3,336 | 2,725 | 2.27 | 11,183 | 2,328 | 8,855 | 4,580 | 4,733 | 0.95 | 483 | 270 | 19 | 1.67 |
| 2004 | 28,428 | 14,453 | 13,975 | 3,335 | 2,570 | 2.37 | 11,504 | 2,474 | 9,030 | 4,760 | 4,530 | 0.97 | 33 | 285 | 6 | 0.11 |

| Fiscal Year | Public Parking Corporation | | | | | | Special Assessment Bonds | | | |
|-------------|----------------------------|--------------------------|-----------------------|--------------|----------|----------|--------------------------------|--------------|----------|----------|
| | Gross Revenue | Less: Operating Expenses | Net Available Revenue | Debt Service | | | Special Assessment Collections | Debt Service | | |
| | | | | Principal | Interest | Coverage | | Principal | Interest | Coverage |
| 1995 | \$1,423 | \$268 | \$1,155 | \$500 | \$643 | 1.01 | \$1,247 | \$871 | \$542 | 0.88 |
| 1996 | 1,457 | 282 | 1,175 | 520 | 618 | 1.03 | 1,266 | 970 | 428 | 0.91 |
| 1997 | 1,408 | 289 | 1,119 | 545 | 591 | 0.99 | 1,020 | 1,088 | 244 | 0.77 |
| 1998 | 1,498 | 288 | 1,210 | 565 | 562 | 1.07 | 592 | 1,134 | 185 | 0.45 |
| 1999 | 1,345 | 327 | 1,018 | 745 | 358 | 0.92 | 397 | 824 | 131 | 0.42 |
| 2000 | 1,396 | 315 | 1,081 | 720 | 368 | 0.99 | 336 | 446 | 92 | 0.62 |
| 2001 | 1,496 | 322 | 1,174 | 755 | 337 | 1.08 | 198 | 335 | 72 | 0.49 |
| 2002 | 1,298 | 317 | 981 | 775 | 303 | 0.91 | 49 | 355 | 56 | 0.12 |
| 2003 | 1,447 | 335 | 1,112 | 830 | 268 | 1.01 | 49 | 555 | 39 | 0.08 |
| 2004 | 1,563 | 306 | 1,257 | 860 | 229 | 1.15 | 46 | 45 | 14 | 0.78 |

Note: Details regarding LFUCG outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

A reserve equal to the following year's debt service payment is maintained at all times for the special assessment bond debt. In addition, excess reserves maintained by another organization were used to pay debt service during the reporting periods.

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

| Fiscal Year | Population | Personal Income (Thousands) | Per Capita Personal Income | Civilian Labor Force | | |
|-------------|------------|--------------------------------|-------------------------------|----------------------|------------|----------------------|
| | | | | Employed | Unemployed | Unemployment Rate |
| 1994 | 243,602 | \$5,698,868 | \$23,394 | 128,470 | 4,343 | 3.3% |
| 1995 | 245,579 | 6,087,635 | 24,789 | 131,104 | 3,522 | 2.6% |
| 1996 | 248,683 | 6,457,518 | 25,967 | 131,621 | 3,358 | 2.5% |
| 1997 | 251,066 | 6,717,311 | 26,755 | 136,348 | 3,474 | 2.5% |
| 1998 | 255,017 | 7,288,898 | 28,582 | 138,817 | 2,883 | 2.0% |
| 1999 | 258,704 | 7,683,140 | 29,699 | 142,278 | 2,838 | 2.0% |
| 2000 | 260,961 | 8,135,408 | 31,175 | 145,239 | 2,667 | 1.8% |
| 2001 | 262,610 | 8,401,101 | 31,991 | 137,931 | 4,123 | 2.9% |
| 2002 | 263,609 | 8,681,237 | 32,932 | 134,319 | 4,771 | 3.5% |
| 2003 | 266,798 | n/a | n/a | 135,676 | 5,394 | 3.8% |

Source: The Bureau of Economic Analysis

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 EMPLOYMENT BY INDUSTRY, FAYETTE COUNTY
 Based on 1987 Standard Industrial Classification

| Year | Agricultural | | Mining | Construction | Manufacturing | Transportation & Public Utilities | Wholesale Trade | Retail Trade | Finance, Insurance and Real Estate | Services | Government and Government Enterprises | Total Employment by Place of Work |
|------|--------------|---------|--------|--------------|---------------|--------------------------------------|--------------------|--------------|--|----------|--|---|
| | Farm | Service | | | | | | | | | | |
| 1993 | 2,091 | 3,068 | 288 | 10,238 | 17,822 | 7,585 | 7,676 | 33,814 | 11,566 | 54,381 | 31,791 | 180,320 |
| 1994 | 1,802 | 3,183 | 302 | 9,846 | 18,654 | 8,371 | 7,687 | 34,439 | 10,337 | 55,571 | 31,660 | 181,852 |
| 1995 | 1,947 | 3,264 | 313 | 10,157 | 18,565 | 8,632 | 8,176 | 35,598 | 12,069 | 57,929 | 32,513 | 189,163 |
| 1996 | 1,779 | 3,484 | 300 | 10,704 | 18,681 | 8,673 | 8,910 | 35,621 | 12,637 | 61,147 | 32,797 | 194,733 |
| 1997 | 1,984 | 3,759 | 396 | 11,547 | 18,894 | 8,839 | 9,184 | 36,281 | 12,404 | 62,323 | 32,240 | 197,851 |
| 1998 | 1,793 | 3,949 | 392 | 11,900 | 19,301 | 9,211 | 9,331 | 36,650 | 12,455 | 63,440 | 32,605 | 201,027 |
| 1999 | 1,831 | 4,327 | 312 | 12,687 | 19,417 | 9,235 | 9,215 | 37,534 | 12,481 | 65,535 | 33,326 | 205,900 |
| 2000 | 1,805 | 4,506 | 308 | 13,076 | 19,142 | 9,225 | 9,177 | 38,238 | 12,768 | 66,775 | 35,434 | 210,454 |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 EMPLOYMENT BY INDUSTRY, FAYETTE COUNTY
 Based on 2002 North American Industry Standard

| Year | Farm | Forestry, Fishing and Related Activities | Mining | Construction | Manufacturing | Wholesale Trade, Transportation and Utilities | Information | Retail Trade | Finance, Insurance and Real Estate | Services | Government and Government Enterprises | Total Employment by Place of Work |
|------|-------|---|--------|--------------|---------------|---|-------------|--------------|--|----------|--|---|
| | | | | | | | | | | | | |
| 2002 | 1,780 | 2,961 | 331 | 11,757 | 14,994 | 12,749 | 5,134 | 23,870 | 14,024 | 80,924 | 34,552 | 203,076 |

Source: The Bureau of Economic Analysis

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
U.S. CENSUS BUREAU STATISTICS

| | 1980 Census | | 1990 Census | | 2000 Census | |
|---|----------------|--------|----------------|--------|----------------|--------|
| | Value | % | Value | % | Value | % |
| Population and Number of Households | | | | | | |
| Population | | | | | | |
| Under 18 years | 51,617 | 25.3% | 50,416 | 22.4% | 55,533 | 21.3% |
| 18 - 64 years | 135,046 | 66.1% | 152,638 | 67.7% | 178,805 | 68.6% |
| 65 years and over | 17,502 | 8.6% | 22,312 | 9.9% | 26,174 | 10.0% |
| Total | <u>204,165</u> | 100.0% | <u>225,366</u> | 100.0% | <u>260,512</u> | 100.0% |
| Number of Households | 75,303 | | 89,529 | | 108,288 | |
| Economic and Education | | | | | | |
| Family Income | | | | | | |
| Less than \$10,000 | 10,321 | 20.3% | 5,979 | 10.5% | 3,587 | 5.6% |
| \$10,000 - \$24,999 | 22,256 | 43.7% | 12,365 | 21.7% | 8,947 | 14.1% |
| \$25,000 - \$49,999 | 15,387 | 30.2% | 20,889 | 36.7% | 17,124 | 26.9% |
| \$50,000 - \$74,999 | 1,923 | 3.8% | 10,790 | 19.0% | 14,759 | 23.2% |
| \$75,000 or more | 1,006 | 2.0% | 6,850 | 12.0% | 19,231 | 30.2% |
| Total Families | <u>50,893</u> | 100.0% | <u>56,873</u> | 100.0% | <u>63,648</u> | 100.0% |
| Median Family Income | \$19,821 | | \$35,936 | | \$53,264 | |
| Mean Family Income | \$23,223 | | \$44,467 | | \$52,261 | |
| Per Capita Income | \$9,547 | | \$20,355 | | \$23,109 | |
| School Enrollment | | | | | | |
| Elementary/Secondary | 36,407 | | 32,858 | | 36,938 | |
| College | 23,578 | | 28,339 | | 31,508 | |
| Education for Individuals 25+ years of age | | | | | | |
| Less than 9th grade | 18,264 | 15.9% | 11,760 | 8.3% | 8,539 | 5.1% |
| High School, No Diploma | 14,434 | 12.5% | 16,365 | 11.5% | 15,213 | 9.1% |
| High School Graduate | 32,495 | 28.2% | 33,238 | 23.4% | 37,448 | 22.4% |
| College 1 - 3 years | 20,438 | 17.8% | 37,299 | 26.2% | 46,420 | 27.8% |
| College 4 or more years | 29,424 | 25.6% | 43,454 | 30.6% | 59,615 | 35.6% |
| Total | <u>115,055</u> | 100.0% | <u>142,116</u> | 100.0% | <u>167,235</u> | 100.0% |
| Unemployment Rate | 4.7% | | 3.7% | | 1.8% | |

Source: U.S. Census Bureau

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 LFUCG EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS
 (Excluding Temporary, Seasonal, and Part-Time Employees)

| Function/Program | Employees as of the Last Pay Period of Fiscal Year | | | | | | | | | |
|-----------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Administrative Services | 126 | 130 | 145 | 141 | 134 | 147 | 149 | 145 | 150 | 140 |
| General Government | 73 | 73 | 81 | 84 | 86 | 88 | 89 | 96 | 94 | 67 |
| Finance | 67 | 74 | 81 | 81 | 90 | 86 | 91 | 99 | 100 | 94 |
| General Services | | | | | | | | | | |
| Parks and Recreation | 136 | 139 | 143 | 141 | 137 | 156 | 161 | 166 | 169 | 172 |
| Other | 169 | 159 | 158 | 171 | 168 | 169 | 167 | 166 | 169 | 157 |
| Law | 14 | 14 | 16 | 17 | 17 | 18 | 19 | 19 | 20 | 19 |
| Public Safety | | | | | | | | | | |
| Fire and Emergency Services | | | | | | | | | | |
| Firefighters and officers | 410 | 412 | 428 | 432 | 441 | 461 | 472 | 477 | 473 | 464 |
| Civilians | 32 | 34 | 32 | 32 | 33 | 40 | 40 | 42 | 40 | 38 |
| Police | | | | | | | | | | |
| Officers | 390 | 396 | 408 | 439 | 428 | 451 | 459 | 488 | 469 | 471 |
| Civilians | 143 | 148 | 147 | 144 | 161 | 172 | 189 | 153 | 162 | 192 |
| Community Corrections | 152 | 196 | 200 | 209 | 236 | 300 | 336 | 342 | 347 | 371 |
| Other | 41 | 42 | 44 | 44 | 52 | 57 | 65 | 69 | 71 | 72 |
| Public Works | | | | | | | | | | |
| Solid Waste | 212 | 196 | 189 | 188 | 210 | 220 | 228 | 225 | 238 | 236 |
| Sanitary Sewers | 159 | 145 | 138 | 118 | 114 | 113 | 121 | 119 | 121 | 129 |
| Other | 124 | 132 | 138 | 156 | 166 | 165 | 167 | 176 | 173 | 168 |
| Social Services | 172 | 177 | 179 | 143 | 149 | 158 | 150 | 147 | 156 | 163 |
| | <u>2,420</u> | <u>2,467</u> | <u>2,527</u> | <u>2,540</u> | <u>2,622</u> | <u>2,801</u> | <u>2,903</u> | <u>2,929</u> | <u>2,952</u> | <u>2,953</u> |

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

| Function/Program | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Fire and Emergency Services | | | | | | | | | | |
| Emergency Medical Calls | 21,122 | 20,856 | 21,333 | 22,589 | 23,134 | 24,102 | 24,743 | 25,901 | 28,345 | 27,750 |
| False Calls | 2,087 | 2,179 | 2,368 | 2,389 | 2,380 | 2,644 | 2,827 | 2,806 | 3,082 | 2,721 |
| Fire Incidents | 2,842 | 3,752 | 1,264 | 1,278 | 1,430 | 1,538 | 1,331 | 1,182 | 1,366 | 1,356 |
| Hazardous Materials Calls | 990 | 1,056 | 1,229 | 1,032 | 893 | 956 | 942 | 1,352 | 1,484 | 1,115 |
| Service Calls | 855 | 634 | 1,293 | 1,047 | 1,126 | 1,096 | 1,211 | 1,201 | 1,065 | 985 |
| Police | | | | | | | | | | |
| Physical Arrests ** | 14,417 | 19,326 | 19,805 | 20,020 | 20,090 | 21,125 | 19,605 | 19,747 | 19,835 | 22,422 |
| Parking Violations ** | 33,296 | 26,407 | 26,471 | 32,435 | 34,798 | 36,403 | 36,404 | 25,247 | 18,185 | 16,325 |
| Traffic Violations ** | 56,475 | 63,199 | 72,263 | 70,157 | 73,486 | 73,298 | 62,141 | 59,059 | 57,351 | 67,115 |
| Parks and Recreation | | | | | | | | | | |
| Rounds of Golf | 182,353 | 175,813 | 192,671 | 191,076 | 186,292 | 179,367 | 172,964 | 177,604 | 160,958 | 159,505 |
| Pool Visits | 197,949 | 206,202 | 167,122 | 300,208 | 283,589 | 288,208 | 225,522 | 233,689 | 209,408 | 180,417 |
| Building Inspection | | | | | | | | | | |
| Permits Issued * | na | 10,456 | 10,833 | 10,715 | 12,112 | 12,699 | 11,768 | 12,533 | 19,172 | 19,875 |
| Inspections | na | na | na | 23,500 | 26,844 | 25,562 | 28,406 | 28,574 | 32,869 | 36,937 |
| Sanitary Sewers | | | | | | | | | | |
| Tap-on Inspections ** | 1,941 | 1,688 | 1,782 | 2,127 | 1,845 | 2,140 | 1,955 | 1,955 | 2,025 | 2,212 |
| Average daily sewage treatment (mgd) ** | 42 | 38 | 39 | 36 | 36 | 33 | 36 | 40 | 43 | 48 |
| Solid Waste | | | | | | | | | | |
| Annual tons of refuse collected | na | na | na | na | na | na | 150,622 | 154,178 | 157,121 | 157,618 |
| Annual tons of recyclables collected | na | na | na | na | na | na | na | 5,568 | 6,825 | 10,412 |
| Other Public Works | | | | | | | | | | |
| Street Resurfacing (miles) | 7 | 21 | 20 | 28 | 25 | 31 | 25 | 21 | 19 | 21 |

* Increase in FY 2003 was due to the February 2003 ice storm event and the addition of a new mechanical permitting program.

** Calendar Year

Source: Department of Finance, Lexington-Fayette Urban County Government

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS

| Function/Program | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Fire and Emergency Services | | | | | | | | | | |
| Number of Fire Stations | 18 | 18 | 18 | 19 | 19 | 19 | 21 | 21 | 21 | 21 |
| Number of Engines | 18 | 18 | 18 | 19 | 19 | 19 | 21 | 21 | 21 | 21 |
| Number of Aerials | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Number of EC Units | 6 | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 7 | 7 |
| Number of Haz-Mat Units | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Police | | | | | | | | | | |
| Stations | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 |
| Patrol Units | na | na | na | na | na | na | na | na | na | 518 |
| Parks and Recreation | | | | | | | | | | |
| Acres of Parks | na | na | na | 3,972 | 4,003 | 4,207 | 4,186 | 4,206 | 4,263 | 4,263 |
| Number of Golf Courses | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 |
| Number of Swimming Pools | 13 | 14 | 14 | 14 | 14 | 12 | 13 | 12 | 10 | 8 |
| Sanitary Sewers | | | | | | | | | | |
| Treatment Capacity (mgd) | 52 | 52 | 52 | 52 | 52 | 52 | 52 | 64 | 64 | 64 |
| Solid Waste | | | | | | | | | | |
| Collection Trucks | na | na | na | na | na | na | na | na | na | 117 |
| Other Public Works | | | | | | | | | | |
| Streets (miles) | na | na | na | na | na | na | na | na | na | 1,516 |
| Acres in County | 182,762 | 182,762 | 182,762 | 182,762 | 182,762 | 182,762 | 182,762 | 182,762 | 182,762 | 182,762 |
| Acres in Urban Services Area | 49,288 | 49,288 | 49,288 | 54,618 | 54,618 | 54,618 | 54,618 | 54,618 | 54,618 | 54,618 |
| Traffic Signals | na | na | na | 308 | 308 | 316 | 325 | 330 | 344 | 340 |

Source: Department of Finance, Lexington-Fayette Urban County Government

APPENDIX C

**AUDITED FINANCIAL STATEMENTS OF THE
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Carpenter, Mountjoy & Bressler

Certified Public Accountants and Advisors

Report of Independent Accountants

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Lexington-Fayette Urban County Government (the Government) as of and for the year ended June 30, 2004, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lexington Transit Authority, Lexington Airport Board, Lexington Public Library, Fayette County Health Department, the Lexington Convention and Visitors Bureau, and the Lexington Center Corporation which represent 99 percent of the assets and revenues as of and for the year ended June 30, 2004 of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lexington Transit Authority, Lexington Airport Board, Lexington Public Library, Fayette County Health Department, the Lexington Convention and Visitors Bureau, and the Lexington Center Corporation is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government as of June 30, 2004, 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 November 5, 2004 on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 15 through 25 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 Government's basic financial statements. The introductory section on pages 1 through 12, combining and individual funds statements and schedules on pages 97 through 130, and the statistical section on pages 131 through 154 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 105 through 108 is presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is also not a required part of the basic financial statements of the Government. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is 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 by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Carpenter, Mountjoy & Brussler, P.C.

November 5, 2004

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
June 30, 2004

| | Primary Government | | | Component Units |
|--|------------------------------------|-------------------------------------|----------------------|----------------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| ASSETS | | | | |
| Cash | \$11,697,247 | \$7,926,991 | \$19,624,238 | \$5,708,882 |
| Investments | 49,100,703 | 31,145,368 | 80,246,071 | 8,168,302 |
| Receivables (net) | 17,166,306 | 4,725,094 | 21,891,400 | 4,121,394 |
| Due from Other Governments | 7,712,843 | | 7,712,843 | 509,923 |
| Due from Component Units | 339,844 | | 339,844 | 172,157 |
| Internal Balances | (561,740) | 561,740 | 0 | |
| Due from Pension Trust Fund | 80 | | 80 | |
| Due from Primary Government | | | 0 | 885,170 |
| Inventories | 695,941 | 7,832 | 703,773 | 342,692 |
| Prepaid Items | 259,507 | 2,616,635 | 2,876,142 | 2,340,185 |
| Pension Assets | | | 0 | 209,261 |
| Restricted Assets: | | | | |
| Investments | 9,355,515 | 31,640,159 | 40,995,674 | 39,908,243 |
| Other | | | 0 | 526,460 |
| Capital Assets: | | | | |
| Non-depreciable | 85,967,513 | 49,813,672 | 135,781,185 | 36,744,247 |
| Depreciable (Net) | 151,429,185 | 304,529,705 | 455,958,890 | 141,287,170 |
| Other Assets | | | 0 | 593,778 |
| Total Assets | 333,162,944 | 432,967,196 | 766,130,140 | 241,517,864 |
| LIABILITIES | | | | |
| Accounts, Contracts Payable and Accrued Liabilities | 14,639,648 | 2,041,325 | 16,680,973 | 5,495,031 |
| Interest Payable | 1,128,639 | 944,730 | 2,073,369 | 78,205 |
| Due to Component Units | 885,170 | | 885,170 | 172,157 |
| Due to Pension Trust Fund | 537,521 | | 537,521 | |
| Due to Agency Fund | 72 | | 72 | |
| Due to Primary Government | | | 0 | 339,844 |
| Deferred Revenue and Other | 2,295,038 | 654,244 | 2,949,282 | 721,319 |
| Claims Liabilities | 18,187,788 | | 18,187,788 | |
| Liabilities Payable from Restricted Assets: | | | | |
| Accounts, Contracts and Retainage Payable | 713,885 | 620,557 | 1,334,442 | 3,065,850 |
| Bonds and Notes Payable | | 3,480,000 | 3,480,000 | 856,928 |
| Interest Payable | | 1,247,103 | 1,247,103 | 58,510 |
| Non-Current Liabilities: | | | | |
| Due Within One Year: | | | | |
| Bonds and Notes Payable | 14,156,566 | 2,260,000 | 16,416,566 | 2,727,369 |
| Compensated Absences | 2,545,485 | 235,420 | 2,780,905 | 67,925 |
| Capital Lease Obligations | | | | 5,018 |
| Landfill Closure and Postclosure Care Costs | | 14,505,601 | 14,505,601 | |
| Due in More Than One Year: | | | | |
| Deferred Revenue and Other | | 148,231 | 148,231 | |
| Bonds and Notes Payable | 122,837,689 | 118,240,000 | 241,077,689 | 85,924,537 |
| Compensated Absences | 11,711,123 | 508,893 | 12,220,016 | 893,838 |
| Capital Lease Obligations | | | | 27,581 |
| Landfill Closure and Postclosure Care Costs | | 11,442,389 | 11,442,389 | |
| Unfunded Pension Liability | 18,190,102 | | 18,190,102 | |
| Total Liabilities | \$207,828,726 | \$156,328,493 | \$364,157,219 | \$100,434,112 |

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

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| NET ASSETS | | | | |
| Investment in Capital Assets, net of related debt | \$108,187,766 | \$245,267,827 | \$353,455,593 | \$118,316,136 |
| Restricted for: | | | | |
| Capital Projects | 924,078 | 17,993,954 | 18,918,032 | 1,995,987 |
| Debt Service | | 6,972,429 | 6,972,429 | 5,416,295 |
| Depreciation | | 2,508,341 | 2,508,341 | |
| Pension | | | 0 | 209,261 |
| Endowments | | | 0 | 100,000 |
| Grants | 329,493 | | 329,493 | |
| Maintenance and Operations | | 4,100,470 | 4,100,470 | |
| Unrestricted (deficit) | 15,892,881 | (204,318) | 15,688,563 | 15,046,073 |
| Total Net Assets | \$125,334,218 | \$276,638,703 | \$401,972,921 | \$141,083,752 |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

| Function/Program Activities | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | | Component Units |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|-------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-type Activities | Total | |
| Primary Government: | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General Government | \$21,293,008 | \$3,383,069 | \$16,212,203 | | (\$1,697,736) | | | (\$1,697,736) |
| Administrative Services | 18,938,746 | 746,384 | 1,718,616 | 7,809,024 | (8,664,722) | | | (8,664,722) |
| Health, Dental and Vision Insurance | 10,592,090 | 10,148,627 | | | (443,463) | | | (443,463) |
| Finance | 6,876,648 | 629,439 | | | (6,247,209) | | | (6,247,209) |
| Public Works | 33,960,939 | 899,497 | 4,784,382 | 4,058,755 | (24,218,305) | | | (24,218,305) |
| Public Safety | 7,232,363 | 1,752,766 | 679,536 | | 28,823 | | | (4,771,238) |
| Police | 42,794,170 | 692,581 | 2,608,334 | 747,571 | (38,745,684) | | | (38,745,684) |
| Fire and Emergency Services | 36,841,543 | 2,980,863 | 1,815,986 | 47,927 | (31,996,767) | | | (31,996,767) |
| Community Corrections | 24,478,660 | 6,544,650 | | | (17,934,010) | | | (17,934,010) |
| Social Services | 9,070,442 | 112,173 | 5,110,351 | 275,716 | (3,572,202) | | | (3,572,202) |
| General Services | 16,242,299 | 56,220 | 69,369 | | (16,116,710) | | | (16,116,710) |
| Parks and Recreation | 13,380,436 | 4,149,041 | 102,621 | 288,427 | (8,840,347) | | | (8,840,347) |
| Law | 1,642,220 | 5,079 | | | (1,637,141) | | | (1,637,141) |
| Outside Agencies | 27,718,643 | 913,465 | | | (26,805,178) | | | (26,805,178) |
| Interest on Long-Term Debt | 5,739,105 | | | | (5,739,105) | | | (5,739,105) |
| Debt Service - Other | 6,444,538 | 985,661 | | | (5,458,877) | | | (5,458,877) |
| Total governmental activities | 283,245,850 | 33,999,515 | 33,101,398 | 13,256,243 | (202,888,694) | 0 | | (202,888,694) |
| Business-type Activities: | | | | | | | | |
| Sanitary Sewer System | 22,347,738 | 27,958,065 | 88,944 | | | 5,699,271 | | 5,699,271 |
| Public Facilities | 13,500,561 | 11,472,376 | 36,800 | | | (1,991,385) | | (1,991,385) |
| Public Parking | 941,821 | 1,556,837 | | | | 615,016 | | 615,016 |
| Landfill | 5,423,413 | 8,018,625 | | | | 2,595,212 | | 2,595,212 |
| Right of Way | 261,494 | 286,412 | | | | 24,918 | | 24,918 |
| Extended School Program | 1,387,203 | 1,433,095 | | | | 45,892 | | 45,892 |
| Prisoners' Account System | 1,360,709 | 1,304,494 | | | | (56,215) | | (56,215) |
| Enhanced 911 | 2,300,114 | 2,224,403 | | | | (75,711) | | (75,711) |
| LexVan Program | 17,545 | 162,249 | | | | 144,704 | | 144,704 |
| Small Business Development | 108,343 | 4,456 | | | | (103,887) | | (103,887) |
| Total business-type activities | 47,648,941 | 54,421,012 | 125,744 | 0 | 0 | 6,897,815 | | 6,897,815 |
| Total primary government | \$330,894,791 | \$88,420,527 | \$33,227,142 | \$13,256,243 | (202,888,694) | 6,897,815 | | (195,990,879) |

Component Units:

| | | | | | | | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|----------|----------|--------------------|
| Lexington Center Corporation | \$14,302,905 | \$9,203,359 | \$948,000 | \$15,265,045 | | | \$11,113,499 |
| Lexington Airport Board | 12,773,415 | 13,164,405 | | 4,650,891 | | | 5,041,881 |
| Fayette County Department of Health | 20,901,114 | 5,850,274 | 9,571,192 | | | | (5,479,648) |
| Nonmajor component units | 27,023,645 | 2,287,317 | 5,681,142 | 4,062,026 | | | (14,993,160) |
| Total component units | <u>\$75,001,079</u> | <u>\$30,505,355</u> | <u>\$16,200,334</u> | <u>\$23,977,962</u> | <u>0</u> | <u>0</u> | <u>(4,317,428)</u> |

General Revenues:

| | | | | | | | |
|---|--|--|----------------------|----------------------|--|----------------------|----------------------|
| Property Taxes | | | 41,964,425 | | | 41,964,425 | 6,019,517 |
| Licenses Fees - Wages and Net Profits Taxes | | | 178,942,755 | | | 178,942,755 | |
| Grants and Contributions Not Restricted to Specific Programs: | | | | | | | |
| Community Development Block Grant | | | 3,567,315 | | | 3,567,315 | |
| Payment from Lexington-Fayette Urban County Government | | | | | | 0 | 18,722,216 |
| Conveyance of Assets | | | | | | 0 | 6,875,425 |
| Income on Investments | | | 507,868 | 662,485 | | 1,170,353 | 201,977 |
| Net Change in Fair Value of Investments | | | | | | 0 | 2,207 |
| Sale of Assets | | | 457,849 | 3,587 | | 461,436 | 8,926 |
| Bond Refunding | | | (19,185,000) | 18,760,000 | | (425,000) | |
| Miscellaneous | | | 918,323 | | | 918,323 | 246,543 |
| Transfers | | | (1,136,353) | 1,136,353 | | 0 | |
| Total General Revenues and Transfers | | | <u>206,037,182</u> | <u>20,562,425</u> | | <u>226,599,607</u> | <u>32,076,811</u> |
| Change in Net Assets | | | 3,148,488 | 27,460,240 | | 30,608,728 | 27,759,383 |
| Prior Period Adjustment | | | (1,140,149) | | | (1,140,149) | 201,755 |
| Net Assets, July 1 | | | 123,325,879 | 249,178,463 | | 372,504,342 | 113,122,614 |
| Net Assets, June 30 | | | <u>\$125,334,218</u> | <u>\$276,638,703</u> | | <u>\$401,972,921</u> | <u>\$141,083,752</u> |

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

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

| | <u>General</u> | <u>Urban Services</u> | <u>Federal and State Grants</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---------------------------|-------------------------------------|---|---|
| ASSETS | | | | | |
| Current Cash | \$11,068,453 | \$53,171 | | \$333,891 | \$11,455,515 |
| Current Investments | 9,620,675 | 19,954,499 | 343,834 | 8,769,695 | 38,688,703 |
| Receivables : | | | | | |
| Local Contributions | | | 44,359 | | 44,359 |
| Loans | | | 4,958,265 | | 4,958,265 |
| License Fees | 9,645,281 | | | | 9,645,281 |
| Taxes | 42,352 | 78,695 | | | 121,047 |
| Other | 4,740,511 | 99,667 | 74,123 | 1,225,283 | 6,139,584 |
| Less Allowance for Uncollectible Amounts | (1,413,274) | (78,695) | (4,958,265) | | (6,450,234) |
| Due from Other Governments | | | 6,954,650 | 758,193 | 7,712,843 |
| Due from Other Funds | 9,581,038 | 1,230,545 | | 701,822 | 11,513,405 |
| Due from Component Units | 305,239 | | | 34,605 | 339,844 |
| Inventories | 695,941 | | | | 695,941 |
| Restricted Investments | | | | 9,355,515 | 9,355,515 |
| Total Assets | <u>\$44,286,216</u> | <u>\$21,337,882</u> | <u>\$7,416,966</u> | <u>\$21,179,004</u> | <u>\$94,220,068</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts and Contracts Payable | \$2,635,153 | \$562,401 | \$1,473,795 | \$1,950,861 | \$6,622,210 |
| Accrued Payroll & Related Liabilities | 7,281,080 | 884,633 | | | 8,165,713 |
| Due to Other Funds | 2,659,600 | | 4,576,110 | 4,952,945 | 12,188,655 |
| Due to Component Units | 885,170 | | | | 885,170 |
| Deferred Revenue and Other | 1,225,140 | 1,313 | 1,037,568 | 2,500 | 2,266,521 |
| Total Liabilities | <u>14,686,143</u> | <u>1,448,347</u> | <u>7,087,473</u> | <u>6,906,306</u> | <u>30,128,269</u> |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 3,473,224 | 1,419,156 | | 9,770,889 | 14,663,269 |
| Unreserved: | | | | | |
| Designated for Payroll | 3,300,418 | 302,654 | | | 3,603,072 |
| Designated for Economic Contingency | 5,878,356 | | | | 5,878,356 |
| Designated for Working Capital | 3,864,830 | | | | 3,864,830 |
| Designated for Pay Adjustments | 906,180 | | | | 906,180 |
| Undesignated | 12,177,065 | 18,167,725 | 329,493 | | 30,674,283 |
| Undesignated, reported in Special Revenue Funds | | | | 3,486,847 | 3,486,847 |
| Undesignated, reported in Capital Projects Funds | | | | 1,014,962 | 1,014,962 |
| Total Fund Balances | <u>29,600,073</u> | <u>19,889,535</u> | <u>329,493</u> | <u>14,272,698</u> | <u>64,091,799</u> |
| Total Liabilities and Fund Balances | <u>\$44,286,216</u> | <u>\$21,337,882</u> | <u>\$7,416,966</u> | <u>\$21,179,004</u> | <u>\$94,220,068</u> |

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

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2004**

| | | |
|---|---------------------|-----------------------------|
| Fund balances - total governmental funds | | \$64,091,799 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p> | | |
| Governmental capital assets | 310,293,903 | |
| Less accumulated depreciation | <u>(72,897,205)</u> | 237,396,698 |
| <p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.</p> | | |
| Bond Issuance Costs | 488,837 | |
| Current year amortization | <u>(63,238)</u> | 425,599 |
| Net Discount (Premiums) | (193,796) | |
| Current year amortization | <u>27,704</u> | (166,092) |
| <p>Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.</p> | | |
| Bonds and Notes payable | (136,994,255) | |
| Defeased Bond Escrow | (28,517) | |
| Accrued interest payable | (1,128,639) | |
| Compensated absences | (14,204,393) | |
| Unfunded pension liability | <u>(18,190,102)</u> | (170,545,906) |
| <p>Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.</p> | | |
| | | <u>(5,867,880)</u> |
| Net assets of governmental activities | | <u><u>\$125,334,218</u></u> |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

| | <u>General</u> | <u>Urban Services</u> | <u>Federal and State Grants</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-----------------------|---------------------------------|---------------------------------|---------------------------------|
| REVENUES | | | | | |
| License Fees and Permits | \$178,722,488 | \$811,204 | | | \$179,533,692 |
| Taxes | 15,729,458 | 26,234,967 | | | 41,964,425 |
| Charges for Services | 20,411,654 | 37,500 | | | 20,449,154 |
| Fines and Forfeitures | 245,150 | | | | 245,150 |
| Local Contributions | | | | | 0 |
| Intergovernmental | 3,693,236 | | 37,568,739 | 6,118,817 | 47,380,792 |
| Exactions | | | | 1,754,558 | 1,754,558 |
| Grant Match | | | 2,450,210 | | 2,450,210 |
| Property Sales | 438,709 | 19,140 | | | 457,849 |
| Income on Investments | 90,639 | 176,686 | | 183,798 | 451,123 |
| Other | 1,138,913 | 927,518 | 1,161,760 | 1,002,742 | 4,230,933 |
| Total Revenues | <u>220,470,247</u> | <u>28,207,015</u> | <u>41,180,709</u> | <u>9,059,915</u> | <u>298,917,886</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Government | 3,730,299 | 1,852,540 | 15,747,785 | | 21,330,624 |
| Administrative Services | 18,072,225 | 1,133,914 | 10,546,895 | 171,585 | 29,924,619 |
| Finance | 6,456,623 | 32,175 | | | 6,488,798 |
| Public Works | 10,868,943 | 21,311,724 | 1,900,564 | 2,094,150 | 36,175,381 |
| Public Safety | 6,629,408 | | 397,322 | | 7,026,730 |
| Police | 37,505,630 | | 3,401,534 | 368,135 | 41,275,299 |
| Fire and Emergency Services | 33,853,901 | | 1,928,744 | | 35,782,645 |
| Community Corrections | 22,231,092 | | | | 22,231,092 |
| Social Services | 7,882,554 | | 3,343,999 | (63,562) | 11,162,991 |
| General Services | 8,853,126 | 2,167,113 | 92,360 | | 11,112,599 |
| Parks and Recreation | 12,289,343 | | 355,522 | | 12,644,865 |
| Law | 1,630,466 | | | | 1,630,466 |
| Outside Agencies | 23,234,738 | | 4,287,035 | 35,233 | 27,557,006 |
| Debt Service: | | | | | |
| Principal | 8,885,000 | | | 1,519,328 | 10,404,328 |
| Interest and Other | 5,321,302 | | | 202,108 | 5,523,410 |
| Bond Issuance Costs | | | | 182,659 | 182,659 |
| Other | 6,241,558 | 202,980 | | | 6,444,538 |
| Capital: | | | | | |
| Equipment | | | | 2,915,828 | 2,915,828 |
| Acquisitions and Construction | | | | 14,967,358 | 14,967,358 |
| Total Expenditures | <u>213,686,208</u> | <u>26,700,446</u> | <u>42,001,760</u> | <u>22,392,822</u> | <u>304,781,236</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>6,784,039</u> | <u>1,506,569</u> | <u>(821,051)</u> | <u>(13,332,907)</u> | <u>(5,863,350)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 1,720,461 | | 100,000 | | 1,820,461 |
| Transfers Out | (1,240,753) | (75,470) | (118,911) | (1,521,680) | (2,956,814) |
| Bond and Note Proceeds | | | | 6,590,000 | 6,590,000 |
| Line of Credit | | | | 445,187 | 445,187 |
| Net Premium on Proceeds | | | | 183,730 | 183,730 |
| Total Other Financing Sources (Uses) | <u>479,708</u> | <u>(75,470)</u> | <u>(18,911)</u> | <u>5,697,237</u> | <u>6,082,564</u> |
| Net Change in Fund Balances | <u>7,263,747</u> | <u>1,431,099</u> | <u>(839,962)</u> | <u>(7,635,670)</u> | <u>219,214</u> |
| Fund Balances, July 1 | <u>22,336,326</u> | <u>18,458,436</u> | <u>1,169,455</u> | <u>21,908,368</u> | <u>63,872,585</u> |
| Fund Balances, June 30 | <u>\$29,600,073</u> | <u>\$19,889,535</u> | <u>\$329,493</u> | <u>\$14,272,698</u> | <u>\$64,091,799</u> |

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

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004**

| | | |
|--|---------------------|---------------------------|
| Net change in fund balances - total governmental funds | | \$219,214 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures | | |
| However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives | | |
| Expenditure for capital assets | 37,072,770 | |
| Less current year depreciation | <u>(16,123,352)</u> | 20,949,418 |
| The net effect of various miscellaneous transactions involving capital assets (i.e. Sales, trade-ins, and donations) is to increase net assets. | | |
| | | 3,978,720 |
| Bond proceeds provide current financial resources for government funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments | | |
| Bond and Note proceeds | (6,590,000) | |
| Bond Refunding | (19,185,000) | |
| Bond Issuance Costs | 182,659 | |
| Refinancing Loss / Discount / Premium | (183,730) | |
| Principal payments | <u>10,404,328</u> | (15,371,743) |
| Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds | | |
| Amortization of current year bond issuance costs | (63,238) | |
| Amortization of current year bond (discounts) premiums | 27,704 | |
| Change in Unfunded Pension Liability | (396,610) | |
| Change in accrued interest payable | (215,695) | |
| Change in compensated absences | <u>(111,402)</u> | (759,241) |
| Internal service funds are used by management to charge self-insurance to individual funds. | | |
| The net expense of the internal service funds is reported with governmental funds. | | |
| | | <u>(5,867,880)</u> |
| Change in net assets of governmental activities | | <u><u>\$3,148,488</u></u> |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND BUDGETARY ACTUAL (nonGAAP)
GENERAL FUND
For the Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts | Variance with |
|-----------------------------------|-------------------------|--------------------|------------------------|----------------------|
| | Original | Final | Budgetary Basis | Final Budget |
| REVENUES | | | | |
| License Fees and Permits: | | | | |
| Employee Withholding | \$118,965,000 | \$118,965,000 | \$121,539,713 | \$2,574,713 |
| Business Returns | 21,300,000 | 21,904,520 | 23,258,085 | 1,353,565 |
| Insurance | 17,000,000 | 17,000,000 | 17,873,107 | 873,107 |
| Franchise Permits | 10,106,000 | 10,106,000 | 11,012,181 | 906,181 |
| Hotel and Motel | 1,930,000 | 1,930,000 | 2,006,658 | 76,658 |
| Bank Franchise Tax | 861,000 | 861,000 | 811,204 | (49,796) |
| Vehicle Licenses | 205,650 | 205,650 | 196,103 | (9,547) |
| Electrical Contractors | 125,000 | 125,000 | 38,595 | (86,405) |
| Regulated Licenses & Permits | 100,000 | 100,000 | 132,908 | 32,908 |
| Liquor and Beer | 373,000 | 373,000 | 431,354 | 58,354 |
| Individual Returns | 75,000 | 75,000 | 298,463 | 223,463 |
| Hazardous Materials Permits | 5,000 | 5,000 | 16,200 | 11,200 |
| Home Inspectors Licenses | 15,000 | 15,000 | 10,475 | (4,525) |
| Bond Deposits | 4,000 | 4,000 | (2,000) | (6,000) |
| Total Licenses and Permits | 171,064,650 | 171,669,170 | 177,623,046 | 5,953,876 |
| Taxes: | | | | |
| Realty | 12,298,000 | 12,407,000 | 12,455,991 | 48,991 |
| Personalty | 1,254,000 | 1,318,200 | 1,295,503 | (22,697) |
| Motor Vehicle | 1,334,000 | 1,486,000 | 1,430,873 | (55,127) |
| Public Service Companies | 711,000 | 690,000 | 866,805 | 176,805 |
| Delinquent Collections | 150,000 | 218,900 | 517,388 | 298,488 |
| Other Property Taxes | 97,000 | 97,000 | 84,486 | (12,514) |
| Insurance Taxes | 3,000 | 4,530 | 0 | (4,530) |
| County Clerk's Commissior | (52,000) | (55,000) | (47,341) | 7,659 |
| Discounts | (230,000) | (233,000) | (230,705) | 2,295 |
| Sheriff's Commission | (576,000) | (584,000) | (643,542) | (59,542) |
| Total Taxes | 14,989,000 | 15,349,630 | 15,729,458 | 379,828 |
| Charges for Services: | | | | |
| Detention Fees | 4,397,000 | 4,579,850 | 5,638,380 | 1,058,530 |
| Excess Fees and Collections | 2,033,000 | 2,033,000 | 2,303,289 | 270,289 |
| Emergency Medical Services | 2,523,000 | 2,523,000 | 2,838,903 | 315,903 |
| Golf Course Collections | 2,882,000 | 2,882,000 | 2,683,658 | (198,342) |
| Deed Tax Fee | 1,350,000 | 1,350,000 | 1,908,639 | 558,639 |
| Building Permits | 1,045,000 | 1,045,000 | 1,201,879 | 156,879 |
| Parks and Recreation Programs | 706,840 | 709,090 | 605,015 | (104,075) |
| Other | 481,410 | 891,520 | 910,486 | 18,966 |
| District Court Jail Fees | 200,000 | 200,000 | 840,493 | 640,493 |
| Swimming Pool Collections | 487,000 | 487,000 | 393,407 | (93,593) |
| Parking Meter Collections | 220,000 | 220,000 | 216,445 | (3,555) |
| Contractors' Registration Fees | 150,000 | 150,000 | 181,955 | 31,955 |
| Park Concessions-Net of Costs | 358,100 | 358,100 | 118,966 | (239,134) |
| Data Processing Services | 105,000 | 105,000 | 91,255 | (13,745) |
| Planning and Zoning Fees | 142,000 | 148,750 | 243,644 | 94,894 |
| Adult Probation Fees | 60,000 | 60,000 | 65,632 | 5,632 |
| Domestic Relations Fees | 48,000 | 48,000 | 37,368 | (10,632) |
| Total Charges for Services | 17,188,350 | 17,790,310 | 20,279,414 | 2,489,104 |
| Fines & Forfeitures | 245,300 | 245,300 | 245,150 | (150) |
| Intergovernmental | 1,622,000 | 2,489,710 | 3,693,236 | 1,203,526 |
| Property Sales | 219,500 | 455,000 | 438,709 | (16,291) |
| Income on Investments | 36,000 | 36,000 | 90,639 | 54,639 |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND BUDGETARY ACTUAL (nonGAAP)
GENERAL FUND
For the Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|--|-------------------------|--------------------|---|---------------------------------------|
| | Original | Final | | |
| Other Income: | | | | |
| Penalties and Interest | \$700,000 | \$700,000 | \$633,983 | (\$66,017) |
| Other | 2,492,990 | 2,529,350 | 359,627 | (2,169,723) |
| Local Contributions | 0 | 117,060 | 125,236 | 8,176 |
| Tourism Commission | 20,000 | 20,000 | 20,067 | 67 |
| School Board Tax Commission | 0 | 12,000 | 0 | (12,000) |
| Total Other Income | <u>3,212,990</u> | <u>3,378,410</u> | <u>1,138,913</u> | <u>(2,239,497)</u> |
| Total Revenues | <u>208,577,790</u> | <u>211,413,530</u> | <u>219,238,565</u> | <u>7,825,035</u> |
| EXPENDITURES | | | | |
| General Government: | | | | |
| Council Office | 1,464,080 | 1,421,131 | 1,365,427 | 55,704 |
| Office of the Mayor | 1,791,370 | 1,767,227 | 1,684,805 | 82,422 |
| Special Projects | 574,360 | 725,309 | 708,952 | 16,357 |
| Board of Elections | 419,980 | 499,563 | 496,167 | 3,396 |
| Clerk of the Urban County Council | 548,260 | 553,749 | 517,310 | 36,439 |
| County Attorney | 400,000 | 399,680 | 391,642 | 8,038 |
| Coroner | 514,580 | 464,563 | 449,577 | 14,986 |
| Property Valuation Administrator | 327,350 | 325,620 | 326,545 | (925) |
| Contingency | (5,655,470) | 32,920 | 25,802 | 7,118 |
| Circuit Judges | 169,230 | 180,956 | 177,317 | 3,639 |
| County Court Clerk | 334,920 | 361,170 | 242,423 | 118,747 |
| Citizens' Advocate | 111,790 | 131,383 | 129,701 | 1,682 |
| Commonwealth Attorney | 98,500 | 97,500 | 82,552 | 14,948 |
| County Judge Executive | 15,660 | 15,227 | 15,115 | 112 |
| Indirect Cost Allocation | (2,802,000) | (2,802,000) | (2,932,534) | 130,534 |
| Total General Government | <u>(1,687,390)</u> | <u>4,173,998</u> | <u>3,680,801</u> | <u>493,197</u> |
| Administrative Services: | | | | |
| Insurance | 5,687,300 | 5,702,870 | 5,702,870 | 0 |
| Office of the Chief Administrative Officer | 2,649,640 | 2,796,445 | 2,598,400 | 198,045 |
| Human Resources | 2,398,510 | 2,363,686 | 2,242,249 | 121,437 |
| Planning | 1,788,650 | 1,737,368 | 1,678,627 | 58,741 |
| Government Communications | 1,141,170 | 1,180,796 | 1,118,326 | 62,470 |
| Community Development | 767,290 | 783,199 | 655,197 | 128,002 |
| Budgeting | 417,520 | 414,839 | 413,106 | 1,733 |
| Internal Audit Office | 214,100 | 182,290 | 190,463 | (8,173) |
| Historic Preservation | 281,250 | 284,355 | 259,212 | 25,143 |
| Total Administrative Services | <u>15,345,430</u> | <u>15,445,848</u> | <u>14,858,450</u> | <u>587,398</u> |
| Department of Finance: | | | | |
| Computer Services | 3,359,130 | 3,121,062 | 3,045,896 | 75,166 |
| Revenue | 2,056,280 | 1,977,772 | 1,938,991 | 38,781 |
| Finance Administration | 529,920 | 520,859 | 507,128 | 13,731 |
| Accounting | 547,580 | 537,610 | 537,914 | (304) |
| Central Purchasing | 441,440 | 446,470 | 443,981 | 2,489 |
| Total Finance | <u>6,934,350</u> | <u>6,603,773</u> | <u>6,473,910</u> | <u>129,863</u> |
| Department of Public Works: | | | | |
| Engineering | 3,745,180 | 3,295,867 | 3,154,504 | 141,363 |
| Streets and Roads | 4,009,940 | 3,737,127 | 3,562,473 | 174,654 |
| Traffic Engineering | 3,622,750 | 3,645,019 | 3,517,544 | 127,475 |
| Public Works Administration | 481,390 | 491,217 | 472,475 | 18,742 |
| Total Public Works | <u>11,859,260</u> | <u>11,169,230</u> | <u>10,706,996</u> | <u>462,234</u> |

continued

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND BUDGETARY ACTUAL (nonGAAP)
GENERAL FUND
For the Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|--|--------------------|--------------------|-----------------------------------|-------------------------------|
| | Original | Final | | |
| Department of Public Safety: | | | | |
| Police | \$37,327,400 | \$37,452,577 | \$37,332,367 | \$120,210 |
| Fire & Emergency Services | 33,616,620 | 33,336,090 | 33,626,327 | (290,237) |
| Community Corrections | 22,095,190 | 22,132,429 | 22,094,806 | 37,623 |
| Public Safety Administration | 2,700,840 | 2,658,245 | 2,526,487 | 131,758 |
| Building Inspection | 2,118,940 | 2,022,003 | 2,043,839 | (21,836) |
| Code Enforcement | 1,484,070 | 1,455,109 | 1,303,612 | 151,497 |
| Environmental & Emergency Management | 458,800 | 993,951 | 757,670 | 236,281 |
| Enhanced 911 | 0 | 33,937 | 32,460 | 1,477 |
| Alcohol Beverage Control | 12,970 | 13,050 | 13,122 | (72) |
| Total Public Safety | 99,814,830 | 100,097,391 | 99,730,690 | 366,701 |
| Department of Social Services: | | | | |
| Youth Services | 2,329,860 | 2,355,643 | 2,078,149 | 277,494 |
| Health Care Services | 1,385,440 | 1,288,496 | 1,302,399 | (13,903) |
| Family Services | 2,596,950 | 2,306,471 | 2,014,018 | 292,453 |
| Adult Services | 1,028,310 | 1,028,128 | 982,795 | 45,333 |
| Mayor's Training Center | 950,270 | 1,271,649 | 947,780 | 323,869 |
| Social Services Administration | 718,520 | 638,057 | 545,943 | 92,114 |
| Total Social Services | 9,009,350 | 8,888,444 | 7,871,084 | 1,017,360 |
| Department of General Services: | | | | |
| Parks and Recreation | 13,848,410 | 12,998,376 | 12,845,018 | 153,358 |
| Property Management | 3,029,190 | 2,775,541 | 2,760,703 | 14,838 |
| Building Maintenance | 2,673,700 | 2,519,971 | 2,481,298 | 38,673 |
| Fleet Services | 2,725,980 | 2,538,577 | 1,938,790 | 599,787 |
| General Services Administration | 1,608,400 | 1,705,573 | 1,619,039 | 86,534 |
| Total General Services | 23,885,680 | 22,538,038 | 21,644,848 | 893,190 |
| Department of Law: | | | | |
| Law | 1,635,520 | 1,669,230 | 1,613,724 | 55,506 |
| Total Law | 1,635,520 | 1,669,230 | 1,613,724 | 55,506 |
| Outside Agencies: | | | | |
| Lexington Public Library | 9,786,500 | 9,780,700 | 9,780,700 | 0 |
| Fayette County Department of Health | 4,359,800 | 4,359,800 | 4,359,800 | 0 |
| Lexington Transit Authority | 3,404,020 | 4,026,020 | 4,026,020 | 0 |
| Lexington Center Corporation | 1,850,000 | 1,850,000 | 2,006,658 | (156,658) |
| Social Service Agencies | 917,950 | 937,950 | 931,493 | 6,457 |
| Public Safety Agencies | 634,180 | 643,180 | 634,180 | 9,000 |
| Lexington Children's Museum | 237,500 | 237,500 | 237,500 | 0 |
| Carnegie Literacy Center | 53,500 | 53,500 | 52,238 | 1,262 |
| Law Agencies | 233,750 | 233,750 | 233,750 | 0 |
| World Trade Center | 100,000 | 100,000 | 100,000 | 0 |
| Downtown Development Authority | 75,000 | 75,000 | 75,000 | 0 |
| Downtown Arts Center | 128,250 | 128,250 | 128,250 | 0 |
| Housing Agencies | 118,750 | 132,590 | 142,486 | (9,896) |
| Downtown Lexington Corporation | 60,000 | 60,000 | 60,000 | 0 |
| Commerce Lexington | 50,000 | 50,000 | 50,000 | 0 |
| General Services Agencies | 2,370 | 2,370 | 0 | 2,370 |
| Total Outside Agencies | 22,011,570 | 22,670,610 | 22,818,075 | (147,465) |
| Debt Service: | | | | |
| Principal | 8,885,000 | 8,885,000 | 8,885,000 | 0 |
| Interest | 5,554,220 | 5,535,670 | 5,321,302 | 214,368 |
| Other | 6,240,260 | 6,241,540 | 6,241,558 | (18) |
| Total Debt Service | 20,679,480 | 20,662,210 | 20,447,860 | 214,350 |
| Total Expenditures | 209,488,080 | 213,918,772 | 209,846,438 | 4,072,334 |
| Excess (Deficiency) of Revenues over (under) Expenditures | (910,290) | (2,505,242) | 9,392,127 | 11,897,369 |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND BUDGETARY ACTUAL (nonGAAP)
GENERAL FUND
For the Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|---|-------------------------|---------------------|---|---------------------------------------|
| | Original | Final | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | \$1,614,610 | \$1,734,263 | \$1,720,461 | (\$13,802) |
| Transfers Out | (630,050) | (968,130) | (1,240,753) | (272,623) |
| Total Other Financing Sources (Uses) | <u>984,560</u> | <u>766,133</u> | <u>479,708</u> | <u>(286,425)</u> |
| Net Change in Fund Balance | 74,270 | (1,739,109) | 9,871,835 | 11,610,944 |
| Fund Balance, July 1 | 0 | 13,529,813 | 13,529,813 | 0 |
| Prior Period Adjustment | 0 | (1,140,149) | (1,140,149) | 0 |
| Fund Balance, June 30 | <u>\$74,270</u> | <u>\$10,650,555</u> | <u>\$22,261,499</u> | <u>\$11,610,944</u> |

Explanation of Differences between Budgetary Revenues and Expenditures and GAAP Revenues and Expenditures

Revenues:

| | |
|---|----------------------|
| Total revenues from the budgetary comparison schedule | \$219,238,565 |
| Differences - Budget to GAAP: | |
| License fees and EMS revenues are recognized in the year received for budgetary purposes but in the year earned for financial reporting purposes. | <u>1,231,682</u> |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$220,470,247</u> |

Expenditures:

| | |
|---|----------------------|
| Total expenditures from the budgetary comparison schedule | \$209,846,438 |
| Differences - Budget to GAAP: | |
| Accrued payroll is reported in the year paid for budgetary purposes but in the year earned for financial reporting purposes. | 967,212 |
| Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but the year the supplies are received for financial reporting purposes. | <u>2,872,558</u> |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u>\$213,686,208</u> |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND BUDGETARY ACTUAL (nonGAAP)
URBAN SERVICES FUND
For the Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|--------------------------------------|-------------------------|-------------------|---|---------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| License Fees and Permits: | | | | |
| Bank Franchise Tax | \$861,000 | \$861,000 | \$811,204 | (\$49,796) |
| Total Licenses and Permits | 861,000 | 861,000 | 811,204 | (49,796) |
| Taxes: | | | | |
| Realty | 26,875,000 | 26,875,000 | 26,460,312 | (414,688) |
| Public Service Companies | 237,000 | 237,000 | 390,267 | 153,267 |
| Other Property Taxes | 15,000 | 15,000 | 7,931 | (7,069) |
| Delinquent Collections | 12,000 | 12,000 | (20,915) | (32,915) |
| Insurance Taxes | 2,000 | 2,000 | 0 | (2,000) |
| Sheriff's Commission | (150,000) | (150,000) | (150,000) | 0 |
| Discounts | (457,000) | (457,000) | (452,628) | 4,372 |
| Total Taxes | 26,534,000 | 26,534,000 | 26,234,967 | (299,033) |
| Charges for Services: | | | | |
| Excess Fees and Collections | 38,000 | 38,000 | 37,500 | (500) |
| Total Charges for Services | 38,000 | 38,000 | 37,500 | (500) |
| Property Sales | 30,000 | 30,000 | 19,140 | (10,860) |
| Income on Investments | 144,000 | 144,000 | 176,686 | 32,686 |
| Other Income: | | | | |
| Penalties and Interest | 72,000 | 72,000 | 85,338 | 13,338 |
| Other | 502,500 | 502,500 | 842,180 | 339,680 |
| Total Other Income | 574,500 | 574,500 | 927,518 | 353,018 |
| Total Revenues | 28,181,500 | 28,181,500 | 28,207,015 | 25,515 |
| EXPENDITURES | | | | |
| General Government: | | | | |
| Contingency | 277,090 | 337,890 | 87,891 | 249,999 |
| Indirect Cost Allocation | 1,736,480 | 1,736,480 | 1,764,649 | (28,169) |
| Total General Government | 2,013,570 | 2,074,370 | 1,852,540 | 221,830 |
| Administrative Services: | | | | |
| Insurance | 849,500 | 851,780 | 851,780 | 0 |
| Human Resources | 27,790 | 28,088 | 13,989 | 14,099 |
| Government Communications | 316,490 | 272,627 | 273,512 | (885) |
| Total Administrative Services | 1,193,780 | 1,152,495 | 1,139,281 | 13,214 |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND BUDGETARY ACTUAL (nonGAAP)
URBAN SERVICES FUND
For the Year Ended June 30, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> <u>Budgetary Basis</u> | <u>Variance with</u> <u>Final Budget</u> |
|--|-------------------------|---------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Department of Finance: | | | | |
| Finance Administration | \$14,900 | \$14,900 | \$23,354 | (\$8,454) |
| Revenue | | 9,230 | 9,230 | 0 |
| Total Finance | 14,900 | 24,130 | 32,584 | (8,454) |
| Department of Public Works: | | | | |
| Solid Waste | 20,971,940 | 19,276,445 | 15,473,597 | 3,802,848 |
| Traffic Engineering | 3,211,000 | 4,357,100 | 3,222,321 | 1,134,779 |
| Streets and Roads | 1,236,720 | 1,188,732 | 1,146,852 | 41,880 |
| Public Works Administration | 52,150 | 52,150 | 25,730 | 26,420 |
| Total Public Works | 25,471,810 | 24,874,427 | 19,868,500 | 5,005,927 |
| Department of General Services: | | | | |
| Property Management | 340,830 | 301,908 | 265,823 | 36,085 |
| Building Maintenance | 105,910 | 105,910 | 99,115 | 6,795 |
| Fleet Services | 1,220,000 | 1,220,000 | 1,131,326 | 88,674 |
| General Services Administration | 10,500 | 10,500 | 10,146 | 354 |
| Total General Services | 1,677,240 | 1,638,318 | 1,506,410 | 131,908 |
| Debt Service: | | | | |
| Other Debt Service | 202,980 | 202,980 | 202,980 | 0 |
| Total Debt Service | 202,980 | 202,980 | 202,980 | 0 |
| Total Expenditures | 30,574,280 | 29,966,720 | 24,602,295 | 5,364,425 |
| Excess (Deficiency) of Revenues over (under) Expenditures | (2,392,780) | (1,785,220) | 3,604,720 | 5,389,940 |
| OTHER FINANCING USES | | | | |
| Transfers Out | (46,910) | (75,470) | (75,470) | 0 |
| Total Other Financing Uses | (46,910) | (75,470) | (75,470) | 0 |
| Net Change in Fund Balance | (2,439,690) | (1,860,690) | 3,529,250 | 5,389,940 |
| Fund Balance, July 1 | 7,823,740 | 15,825,762 | 15,825,762 | 0 |
| Fund Balance, June 30 | \$5,384,050 | \$13,965,072 | \$19,355,012 | \$5,389,940 |

Explanation of Differences between Budgetary Revenues and Expenditures and GAAP Revenues and Expenditures

Expenditures:

| | |
|---|----------------------------|
| Total expenditures from the budgetary comparison schedule | \$24,602,295 |
| Differences - Budget to GAAP: | |
| Accrued payroll is reported in the year paid for budgetary purposes but in the year earned for financial reporting purposes. | 486,067 |
| Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but the year the supplies are received for financial reporting purposes. | 1,612,084 |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | <u><u>\$26,700,446</u></u> |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

| | Business-type Activities | | | | | Governmental | |
|--|---------------------------------|--------------------------|-----------------------|-------------------|-------------------|---------------------|-------------------------|
| | Enterprise Funds | | | | | | Activities |
| | Sanitary Sewer | Public Facilities | Public Parking | Landfill | Other | Total | Internal Service |
| | System | Corporation | Corporation | | Enterprise | | Funds |
| | | | | | Funds | | |
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash | \$6,657,944 | \$700,679 | | | \$568,368 | \$7,926,991 | \$241,732 |
| Investments | 12,552,623 | | | 16,640,065 | 1,952,680 | 31,145,368 | 10,412,000 |
| Receivables: | | | | | | | |
| User Fees Receivable | 1,759,349 | | | 554,682 | | 2,314,031 | |
| Other Receivables | 2,478,067 | 125,642 | 1,367 | 202,538 | 91,845 | 2,899,459 | 2,708,004 |
| Less Allowance for Uncollectible Accounts: | (136,486) | | | (271,188) | (80,722) | (488,396) | |
| Due from Other Funds | 146,505 | 1,235,323 | 227,414 | 1,048,470 | 1,878 | 2,659,590 | 291,533 |
| Inventories | 7,832 | | | | | 7,832 | |
| Restricted Investments: | | | | | | | |
| Reserved for Maintenance and Operation | 4,100,470 | | | | | 4,100,470 | |
| Reserved for Sinking Fund | 4,727,103 | 667,577 | | | | 5,394,680 | |
| Total Current Assets | 32,293,407 | 2,729,221 | 228,781 | 18,174,567 | 2,534,049 | 55,960,025 | 13,653,269 |
| Non-Current Assets: | | | | | | | |
| Restricted Investments: | | | | | | | |
| Reserved for Construction & Capital Acquisitions | 11,748,414 | 899,091 | | | | 12,647,505 | |
| Reserved for Depreciation | 2,502,000 | | | | | 2,502,000 | |
| Reserved for Debt Service | 5,893,605 | | 1,101,899 | | | 6,995,504 | |
| Capital Assets: | | | | | | | |
| Land | 1,319,336 | 30,882,485 | 7,985,094 | 5,194,637 | | 45,381,552 | |
| Land Improvements | 27,052 | 24,641,880 | 3,110,639 | 10,806,229 | | 38,585,800 | |
| Buildings | 959,278 | 116,359,123 | 9,766,685 | 64,815 | | 127,149,901 | |
| Sewer Plants | 159,275,354 | | | | | 159,275,354 | |
| Sewer Lines | 123,512,442 | | | | | 123,512,442 | |
| Leasehold Improvements | | 2,137,090 | | | | 2,137,090 | |
| Vehicles, Equipment, and Furniture | 6,201,221 | 3,324,356 | 277,756 | 48,235 | 1,576,151 | 11,427,719 | |
| Less Accumulated Depreciation: | (97,532,964) | (52,471,301) | (4,590,748) | (1,559,221) | (1,404,367) | (157,558,601) | |
| Construction in Progress | 3,626,821 | 805,299 | | | | 4,432,120 | |
| Unamortized Bond Costs | 788,020 | 1,489,427 | 339,188 | | | 2,616,635 | |
| Total Non-Current Assets | 218,320,579 | 128,067,450 | 17,990,513 | 14,554,695 | 171,784 | 379,105,021 | 0 |
| Total Assets | 250,613,986 | 130,796,671 | 18,219,294 | 32,729,262 | 2,705,833 | 435,065,046 | 13,653,269 |

LIABILITIES

Current Liabilities:

| | | | | | | | |
|--|----------------------|---------------------|---------------------|--------------------|--------------------|--------------------|----------------------|
| Accounts, Contracts and Retainage Payable | \$539,895 | \$389,149 | \$22,613 | \$191,299 | \$443,524 | \$1,586,480 | \$565,610 |
| Accrued Payroll | 318,802 | | | 6,134 | 129,909 | 454,845 | |
| Due to Other Funds | 1,334,498 | 381,682 | | | 38,454 | 1,754,634 | 1,058,752 |
| Claims Payable | | | | | | 0 | 18,187,788 |
| Bonds Payable | | 1,365,000 | 895,000 | | | 2,260,000 | |
| Interest Payable | | 862,609 | 82,121 | | | 944,730 | |
| Other | 565,671 | 3,050 | 100 | | 85,423 | 654,244 | |
| Compensated Absences | 215,055 | | | 19,495 | 870 | 235,420 | 5,395 |
| Landfill Closure and Postclosure Care Costs | | | | 14,505,601 | | 14,505,601 | |
| Payable from Restricted Investments: | | | | | | | |
| Accounts, Contracts and Retainage Payable | 361,364 | 259,193 | | | | 620,557 | |
| Bonds Payable | 3,480,000 | | | | | 3,480,000 | |
| Interest Payable | 1,247,103 | | | | | 1,247,103 | |
| Total Current Liabilities | <u>8,062,388</u> | <u>3,260,683</u> | <u>999,834</u> | <u>14,722,529</u> | <u>698,180</u> | <u>27,743,614</u> | <u>19,817,545</u> |
| Non-Current Liabilities | | | | | | | |
| Deferred Revenues & Other | 58,978 | 89,253 | | | | 148,231 | |
| Bonds Payable | 46,560,000 | 68,230,000 | 3,450,000 | | | 118,240,000 | |
| Compensated Absences | 496,451 | | | 2,570 | 9,872 | 508,893 | 46,820 |
| Landfill Closure and Postclosure Care Costs | | | | 11,442,389 | | 11,442,389 | |
| Total Non-Current Liabilities | <u>47,115,429</u> | <u>68,319,253</u> | <u>3,450,000</u> | <u>11,444,959</u> | <u>9,872</u> | <u>130,339,513</u> | <u>46,820</u> |
| Total Liabilities | <u>55,177,817</u> | <u>71,579,936</u> | <u>4,449,834</u> | <u>26,167,488</u> | <u>708,052</u> | <u>158,083,127</u> | <u>19,864,365</u> |
| NET ASSETS | | | | | | | |
| Invested in Capital Assets, net of related deb | 159,606,678 | 57,573,359 | 13,361,311 | 14,554,695 | 171,784 | 245,267,827 | |
| Restricted for: | | | | | | | |
| Capital Projects | 13,971,069 | 544,778 | | | | 14,515,847 | |
| Capital Projects - Construction | 3,121,774 | | | | | 3,121,774 | |
| Capital Projects - Park Acquisition | | 356,333 | | | | 356,333 | |
| Debt Service | 5,893,605 | | 1,078,824 | | | 6,972,429 | |
| Depreciation | 2,502,000 | 6,341 | | | | 2,508,341 | |
| Maintenance and Operations | 4,100,470 | | | | | 4,100,470 | |
| Unrestricted (Deficit) | 6,240,573 | 735,924 | (670,675) | (7,992,921) | 1,825,997 | 138,898 | (6,211,096) |
| Total Net Assets | <u>\$195,436,169</u> | <u>\$59,216,735</u> | <u>\$13,769,460</u> | <u>\$6,561,774</u> | <u>\$1,997,781</u> | <u>276,981,919</u> | <u>(\$6,211,096)</u> |

Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund
Net Assets of Business-type Activities

(343,216)
\$276,638,703

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

| | Business-type Activities Enterprise Funds | | | | | Total | Governmental Activities Internal Service Funds |
|---------------------------------|--|--|---------------------------------------|------------------|---------------------------------------|-------------------|---|
| | Sanitary Sewer System | Public Facilities Corporation | Public Parking Corporation | Landfill | Other Enterprise Funds | | |
| Operating Revenues | | | | | | | |
| User Charges | \$25,457,887 | | | \$7,773,920 | | \$33,231,807 | \$28,404,450 |
| Fees | 1,428,449 | | | 211,231 | 3,819,747 | 5,459,427 | |
| Exactions | 878,035 | | | | | 878,035 | |
| Licenses & Permits | | | | | 286,412 | 286,412 | |
| Rental Income | | 10,286,131 | 950,406 | | | 11,236,537 | |
| Parking Revenues | | 288,939 | 606,431 | | | 895,370 | |
| Theater Revenues | | 897,106 | | | | 897,106 | |
| Gross Profit-Commissary | | | | | 767,939 | 767,939 | |
| Other | 193,694 | 200 | | 33,474 | 541,011 | 768,379 | |
| Total Operating Revenues | 27,958,065 | 11,472,376 | 1,556,837 | 8,018,625 | 5,415,109 | 54,421,012 | 28,404,450 |
| Operating Expenses | | | | | | | |
| Treatment Plant | 6,616,161 | | | | | 6,616,161 | |
| Collection System | 3,179,687 | | | | | 3,179,687 | |
| Property Management | | 1,653,652 | 305,521 | | | 1,959,173 | |
| Theater Management | | 820,445 | | | | 820,445 | |
| Landfill | | | | 4,561,864 | | 4,561,864 | |
| Right of Way | | | | | 258,520 | 258,520 | |
| Extended School Program | | | | | 1,235,597 | 1,235,597 | |
| Prisoners' Account | | | | | 790,574 | 790,574 | |
| Inmate Trust Account | | | | | 551,505 | 551,505 | |
| Enhanced 911 | | | | | 2,223,984 | 2,223,984 | |
| LexVan Program | | | | | 17,545 | 17,545 | |
| Small Business Development | | | | | 108,343 | 108,343 | |
| Administration | 4,656,945 | | | 423,475 | 141,944 | 5,222,364 | 2,988,542 |
| Depreciation | 6,291,982 | 6,244,132 | 307,155 | 437,729 | 104,422 | 13,385,420 | |
| Claims and Benefit Payments | | | | | | 0 | 27,018,775 |
| Total Operating Expenses | 20,744,775 | 8,718,229 | 612,676 | 5,423,068 | 5,432,434 | 40,931,182 | 30,007,317 |
| Operating Income (Loss) | 7,213,290 | 2,754,147 | 944,161 | 2,595,557 | (17,325) | 13,489,830 | (1,602,867) |

Non-Operating Revenues (Expenses)

| | | | | | | | |
|---|----------------------|---------------------|---------------------|--------------------|--------------------|--------------------|----------------------|
| Income on Investments | \$469,967 | \$31,214 | \$5,957 | \$139,235 | \$16,112 | \$662,485 | \$99,388 |
| Interest Expense and Fiscal Agent Fees | (1,476,395) | (4,100,464) | (260,186) | | | (5,837,045) | |
| Amortization of Bond Costs | (71,342) | (681,319) | (68,547) | | | (821,208) | |
| Bond Refunding | | 18,760,000 | | | | 18,760,000 | |
| Gain on Sale of Capital Assets | 3,587 | | | | 0 | 3,587 | |
| Total Non-Operating Revenues (Expenses) | <u>(1,074,183)</u> | <u>14,009,431</u> | <u>(322,776)</u> | <u>139,235</u> | <u>16,112</u> | <u>12,767,819</u> | <u>99,388</u> |
| Income (Loss) Before Contributions and Transfers | 6,139,107 | 16,763,578 | 621,385 | 2,734,792 | (1,213) | 26,257,649 | (1,503,479) |
| Capital Contributions | 88,944 | 36,800 | | | | 125,744 | |
| Transfers In | 10,000 | 1,130,753 | | | | 1,140,753 | |
| Transfers Out | (4,400) | | | | | (4,400) | |
| Change in Net Assets | <u>6,233,651</u> | <u>17,931,131</u> | <u>621,385</u> | <u>2,734,792</u> | <u>(1,213)</u> | <u>27,519,746</u> | <u>(1,503,479)</u> |
| Net Assets - July 1 | <u>189,202,518</u> | <u>41,285,604</u> | <u>13,148,075</u> | <u>3,826,982</u> | <u>1,998,994</u> | <u>249,462,173</u> | <u>(4,707,617)</u> |
| Net Assets - June 30 | <u>\$195,436,169</u> | <u>\$59,216,735</u> | <u>\$13,769,460</u> | <u>\$6,561,774</u> | <u>\$1,997,781</u> | <u>276,981,919</u> | <u>(\$6,211,096)</u> |

Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund:

Net Assets of Business-type Activities

(343,216)

\$276,638,703

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

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004**

| | Business-type Activities Enterprise Funds | | | | | Total | Governmental Activities Internal Service Funds |
|--|--|----------------------------------|-------------------------------|--------------------|------------------------------|---------------------|---|
| | Sanitary Sewer System | Public Facilities Corporation | Public Parking Corporation | Landfill | Other Enterprise Funds | | |
| Increase (Decrease) in Cash and Cash Equivalents: | | | | | | | |
| Cash Flows from Operating Activities: | | | | | | | |
| Receipts from Customers | \$26,197,192 | \$6,187,570 | \$651,268 | \$6,192,843 | \$5,538,647 | \$44,767,520 | \$8,292,549 |
| Receipts from Interfund Services Provided | | 3,881,813 | 814,654 | 933,606 | 18,425 | 5,648,498 | 20,130,739 |
| Repayments of Loans | | | | | 21,827 | 21,827 | |
| Loans to Other Funds | | | | | 9,452 | 9,452 | |
| Payments to Suppliers | (4,365,308) | (2,193,852) | (304,959) | (5,584,340) | (2,754,914) | (15,203,373) | (2,061,675) |
| Payments to Employees | (6,241,958) | | | (228,917) | (2,147,250) | (8,618,125) | (942,551) |
| Payments for Interfund Services Used | (2,777,579) | | | (47,648) | (125,881) | (2,951,108) | 990,690 |
| Payments for Claims | | | | | | 0 | (26,621,418) |
| Net Cash Provided by (Used in) Operating Activities | 12,812,347 | 7,875,531 | 1,160,963 | 1,265,544 | 560,306 | 23,674,691 | (211,666) |
| Cash Flows from Noncapital Financing Activities: | | | | | | | |
| Transfers In | 10,000 | 1,130,753 | | | | 1,140,753 | |
| Transfers Out | (4,400) | | | | | (4,400) | |
| Net Cash Flows from Noncapital Financing Activities | 5,600 | 1,130,753 | 0 | 0 | 0 | 1,136,353 | 0 |
| Cash Flows from Capital and Related Activities: | | | | | | | |
| Additions to Property, Plant and Equipment | (7,133,634) | (3,272,679) | (30,984) | (1,184,466) | (99,240) | (11,721,003) | |
| Principal Paid on Bonds | (3,335,000) | (4,760,000) | (860,000) | | | (8,955,000) | |
| Interest and Fiscal Agent Fees Paid on Bonds | (1,400,295) | (3,670,868) | (243,840) | | | (5,315,003) | |
| Capital Contributions | 314,734 | 36,800 | | | | 351,534 | |
| Gain on Sale of Capital Assets | 3,587 | | | | | 3,587 | |
| Net Cash Flows from Capital and Related Activities | (11,550,608) | (11,666,747) | (1,134,824) | (1,184,466) | (99,240) | (25,635,885) | 0 |
| Cash Flows from Investing Activities: | | | | | | | |
| Purchases of Investments | (19,287,490) | | (41,934) | (16,640,065) | (1,921,000) | (37,890,489) | (10,489,489) |
| Proceeds from Sales and Maturities of Investments | 24,075,839 | 3,329,928 | 9,838 | 16,419,000 | 792,209 | 44,626,814 | 10,738,000 |
| Income on Investments | 469,967 | 31,214 | 5,957 | 139,235 | 16,112 | 662,485 | 99,388 |
| Net Cash Flows from Investing Activities | 5,258,316 | 3,361,142 | (26,139) | (81,830) | (1,112,679) | 7,398,810 | 347,899 |

| | | | | | | | |
|--|---------------------|--------------------|--------------------|--------------------|-------------------|---------------------|----------------------|
| Net Increase (Decrease) in Cash and Cash Equivalents | \$6,525,655 | \$700,679 | \$0 | (\$752) | (\$651,613) | \$6,573,969 | \$136,233 |
| Cash and Cash Equivalents at Beginning of Year | 132,289 | 0 | 0 | 752 | 1,219,981 | 1,353,022 | 105,499 |
| Cash and Cash Equivalents at End of Year | \$6,657,944 | \$700,679 | \$0 | \$0 | \$568,368 | \$7,926,991 | \$241,732 |
| Noncash Investing, Capital, and Financing Activities: | | | | | | | |
| Dispositions of Capital Assets | (53,622) | (74,634) | | | (93,703) | (221,959) | |
| Capitalized Interest | 1,121,053 | | | | | 1,121,053 | |
| Total Noncash Investing, Capital, and Financing Activities | \$1,067,431 | (\$74,634) | \$0 | \$0 | (\$93,703) | \$899,094 | \$0 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities: | | | | | | | |
| Operating Income (Loss) | \$7,213,290 | \$2,754,147 | \$944,161 | \$2,595,557 | (\$17,325) | \$13,489,830 | (\$1,602,867) |
| Adjustments Not Affecting Cash: | | | | | | | |
| Depreciation | 6,291,982 | 6,244,132 | 307,155 | 437,729 | 104,422 | 13,385,420 | |
| Disposal of Capital Assets | | | | | 21,968 | 21,968 | |
| Allowance for Bad Debts | 94,392 | | | 52,093 | 80,722 | 227,207 | |
| (Increase) Decrease in Assets: | | | | | | | |
| Accounts Receivable | (727,492) | | | (127,249) | | (854,741) | (2,368,144) |
| Other Receivables | (1,242,041) | (59,760) | 30,151 | (21,036) | 141,522 | (1,151,164) | |
| Due from Other Funds | (44,608) | (1,121,742) | (121,066) | (698,607) | 11,081 | (1,974,942) | (59,228) |
| Inventories | 7,307 | | | | | 7,307 | |
| Increase (Decrease) in Liabilities: | | | | | | | |
| Accounts Payable | 262,829 | 280,245 | 562 | (428,922) | 374,562 | 489,276 | (92,029) |
| Accrued Payroll | 62,257 | | | (3,198) | 41,107 | 100,166 | (104) |
| Claims Payable | 421,979 | | | | (230,527) | 191,452 | 594,875 |
| Due to Other Funds | | (207,445) | | | | (207,445) | 1,058,752 |
| Deferred Revenue | | (14,046) | | | 31,464 | 17,418 | |
| Other Liabilities | 379,341 | | | (536,926) | | (157,585) | 2,248,692 |
| Compensated Absences | 93,111 | | | (3,897) | 1,310 | 90,524 | 8,387 |
| Total Adjustments | 5,599,057 | 5,121,384 | 216,802 | (1,330,013) | 577,631 | 10,184,861 | 1,391,201 |
| Net Cash Provided by (Used In) Operating Activities | \$12,812,347 | \$7,875,531 | \$1,160,963 | \$1,265,544 | \$560,306 | \$23,674,691 | (\$211,666) |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

| | Pension Trust Funds | Agency Funds |
|--|--------------------------------|-------------------------|
| ASSETS | | |
| Cash | \$17,433,598 | \$1,042,672 |
| Receivables: | | |
| Member Contributions | 198,425 | |
| Employer Contributions | 378,798 | |
| Interest and Dividends | 1,806,282 | |
| Accounts Receivable | | 61,717 |
| Less Allowance for Uncollectible Accounts | | (61,467) |
| Due from Other Funds | 537,521 | 72 |
| Total Receivables | 2,921,026 | 322 |
| Investments, at Fair Value: | | |
| U. S. Government Obligations | 17,464,968 | |
| U. S. Government Agency and Instrumentality Obligations | 32,400,922 | |
| Municipal Bonds | 19,229,292 | |
| International Bonds | 3,152,014 | |
| Corporate Bonds | 54,201,341 | |
| Mutual Funds | 65,260,997 | |
| Domestic Stocks | 157,755,388 | |
| International Stocks (ADR) | 6,450,112 | |
| Total Investments | 355,915,034 | 0 |
| Total Assets | 376,269,658 | \$1,042,994 |
| LIABILITIES | | |
| Accounts Payable | 322,572 | |
| Securities Lending Transactions | 18,233,526 | |
| Due to Other Funds | 80 | |
| Payable to Property Owners | | 987,494 |
| Debt Service | | 55,500 |
| Total Liabilities | 18,556,178 | \$1,042,994 |
| NET ASSETS | | |
| Net Assets Held in Trust for Pension Benefits | \$357,713,480 | |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

| | Pension Trust Funds |
|--|--------------------------------|
| ADDITIONS | |
| Contributions: | |
| Employer | \$8,027,104 |
| Employer - Administration | 2,307,234 |
| Plan Members | 4,365,106 |
| Member Purchase of Service | 1,435,362 |
| Other | 22,736 |
| Total Contributions | 16,157,542 |
| Income on Investments: | |
| Net Change in Fair Value of Investments | 44,579,905 |
| Interest | 7,426,187 |
| Dividends | 2,523,979 |
| Total Income on Investments | 54,530,071 |
| Less Investment Expense | 1,612,808 |
| Net Income on Investments | 52,917,263 |
| Income from Securities Lending Activities: | |
| Securities Lending Income | 233,566 |
| Securities Lending Expenses | |
| Borrower rebates | 175,984 |
| Management Fees | 22,975 |
| Total Securities Lending Expenses | 198,959 |
| Net Income on Securities Lending Activities | 34,607 |
| Total Additions | 69,109,412 |
| DEDUCTIONS | |
| Benefit Payments | 27,702,513 |
| Refunds of Contributions | 412,234 |
| Administrative Expense | 108,442 |
| Total Deductions | 28,223,189 |
| Net Increase | 40,886,223 |
| Net Assets, July 1 | 316,827,257 |
| Net Assets, June 30 | \$357,713,480 |

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

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2004**

| | Lexington Center Corporation | Lexington Airport Board | Fayette County Department of Health | Nonmajor Component Units | Total |
|--|---|--|--|---|----------------------|
| ASSETS | | | | | |
| Cash | \$1,674,422 | \$1,074,580 | \$1,412,481 | \$1,547,399 | \$5,708,882 |
| Investments | | 4,996,550 | | 3,171,752 | 8,168,302 |
| Receivables: | | | | | |
| Accounts Receivable | 563,663 | 1,355,299 | 1,430,496 | 380,640 | 3,730,098 |
| Other | 458,185 | 450 | | 4 | 458,639 |
| Less Allowance for Uncollectible Accounts | (29,340) | (38,003) | | | (67,343) |
| Due from Component Units | 172,157 | | | | 172,157 |
| Due from Primary Government | 199,870 | | | 685,300 | 885,170 |
| Due from Other Governments | | | | 509,923 | 509,923 |
| Inventories | | | 69,769 | 272,923 | 342,692 |
| Prepaid Items | | 180,064 | 101,712 | 240,629 | 522,405 |
| Pension Assets | | | | 209,261 | 209,261 |
| Restricted Current Assets: | | | | | |
| Investments | 1,592,890 | 33,246,930 | | 152,363 | 34,992,183 |
| Other | 319,058 | 207,402 | | | 526,460 |
| Restricted Non-Current Investments | 4,916,060 | | | | 4,916,060 |
| Bond Issuance Costs-Net of Accumulated Amortization | | 1,817,780 | | | 1,817,780 |
| Capital Assets: | | | | | |
| Non-depreciable | 12,173,786 | 17,209,815 | | 7,360,646 | 36,744,247 |
| Depreciable (Net) | 69,827,281 | 53,078,205 | 2,850,350 | 15,531,334 | 141,287,170 |
| Other Assets | 593,778 | | | | 593,778 |
| Total Assets | 92,461,810 | 113,129,072 | 5,864,808 | 30,062,174 | 241,517,864 |
| LIABILITIES | | | | | |
| Accounts, Contracts Payable and Accrued Liabilities | 1,359,524 | 1,884,444 | 1,212,844 | 1,038,219 | 5,495,031 |
| Interest Payable | 78,205 | | | | 78,205 |
| Due to Component Units | | | | 172,157 | 172,157 |
| Due to Primary Government | | | | 339,844 | 339,844 |
| Deferred Revenues and Other | 316,902 | | | 404,417 | 721,319 |
| Liabilities Payable from Restricted Assets: | | | | | |
| Accounts Payable | | 3,065,850 | | | 3,065,850 |
| Bonds and Notes Payable | | 856,928 | | | 856,928 |
| Interest Payable | | 58,510 | | | 58,510 |
| Non-Current Liabilities: | | | | | |
| Due Within One Year | | | | | |
| Compensated Absences | | | | 67,925 | 67,925 |
| Bonds and Notes Payable | 2,645,000 | 39,446 | | 42,923 | 2,727,369 |
| Capital Lease Obligations | | | | 5,018 | 5,018 |
| Due in More Than One Year | | | | | |
| Compensated Absences | | | 518,262 | 375,576 | 893,838 |
| Bonds and Notes Payable | 36,996,575 | 48,761,170 | | 166,792 | 85,924,537 |
| Capital Lease Obligations | | | | 27,581 | 27,581 |
| Total Liabilities | 41,396,206 | 54,666,348 | 1,731,106 | 2,640,452 | 100,434,112 |
| NET ASSETS | | | | | |
| Investment in Capital Assets, net of related debt | 47,275,552 | 45,540,567 | 2,850,350 | 22,649,667 | 118,316,136 |
| Restricted for: | | | | | |
| Capital Projects | | 1,995,987 | | | 1,995,987 |
| Debt Service | | 5,416,295 | | | 5,416,295 |
| Pension | | | | 209,261 | 209,261 |
| Endowments | | | | 100,000 | 100,000 |
| Unrestricted | 3,790,052 | 5,509,875 | 1,283,352 | 4,462,794 | 15,046,073 |
| Total Net Assets | \$51,065,604 | \$58,462,724 | \$4,133,702 | \$27,421,722 | \$141,083,752 |

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2004

| | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | | | |
|---|--------------|----------------------|------------------------------------|----------------------------------|--|-------------------------|-------------------------------------|--------------------------|---------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Lexington Center Corporation | Lexington Airport Board | Fayette County Department of Health | Nonmajor Component Units | Total |
| Lexington Center Corporation | | | | | | | | | |
| Lexington Center Operations | \$9,476,261 | \$9,203,359 | \$948,000 | \$15,265,045 | \$15,940,143 | | | | \$15,940,143 |
| Depreciation | 3,878,202 | | | | (3,878,202) | | | | (3,878,202) |
| Interest on Long-term Debt | 948,442 | | | | (948,442) | | | | (948,442) |
| Total Lexington Center Corporation | 14,302,905 | 9,203,359 | 948,000 | 15,265,045 | 11,113,499 | | | | 11,113,499 |
| Lexington Airport Board | | | | | | | | | |
| Airport Operations | 7,607,169 | 13,164,405 | | 4,650,891 | | 10,208,127 | | | 10,208,127 |
| Depreciation | 4,655,900 | | | | | (4,655,900) | | | (4,655,900) |
| Interest on Long-term Debt | 510,346 | | | | | (510,346) | | | (510,346) |
| Total Lexington Airport Board | 12,773,415 | 13,164,405 | 0 | 4,650,891 | | 5,041,881 | | | 5,041,881 |
| Fayette County Department of Health | | | | | | | | | |
| Department of Health Operations | 20,432,101 | 5,850,274 | 9,571,192 | | | | (5,010,635) | | (5,010,635) |
| Depreciation | 469,013 | | | | | | (469,013) | | (469,013) |
| Total Fayette County Department of Health | 20,901,114 | 5,850,274 | 9,571,192 | 0 | | | (5,479,648) | | (5,479,648) |
| Nonmajor component units | 27,023,645 | 2,287,317 | 5,681,142 | 4,062,026 | | | | (14,993,160) | (14,993,160) |
| Total component units | \$75,001,079 | \$30,505,355 | \$16,200,334 | \$23,977,962 | | | | | (4,317,428) |
| General Revenues: | | | | | | | | | |
| Taxes | | | | | 2,006,200 | | | 4,013,317 | 6,019,517 |
| Payment from Lexington-Fayette Urban County Governmen | | | | | | | 4,371,950 | 14,350,266 | 18,722,216 |
| Conveyance of Assets | | | | | | | | 6,875,425 | 6,875,425 |
| Income on Investments | | | | | 69,379 | 66,681 | 6,591 | 59,326 | 201,977 |
| Net Change in Fair Value of Investments | | | | | | | | 2,207 | 2,207 |
| Gain on Sale of Assets | | | | | | 8,926 | | | 8,926 |
| Miscellaneous | | | | | | | | 246,543 | 246,543 |
| Total General Revenues | | | | | 2,075,579 | 75,607 | 4,378,541 | 25,547,084 | 32,076,811 |
| Change in Net Assets | | | | | 13,189,078 | 5,117,488 | (1,101,107) | 10,553,924 | 27,759,383 |
| Prior Period Adjustment | | | | | | | 201,755 | | 201,755 |
| Net Assets, July 1 | | | | | 37,876,526 | 53,345,236 | 5,033,054 | 16,867,798 | 113,122,614 |
| Net Assets, June 30 | | | | | \$51,065,604 | \$58,462,724 | \$4,133,702 | \$27,421,722 | \$141,083,752 |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
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LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lexington-Fayette Urban County Government (the Government) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting and financial reporting. In accordance with GASB Statement No. 20, all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, have been selected in accounting for proprietary funds. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002. As part of the Statement, there is a new reporting requirement regarding local government's infrastructure (roads, bridges, storm sewers, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation to the fiscal year ending 2006. As required, the Government implemented the basic model for fiscal year 2002 and will implement the infrastructure-related portion by or before fiscal year 2006.

A. Reporting Entity - The Lexington-Fayette Urban County Government is a merged city-county government governed by an elected mayor and a fifteen-member council. The accompanying financial statements present the Government and its component units (traditionally separate reporting entities), for which the Government is considered to be financially accountable. The Government (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Government. Additionally, the Government is required to consider other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the Government's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

1. Blended Component Units - The agencies and organizations listed below are, in substance, the same as the Government, despite being legally separate from the Government. Therefore, they are reported as part of the primary government. They have a governing body that is substantially the same as the governing body of the Government; provide services entirely, or almost entirely, to the Government; or otherwise exclusively, or almost exclusively, benefit the Government even though they do not provide services directly to the Government.

Governmental Fund Type

The **Fayette County Detention Center Corporation (DCC)** is an instrumentality of the Government to provide for the financing and construction of detention facilities for the Government. The board consists of the Fayette County Attorney, the Mayor, the Commissioner of Finance, the Commissioner of Public Safety, and the Commissioner of Social Services of the Government, all in ex-officio capacity.

The **Public Library Corporation (PLC)** is an instrumentality of the Government created solely for acquiring, constructing, equipping, and financing public projects to be used for public library purposes. The board consists of the Mayor, Vice Mayor, two members appointed by the Lexington Public Library, and one member appointed by the other four board members.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

The **Policemen's and Firefighters' Retirement Fund** and the **City Employees' Pension Fund** are single employer defined benefit pension plans that cover eligible Government personnel. Members of both boards are comprised of officials, employees, and retirees of the Government.

Proprietary Fund Type

The **Public Facilities Corporation (PFC)** was created to act as an agency and instrumentality of the Government in acquiring, developing and financing public improvements and public projects. The Mayor, Vice Mayor, Chief Administrative Officer, and Commissioner of Finance serve ex officio on the board.

The **Public Parking Corporation (PPC)** was created to act as an agency and instrumentality of the Government in the acquisition and financing of public parking projects. The Mayor, Vice Mayor, Chief Administrative Officer, and Commissioner of Finance serve ex officio on the board.

2. Discretely Presented Component Units - The agencies described below are included in the Government's reporting entity because the Government appoints the governing body and the agencies are fiscally dependent on the Government. All of these agencies are reported as discretely presented component units since the governing body is not substantively the same as the governing body of the Government, and they provide services to the citizens of Fayette County and the surrounding area as opposed to only the primary government. To emphasize that they are legally separate from the Government, they are reported in a separate column in the financial statements.

Governmental Fund Type

The **Lexington Public Library's (Library)** primary mission is to maintain a free public library in Lexington-Fayette County. The Mayor appoints all seven members of the board with approval by the Urban County Council and they may be removed by the vote of the Urban County Council. The Government provides financial support in the form of annual appropriations based upon property tax collections.

The **Lexington-Fayette Urban County Department of Health (Board of Health)** has the general statutory responsibility of promoting and protecting the health of Fayette County residents. The Government appoints the nine members of the Board of Health and makes annual appropriations to help meet operating expenses.

The **Lexington Convention and Visitors Commission (Visitors Bureau)** was established by the Lexington-Fayette Urban County Government for the purpose of promoting recreational, convention, and tourist activity in Fayette County. The Government may abolish the Visitors Bureau by repealing the ordinance that created it. All nine members of the Lexington Convention and Visitors Commission are appointed by the Mayor and may be removed by a majority vote of the Urban County Council. The Government has a statutory authority to provide funds for the operation of the Visitors Bureau by imposing a transient room tax not exceeding four percent of qualified occupancy rental.

The **Carnegie Literacy Center, Inc. (Carnegie Center)** provides adult literacy programs in Fayette County. The board consists of twelve members, eight members appointed by the Government and four members appointed by the Lexington Public Library Board. The Government provides financial support to the Carnegie Center by providing accounting and payroll services and annual appropriations to help meet operating expenses.

The **Lexington Downtown Development Authority, Inc. (DDA)** is a non-profit government corporation created in fiscal year 2002 to act as an agency of the Urban County Government in various economic development, redevelopment, and physical improvement activities associated with downtown. The DDA is governed by a nine-member board that is appointed by the Mayor and approved by the Urban County Council. The Government provides financial support to the DDA by providing accounting and payroll services and annual appropriations to help meet operating expenses.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Proprietary Fund Type

The **Lexington Transit Authority (LexTran)** was organized to provide unification and coordination of a mass transportation system for Fayette County. The business activities and affairs of LexTran are directed by an eight-member board appointed by the Government. The Government makes annual appropriations to LexTran to help meet operating expenses.

The **Lexington Center Corporation (LCC)** is a non-profit, non-stock corporate agency and instrumentality of the Government. The purpose of the LCC is to plan, finance, develop, and operate a convention, trade show, performing arts, and sports facility. The thirteen-member board is appointed by the Mayor and approved by the Urban County Council. The Government has statutory authority to impose a transient room tax, not exceeding two percent of qualified occupancy rental to provide funds for payment of debt service. As discussed in Note 5 B, the Government entered into a Lease Agreement that provides for an annual rental to be paid by the Government if net revenues are not sufficient to pay all debt service costs.

The **Lexington-Fayette Urban County Airport Board (Airport Board)** is responsible for the operation, maintenance, and planning of airport facilities designed to serve the general public of the Central Kentucky area. The ten board members are appointed by the Mayor and approved by the Urban County Council. The Government has entered into a Contract Lease and Option Agreement, discussed in Note 5 C, that requires an annual rental to be paid by the Government if net revenues are not sufficient to pay all debt service costs.

The **Lexington Children's Museum Corporation (Children's Museum)** was established to provide a unique educational opportunity for Fayette County and Central Kentucky children of all ages. The Government approves the appointments to the maximum 25 member board and provides financial support to the Children's Museum by providing accounting and payroll services and annual appropriations to help meet operating expenses.

The Children's Museum, the Carnegie Center, and the DDA are included in the comprehensive audit of the Government and do not issue separate financial statements. The Children's Museum and the DDA each report only one fund. Complete audited financial statements for the other component units may be obtained from the Commissioner of Finance of the Lexington-Fayette Urban County Government or from the respective agencies.

B. Related Organization - The **Lexington-Fayette Urban County Housing Authority (Housing Authority)** was created in order to develop and operate decent, safe, and sanitary housing for low income, elderly, and disabled residents. The appointment of the governing board by the Mayor and the scope of public service are not considered an adequate demonstration of oversight and control. The Government has no responsibility for their budget, debt, financing deficits, or fiscal management. Additionally, the Government does not influence their operations in any respect. Therefore, the Housing Authority is not considered to be a component unit of the Government.

C. Jointly Governed Organizations - The Lexington-Fayette Urban County Government has some level of representation in the following organizations. Since the Government does not retain an ongoing financial interest or an ongoing financial responsibility for these organizations, these are not joint ventures and are not presented in the financial statements.

The **Bluegrass Regional Recycling Center (BRRC)** is a non-profit Kentucky corporation whose purpose is to reduce the volume of solid waste being placed in landfills and engage in activities that promote recycling. Pursuant to an Interlocal Agreement, the BRRC is operated by the Government and fourteen counties. The Government has no legal interest in or access to the resources of the BRRC nor does it have any legal responsibility for the deficits or debts of, or financial support to, the BRRC.

The **Valley View Ferry Authority** is a legally separate entity that operates and maintains the Ferry on the Kentucky River at Valley View. The board consists of seven members, two appointed by the Lexington-Fayette Urban County Government, three appointed by the Madison County Fiscal Court, and two appointed by the Jessamine County

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Fiscal Court. Although the Government is not legally responsible for the Valley View Ferry Authority's finances, the Government contributed \$11,000 to support the Ferry's operations in fiscal year 2004.

D. Basic Financial Statements

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The reporting model focus is either on the Government as a whole or major individual funds. The government-wide financial statements report information on all of the nonfiduciary activities of the Government and its component units. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities normally are supported by taxes and intergovernmental revenues. Business-type activities rely to a significant extent on fees and charges for support. In the government-wide Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis by column.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a function (Public Works, Police, Fire and Emergency Services, Parks and Recreation, etc.) are offset by program revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function and include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants are capital-specific. Occupational license fees applied to gross wages and net profits, other license fees and permits, taxes, interest income and other revenues not properly included in program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Non-major funds (by category) are summarized into a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary financial statements. With this measurement focus, all assets and all liabilities, including long-term assets as well as long-term debt and obligations, are included in the Statement of Net Assets. Revenues are recorded when earned; and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Agency funds, presented in the Fiduciary fund financial statements, apply the accrual basis of accounting but do not have a measurement focus. Revenues are recognized when they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual are property taxes (excluding delinquent taxes received over 60 days after year-end), intergovernmental revenues, investment earnings, emergency medical services (EMS), and license fees. Major revenue sources not susceptible to accrual include charges for services (other than EMS), fines and forfeits, and miscellaneous revenues. Such revenues are recorded as revenues when received because they are generally not measurable or available until actually received. Intergovernmental revenues received for specific purposes or projects are recognized when the applicable eligibility requirements are met. Revenues received before the eligibility requirements are met are reported as deferred revenue. Expenditures are recorded when the liability is incurred except: (1) principal and interest on long-term debt is recorded when due, and (2) compensated absences are accounted for as expenditures of the period used.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

Internal service funds provide services primarily to other funds of the Government and are presented in summary form as part of the proprietary fund statements. Since the principal users of the internal services are the Government's governmental activities, the internal service funds' financial statements are consolidated into the governmental column in the government-wide statements. To the extent possible, the costs of these services are reflected in the appropriate functional activity. The internal service funds also provide services to the proprietary funds. Therefore, a portion of the net assets of the internal service funds is allocated to business-type activities and is reported as an adjustment on the Statement of Net Assets of the proprietary funds.

The Government's fiduciary funds are presented in the fund financial statements by type (pension and agency). Since these assets are being held for the benefit of a third party (private parties, pension participants, etc.) and cannot be used for activities or obligations of the Government, these funds are not incorporated into the government-wide statements.

E. Basis of Presentation

The financial statements of the Government are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues, and expenditures, or expenses, as appropriate. The various funds are reported by generic classification within the financial statements.

In accordance with GASB Statement No. 34, major funds are determined by the percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined. Any other governmental or enterprise funds that the Government believes is particularly important to financial statement users may also be reported as major. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The focus of governmental fund measurement (in the fund financial statements) is on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than on net income. The balance sheets generally contain only current assets and liabilities. The reported fund balance (net current assets) is a measure of "available spendable resources". The Government reports the following major governmental funds:

The **General Fund** is the primary operating unit of the Government and accounts for the revenues and expenditures not specifically provided for in other funds. Most of the essential governmental services such as police and fire protection, community services and general administration are reported in this fund.

The **Urban Services Fund** accounts for the taxes that are assessed on property within designated areas, or taxing districts, based on the type of services available to property owners. These services include solid waste collection, streetlights, and street cleaning. Property taxes raised from the urban services taxing districts can only be used to finance these services.

The **Federal and State Grants Fund** accounts for the receipts of intergovernmental funds that are restricted for operational and capital use of a particular function.

The focus of proprietary fund measurement is upon the determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. All assets and all liabilities associated with the

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

operation of these funds are included on the balance sheet. The Government reports the following major proprietary funds:

The **Sanitary Sewer System Fund** accounts for the construction activities, operation and maintenance, and the payment of principal and interest for the bond issues of the Government's sanitary sewer system. (See further description on page 75.)

The **Public Facilities Corporation Fund** accounts for the acquisition, construction and operation of government owned facilities. (See further description on page 76.)

The **Public Parking Corporation Fund** accounts for the construction and operation of government owned parking facilities. (See further description on page 76.)

The **Landfill Fund** accounts for the operations and closure and postclosure care costs of the Government's landfill.

Additionally, the Government reports the following fund types:

Internal Service Funds account for the Government's self-insurance programs for employee health, dental and vision care insurance benefits and for workers' compensation, vehicle liability and physical damage, general liability and property damage coverage.

Pension Trust Funds account for the revenues received, expenses incurred, and the net assets available for retirement benefits of the Policemen's and Firefighters' Retirement Fund and the City Employees' Pension Fund.

Agency Funds account for assets held by the Government for others in an agency capacity. These are funds collected from juvenile and adult offenders and disbursed to victims in accordance with court decrees, funds collected from and disbursed for inmates who are on work release, funds collected from special assessments for payment of debt service for neighborhood capital projects, and funds collected from noncustodial parents for child support and disbursed to the custodial parents.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Government's sewer, landfill, and public facilities and parking functions and various other functions of the Government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include occupational license fees on wages and net profits, taxes and interest income.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Government's enterprise and internal service funds are charges to customers for services. Operating expenses for enterprise and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. Budgetary Control and Encumbrances

Budget Policy - The Urban County Council annually approves the budget ordinance for all operating funds of the Government except for the Federal and State Grants special revenue fund and the capital projects funds, which adopt project-length budgets, and debt service funds, the Industrial Revenue Bond Fund, and Police Confiscated Funds

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

special revenue funds, which are not budgeted. Budgets are adopted on a basis consistent with generally accepted accounting principles except that budgetary basis expenditures include purchase orders and contracts (encumbrances) and budgetary basis revenues do not include taxpayer assessed and EMS revenues that have not been received. Budgetary control is maintained at the division level, e.g. Division of Police, Division of Parks and Recreation, etc. The Mayor may authorize transfers within a division; however, the Urban County Council must approve by ordinance any other amendments to the budget. All budgeted amounts presented in the financial statements reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations lapse at year-end; however, uncompleted capital projects may be reappropriated at the beginning of each fiscal year. The Council made several supplemental budgetary appropriations throughout fiscal year 2004. The net effect of these supplemental appropriations was an increase of \$4,430,692 and a decrease of \$607,560 in the General Fund and the Urban Services Fund respectively, which included reappropriations of funds for capital projects that were uncompleted and lapsed at June 30, 2003.

Encumbrances - Encumbrance accounting is utilized during the year to facilitate effective budgetary control. Encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. Budgetary comparisons presented in this report are on this budgetary basis of accounting. Adjustments necessary to convert from the budgetary basis to GAAP are provided on the face of the budgetary comparison statements.

In governmental funds, encumbrances outstanding at year-end are reported on the GAAP basis as "reserved for encumbrances" in the fund equity section of the appropriate fund balance sheet as they do not constitute expenditures or liabilities.

Encumbrances are not recorded in the financial statements for proprietary fund types and Pension Trust Funds. However, the purchase orders outstanding at June 30, 2004 for these funds are as follows:

| | |
|-------------------------------|-------------|
| Sanitary Sewer System | \$3,049,998 |
| Public Facilities Corporation | 621,749 |
| Public Parking Corporation | 37,825 |
| Landfill | 1,322,247 |
| Right of Way | 956 |

G. Assets, Liabilities, and Fund Equity

Cash and Investments - Management has adopted written policies and procedures for cash and investment management. Cash and cash equivalents include cash on hand, demand deposits, and cash with fiscal agents. Cash balances of most Government funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to each of the funds based on the fund's average monthly cash balance, except as required by ordinance for various restricted reserves. Funds that incur a negative balance in pooled cash and investments during the year are not charged interest. The Government has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that investments in interest earning investment contracts, external investment pools, open-end mutual funds, and debt and equity securities be reported at fair value. Investments in the Pension Trust Funds and investments with a maturity of more than one year at the time of purchase are stated at fair value. Fair value for securities traded on a national exchange is determined by the last reported sales price. All other investments are stated at cost.

Receivables - Receivables are amounts due representing revenues earned or accrued in the current period. A receivable is reported for uncollected property taxes. Since these taxes are all at least six months delinquent at June 30, an allowance for uncollectible accounts has been established. Allowances for uncollectible loans in the Federal and State Grants have also been established at 100% because of the nature of the individual projects and terms of the loans. Accounts receivable from other governments include amounts due from grantors for grants for specific programs and capital projects. The majority of other receivables in the General Fund are for taxpayer-assessed revenues.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

Property taxes for fiscal year 2004 were levied on September 11, 2003, on the assessed valuation of property located in Fayette County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

| <u>Description</u> | <u>Per KRS 134.020</u> |
|--------------------------------------|---------------------------|
| Due date for payment of taxes | Upon receipt |
| 2% discount period | By November 3 |
| Face value amount payment dates | November 4 to December 31 |
| Delinquent date, 5% penalty | January 1 to February 2 |
| 10% penalty plus 10% add on fee date | February 3 |

Per Kentucky statute, the county sheriffs are responsible for collection of property taxes. During fiscal year 1991, the Fayette County Sheriff and the Government entered into a contract whereby the Government agreed to collect property taxes as an agent for the Sheriff. This contract is renewable annually and was renewed for fiscal year 2004. Vehicle taxes, collected by the County Clerk of Fayette County, are due and collected in the birth month of the vehicle's license. During the year, property tax revenues are recognized when cash is received. At year-end, a receivable is recorded for delinquent property taxes but revenues are only recognized for taxes collected within 60 days of the close of the fiscal year.

Interfund Receivables - During the course of its operations, the Government has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Inventories - Fuel and vehicle parts inventories are stated at average cost. Other inventories are valued using the first-in, first-out method. The costs of inventory items are recognized as expenditures or expenses when used.

Restricted Assets - Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond indentures. The Construction and Capital Acquisitions account is used to report proceeds of general obligation and revenue bonds and notes that are restricted for use in construction and capital acquisitions. The Maintenance and Operations account is the resources set aside to operate, maintain, and insure the Sanitary Sewer System for three full months. The Depreciation account is the resources set aside to provide reasonable reserves for renewals, replacements, improvements, extensions, extraordinary major repairs and contingencies in the operation of the Sanitary Sewer System. The Debt Service account is used to report resources set aside to prevent a default in payment of principal or interest on the bonds. The Sinking Fund account is the resources accumulated for debt service payments over the next twelve months.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, traffic signals, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Expenditures for items having a useful life greater than one year and having a cost greater than \$5,000 for equipment and \$25,000 for land, buildings, and related improvements are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value and recorded as donations at the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Construction in progress represents construction projects for capital assets that have not yet been placed in service. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

capitalized value of the assets constructed. The total interest expense incurred by the Sanitary Sewer System during fiscal year 2004 was \$1,188,200. Of this amount, \$1,121,053 was included as part of the cost of capital assets.

Property, plant, and equipment of the Government is depreciated using the straight-line method over the following estimated useful lives:

| | |
|--------------------------------------|-------------|
| Buildings and improvements | 20-40 years |
| Land improvements | 10-15 years |
| Public domain infrastructure | 10-50 years |
| Sanitary Sewer System infrastructure | 50 years |
| Vehicles and equipment | 5-15 years |
| Office equipment | 5 years |
| Computer equipment | 3 years |

Compensated Absences - Compensated absences include accumulated unpaid vacation, sick and holiday leave. Government employees are granted vacation and sick leave in varying amounts in accordance with administrative policy. In the event of termination, an employee is reimbursed for accumulated holiday and vacation days. Employees receive annual compensation for accumulated unused sick leave in excess of 600 hours (or 840 hours for firefighters). Employees are reimbursed for all accumulated unused sick leave upon retirement. All accumulated leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. In governmental funds, compensated absences are not payable with available and spendable resources, and, therefore, are only recorded when they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations – In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Assets. The discounts, premiums, and issuance costs related to bonds and notes issued are deferred and amortized over the life of the bond or note using the straight-line method. Bonds and notes payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Extraordinary losses, the difference between the re-acquisition price (new debt) and the net carrying value of the old debt on refunded debt of the proprietary funds, are amortized as a component of interest expense over the life of the old or new bonds, whichever is shorter, using the straight-line method. The deferred amount is offset against the new liability.

Long-term liabilities include the following:

- Principal outstanding on general obligation bonds and notes and revenue bonds.
- Unfunded pension liability is the Net Pension Obligation for the Policemen's and Firefighters' Retirement Fund and the City Employees' Pension Fund.
- Landfill closure and postclosure care liability is the estimated total current cost to place a final cover on the Government's landfill sites and to perform certain maintenance and monitoring functions for thirty years after closure.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Deferred Revenues – The Government defers revenue recognition in connection with resources that have been received but not yet earned. At the end of fiscal year 2004, industrial revenue bond fees totaling \$2,500 and adult probation fees received but not earned totaling \$96,540 have been deferred.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated by outside parties for a specific future use. Designated fund balances represent tentative plans for future use of financial resources and include \$3,603,072 for the twenty-seventh payroll, \$5,878,356 for economic contingencies, \$3,864,830 for working capital, and \$906,180 for pay adjustments.

In proprietary funds, reserves are used to indicate the portion of net assets that are restricted for meeting various covenants as may be specified and defined in the revenue bond indentures.

H. Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same fiscal year in which the taxes are levied. Emergency medical service fees are billed and collected by Software Development, Inc. (SDI) as an agent for the Government. Cash collected by SDI is remitted daily to the Government. The Government records all revenues (net of an allowance for doubtful accounts) billed by SDI through the end of the fiscal year.

The majority of the sanitary sewer user fees and the landfill user fees are billed and collected by the Kentucky American Water Company (KAWC) as an agent for the Government. Cash collected by the KAWC is remitted to the Government daily. All revenues, (net of an allowance for doubtful accounts), billed by the KAWC are recorded by the Government.

Expenditures are recognized when the related fund liability is incurred except for the following permitted by generally accepted accounting principles:

General obligation long-term debt principal and interest are reported when due.

Inventory costs are reported in the period when inventory items are consumed, rather than when purchased.

Compensated absences are recorded when payable rather than when earned.

Interfund transactions that would be treated as revenues or expenditures/expenses if they involved organizations external to the Government are similarly treated when involving funds of the Government. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the reimbursed fund. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as operating transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Compliance With Finance Related Legal and Contractual Provisions

The Government has no material violations of finance related legal and contractual provisions.

B. Excess of Expenditures over Appropriations - The following divisions, in funds that have budgets adopted annually, had excess expenditures over appropriations for the fiscal year ended June 30, 2004:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

| | Excess Expenditures |
|----------------------------------|------------------------|
| General Fund: | |
| Property Valuation Administrator | \$925 |
| Internal Audit Office | 8,173 |
| Accounting | 304 |
| Fire & Emergency Services | 290,237 |
| Building Inspection | 21,836 |
| Alcohol Beverage Control | 72 |
| Health Care Services | 13,903 |
| Lexington Center Corporation | 156,658 |
| Housing Agencies | 9,896 |
| Other Debt Service | 18 |
| Urban Services Fund: | |
| Indirect Cost Allocation | 28,169 |
| Government Communications | 885 |
| Finance Administration | 8,454 |

Expenditures for the Division of Fire and Emergency Services were over budget by \$290,237 due to unanticipated increases in fire hydrant costs and vehicle repairs and maintenance. Payment to the Lexington Center Corporation, an outside agency, exceeded budget by \$156,658 due to higher than anticipated collections of hotel motels fees. Available fund balances funded the over expenditures.

C. Fund Deficits

Capital Projects Funds – The Condemnation, 2004 Bond Projects, and Roads, Parks, Open Space, and Storm Water Exactions Fund had deficit fund balances of \$50,297, \$3,647,105, and \$309,303 respectively. These deficits are a result of incurring costs before the collection of exaction fees and the issuance of bonds that will fund these projects.

Internal Service Funds - The Health, Dental, and Vision Care Insurance Fund has deficit net assets of \$2,236,058 and the Insurance and Risk Management Fund has deficit net assets of \$3,975,038. These deficits are a result of higher than expected claims expenses and incurred but not reported estimates in fiscal year 2004. To fund the Health, Dental, and Vision Care Insurance Fund’s deficit, the Government increased transfers from the general fund, the urban services fund and sanitary sewer fund as a personnel expenditure and modified benefits for fiscal year 2005. Funding for the Insurance and Risk Management Fund’s deficit will be accomplished through appropriations in future years.

D. Primary Government

As a result of prior period adjustments, the beginning net assets presented in the Statement of Activities as well as Lexington-Fayette Urban County Government’s General Fund beginning fund balance were decreased by \$1,140,149 to reflect a correction for conveyed property in the prior fiscal year.

E. Component Units

Lexington-Fayette Urban County Department of Health – As a result of prior period adjustments, the beginning net assets of the Board of Health were increased \$201,755.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. Cash, Investments and Securities Lending

The Government's bank balances at June 30, 2004 are entirely insured or collateralized with securities held by the Government's agent in the Government's name, with the exception of \$134,938 in cash deposits maintained at one particular institution. In accordance with Kentucky Revised Statute (KRS) 66.480 and the Government's investment policy, the Government is allowed to invest in obligations of the U.S. Treasury and U.S. agencies and instrumentalities, repurchase agreements, bankers' acceptances, commercial paper, obligations of the Commonwealth of Kentucky and its agencies and instrumentalities, shares of mutual funds, or interest bearing deposits of insured national or state banks. In addition, the Pension Trust Funds are allowed to invest in equity securities, corporate bonds and international stocks listed as American Depository Receipts (ADR). Investments of the Government as of June 30, 2004 are summarized and categorized below. The three categories of risk are described as follows:

- Category 1: Insured or registered, or securities held by the Government or its agent in the Government's name
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Government's name
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Government's name

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Primary Government

| | Category | | | Reported Amount/ Fair Value |
|---|----------------------|------------|------------|-----------------------------------|
| | 1 | 2 | 3 | |
| U.S. Government Securities | \$15,211,861 | | | \$15,211,861 |
| U.S. Government Agency Securities | | | | |
| Not on securities loan | 27,040,869 | | | 27,040,869 |
| On securities loan | 5,360,053 | | | 5,360,053 |
| Municipal Bonds | 19,229,292 | | | 19,229,292 |
| Corporate Bonds | 50,504,620 | | | 50,504,620 |
| International Bonds | 3,152,014 | | | 3,152,014 |
| Mutual Funds - Stocks | 65,260,997 | | | 65,260,997 |
| Domestic Stocks | | | | |
| Not on securities loan | 145,496,549 | | | 145,496,549 |
| On securities loan | 1,123,031 | | | 1,123,031 |
| International Stocks (ADR) | 5,697,562 | | | 5,697,562 |
| | <u>\$338,076,848</u> | <u>\$0</u> | <u>\$0</u> | <u>338,076,848</u> |
| Investments not subject to categorization: | | | | |
| Investments held by broker-dealers | | | | |
| under securities loans with cash collateral | | | | |
| U.S. Government Securities | | | | 2,253,107 |
| Corporate Bonds | | | | 3,696,721 |
| Domestic Stocks | | | | 11,135,808 |
| International Stocks (ADR) | | | | 752,550 |
| Certificates of Deposit | | | | 51,680 |
| Money Market Funds | | | | 121,190,065 |
| Total Investments | | | | <u>\$477,156,779</u> |

Investments of Component Units as of June 30, 2004 are summarized and categorized in the following table:

| | Category | | | Reported Amount/ Fair Value |
|--|--------------------|---------------------|------------|-----------------------------------|
| | 1 | 2 | 3 | |
| U.S. Government and Government | | | | |
| Agency Obligations | \$2,964,593 | \$28,158,480 | | \$31,123,073 |
| Corporate Bonds | | | | |
| Repurchase Agreements | | 10,085,000 | | 10,085,000 |
| | <u>\$2,964,593</u> | <u>\$38,243,480</u> | <u>\$0</u> | <u>41,208,073</u> |
| Investments not subject to categorization: | | | | |
| Certificates of Deposit | | | | 2,961,284 |
| Money Market Funds | | | | 3,907,188 |
| Total Investments | | | | <u>\$48,076,545</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

The Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund (the "retirement fund") has a securities lending agreement with Bank One Trust Company, N.A., a national banking association (the "agent"). Bank One, also the custodian for the retirement fund, acts as an agent to lend securities held in the retirement fund portfolios.

Per the agreement, the retirement fund has authorized the lending of domestic bonds and securities in return for collateral. Collateral for loaned securities may be in the form of cash, securities issued or guaranteed by the United States Government or its agencies, or irrevocable letters of credit. The broker/dealer collateralizes their borrowing to 102% of the security value, plus accrued interest. If the broker/dealer fails to return the security upon request, then the agent will utilize the collateral to replace the security loaned.

Investment of the cash collateral may be in commercial paper that is rated in the highest category of at least two nationally recognized security agencies, short-term obligations of banks, short-term obligations of the United States Government or its agencies, repurchase agreements, funding agreements issued by insurance companies rated "A" or higher by A. M. Best & Company, or money market mutual funds.

The agent agrees to indemnify the retirement fund for losses resulting directly or indirectly from the failure of the borrower to return the loaned securities in accordance with the terms of the loan agreement, limited to an indemnification amount equal to the difference between the market value of the loaned securities and the value of the collateral. There are no restrictions in the agreement that limit the amount of securities that can be lent at one time or to one borrower.

As of June 30, 2004, the securities loaned in the portfolio did not have a credit risk, and the reported amount/fair value of securities on loan is \$24,321,271.

B. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

| | Primary Government | | | |
|---|------------------------------|----------------------|----------------------|---------------------------|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Governmental Activities: | | | | |
| Non-Depreciable Assets: | | | | |
| Land | \$41,469,465 | \$100,900 | (\$2,607,482) | \$38,962,883 |
| Land Related to Infrastructure | 1,549,014 | 3,335,248 | | 4,884,262 |
| Purchase of Development Rights | 11,036,318 | 17,615,133 | | 28,651,451 |
| Construction in Progress | 7,951,250 | 5,594,217 | (76,550) | 13,468,917 |
| Depreciable Assets: | | | | |
| Buildings | 114,553,505 | 4,995,975 | (7,783,021) | 111,766,459 |
| Vehicles, Equipment and Furniture | 71,701,529 | 10,558,946 | (5,493,542) | 76,766,933 |
| Land and Leasehold Improvements | 8,551,429 | 829,184 | | 9,380,613 |
| Infrastructure | 25,645,772 | 766,613 | | 26,412,385 |
| Totals at historical cost | 282,458,282 | 43,796,216 | (15,960,595) | 310,293,903 |
| Less accumulated depreciation for: | | | | |
| Buildings | (16,727,893) | (3,085,106) | 3,806,691 | (16,006,308) |
| Vehicles, Equipment and Furniture | (42,623,318) | (11,210,502) | 3,828,481 | (50,005,339) |
| Land and Leasehold Improvements | (3,277,674) | (421,167) | | (3,698,841) |
| Infrastructure | (1,780,140) | (1,406,577) | | (3,186,717) |
| Total accumulated depreciation | (64,409,025) | (16,123,352) | 7,635,172 | (72,897,205) |
| Governmental activities capital assets, net | \$218,049,257 | \$27,672,864 | (\$8,325,423) | \$237,396,698 |
| Business-type Activities: | | | | |
| Non-Depreciable Assets: | | | | |
| Land | \$45,302,336 | \$79,216 | | \$45,381,552 |
| Construction in Progress | 3,210,806 | 1,224,082 | (2,768) | 4,432,120 |
| Depreciable Assets: | | | | |
| Buildings | 126,591,266 | 558,635 | | 127,149,901 |
| Vehicles, Equipment and Furniture | 11,322,554 | 419,221 | (314,056) | 11,427,719 |
| Land and Leasehold Improvements | 37,619,240 | 3,103,650 | | 40,722,890 |
| Sewer Lines | 118,211,750 | 5,300,692 | | 123,512,442 |
| Sewer Plants | 159,275,354 | - | | 159,275,354 |
| Totals at historical cost | 501,533,306 | 10,685,496 | (316,824) | 511,901,978 |
| Less accumulated depreciation for: | | | | |
| Buildings | (32,346,608) | (1,513,079) | | (33,859,687) |
| Vehicles, Equipment and Furniture | (8,419,305) | (1,128,613) | 196,423 | (9,351,495) |
| Land and Leasehold Improvements | (16,819,832) | (5,140,710) | | (21,960,542) |
| Sewer Lines | (31,874,594) | (2,417,242) | | (34,291,836) |
| Sewer Plants | (54,909,265) | (3,185,776) | | (58,095,041) |
| Total accumulated depreciation | (144,369,604) | (13,385,420) | 196,423 | (157,558,601) |
| Business-type activities capital assets, net | \$357,163,702 | (\$2,699,924) | (\$120,401) | \$354,343,377 |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

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

Governmental activities:

| | |
|--|-----------------------------------|
| General Government | \$686,918 |
| Administrative Services | 206,293 |
| Finance | 1,036,214 |
| Public Works | 5,450,113 |
| Public Safety | 198,597 |
| Police | 2,297,373 |
| Fire and Emergency Services | 1,165,187 |
| Community Corrections | 2,138,316 |
| Social Services | 113,886 |
| General Services | 1,720,769 |
| Parks and Recreation | 893,933 |
| Law | 5,262 |
| Outside Agencies | 210,491 |
| Total additions to accumulated depreciation - governmental activities | <u><u>\$16,123,352</u></u> |

Business-type activities:

| | |
|--|-----------------------------------|
| Sanitary Sewers | \$6,291,982 |
| Public Facilities | 6,244,132 |
| Public Parking | 307,155 |
| Landfill | 437,729 |
| Extended School Program | 9,662 |
| Prisoners' Account System | 18,630 |
| Enhanced 911 | 76,130 |
| Total depreciation expense - business-type activities | <u><u>\$13,385,420</u></u> |

Discretely Presented Component Units

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|------------------------------|---------------------|----------------------|---------------------------|
| Non-Depreciable Assets: | | | | |
| Land | \$16,257,544 | \$2,916,976 | | \$19,174,520 |
| Construction in Progress | 31,794,620 | (8,587,233) | (6,098,562) | 17,108,825 |
| Other | 460,902 | | | 460,902 |
| Depreciable Assets: | | | | |
| Buildings and Improvements | 135,265,350 | 46,849,815 | (673,432) | 181,441,733 |
| Vehicles, Equipment and Furniture | 33,553,563 | 6,332,133 | (1,093,192) | 38,792,504 |
| Land and Leasehold Improvements | 35,776,376 | 97,908 | (20,067) | 35,854,217 |
| Totals at historical cost | 253,108,355 | 47,609,599 | (7,885,253) | 292,832,701 |
| Less accumulated depreciation | (102,088,693) | (14,122,667) | 1,410,076 | (114,801,284) |
| Component unit activities capital assets, net | \$151,019,662 | \$33,486,932 | (\$6,475,177) | \$178,031,417 |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Construction Commitments

The Government has active construction projects as of June 30, 2004. The projects include improvements to major roadways, government buildings, sanitary sewer and stormwater systems, closure of the landfill, and parks improvements. At year end, the Government had the following commitments on construction contracts:

| <u>Project</u> | <u>Remaining Commitment</u> |
|-------------------------------------|---------------------------------|
| Major roadway improvements | \$3,593,337 |
| New buildings | 2,852,505 |
| Renovations to government buildings | 226,750 |
| Sanitary sewer system improvements | 701,904 |
| Stormwater system improvements | 608,411 |
| Landfill closure & improvements | 156,064 |
| Parks improvements | 119,400 |
| Total | <u><u>\$8,258,371</u></u> |

Intergovernmental revenues and local contributions provide funding for the major roadway improvements. The Urban Services Fund and intergovernmental revenues fund the renovations to government buildings. The Sanitary Sewers Revenue Bonds, Series 2001A, is financing the sanitary sewer improvements. General obligation bonds finance the commitments for stormwater system improvements. Landfill user fees are paying the landfill closure. Intergovernmental revenues and general obligation bonds fund the parks improvements.

C. Interfund Receivables, Payables, and Transfers

The principal purpose of the Government's interfund transfers is indicative of funding for capital projects or subsidies of various Government operations and reallocation of special revenues. Due to our practice of cash management by concentrating the Government's funds interfund balances exist as of June 30, 2004. In addition, Federal and State Grants revenues are based on reimbursable expenditures. The composition of interfund balances as of June 30, 2004, is as follows:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-------------------------------|-------------------------------|---------------------|
| General: | Federal and State Grants | \$3,156,358 |
| | Nonmajor Governmental | 4,910,601 |
| | Public Facilities Corporation | 381,682 |
| | Sanitary Sewer | 35,111 |
| | Nonmajor Proprietary | 38,454 |
| | Internal Service | 1,058,752 |
| | Employee Retirement Fund | 80 |
| Urban Services: | Federal and State Grants | 1,213,545 |
| | Nonmajor Governmental | 17,000 |
| Nonmajor Governmental: | General | 658,398 |
| | Sanitary Sewers | 43,424 |
| Sanitary Sewers: | General | 300 |
| | Nonmajor Governmental | 25,344 |
| | Federal and State Grants | 120,861 |
| Public Facilities Corporation | General | 1,235,323 |
| Public Parking Corporation | General | 227,414 |
| Landfill: | Sanitary Sewers | 1,044,479 |
| | Federal and State Grants | 3,991 |
| Nonmajor Proprietary: | Federal and State Grants | 1,306 |
| | General | 572 |
| Internal Service: | Sanitary Sewers | 211,484 |
| | Federal and State Grants | 80,049 |
| Employee Retirement Fund | General | 537,521 |
| Agency | General | 72 |
| | | <u>\$15,002,121</u> |

Due to/from primary government and component units:

| <u>Receivable Entity</u> | <u>Payable Entity</u> | <u>Amount</u> |
|---|--|--------------------|
| Primary government - General fund | Component unit - Lexington Transit Authority | \$305,239 |
| Primary government - Public Library Corporation | Component unit - Lexington Public Library | 34,605 |
| Component unit - Lexington Center Corporation | Primary government - General fund | 199,870 |
| Component unit - Lexington Transit Authority | Primary government - General fund | 253,322 |
| Component unit - Visitors' Bureau | Primary government - General fund | 397,741 |
| Component unit - Children's Museum | Primary government - General fund | 22,155 |
| Component unit - Carneige Literacy Center | Primary government - General fund | 12,082 |
| Component unit - Lexington Center Corporation | Component Unit - Visitors' Bureau | 172,157 |
| Total | | <u>\$1,397,171</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

Interfund transfers:

Transfers are indicative of funding for capital projects or subsidies of various Government operations and reallocation of special revenues. The following schedule briefly summarizes the Government's transfer activity:

| | Transfer In: | | | |
|--------------------------|--------------|----------------------|-----------------------------|-------------|
| Transfer Out: | General | Major Proprietary | Federal and State Grants | Total |
| General | | \$1,140,753 | \$100,000 | \$1,240,753 |
| Urban Services | 75,470 | | | 75,470 |
| Federal and State Grants | 118,911 | | | 118,911 |
| Nonmajor Governmental | 1,521,680 | | | 1,521,680 |
| Major Proprietary | 4,400 | | | 4,400 |
| Total | \$1,720,461 | \$1,140,753 | \$100,000 | \$2,961,214 |

D. Long-term Debt

Revenue bonds and other directly related long-term liabilities, which are intended to be paid from proprietary funds are included in the accounts of such funds. All other long-term indebtedness are accounted for in the governmental column of the government-wide Statement of Net Assets.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Primary Government

**Bonds Payable, Notes Payable, Compensated Absences Liability, Landfill Closure
& Postclosure Care Costs, and Unfunded Pension Liability
June 30, 2004**

| Purpose of Issue | Original Issue | Interest Rates | Final Maturity | Amount Outstanding | |
|---|---|----------------------|-------------------|-----------------------|----------------------|
| Governmental Activities | | | | | |
| Bonds, Notes, Loans, and Leases: | | | | | |
| Detention Center, 1996 Loan | Land Purchase | \$1,527,900 | 4.96% | Oct-2006 | \$434,255 |
| General Obligation, Series 1999A | Detention Facility Construction | 67,115,000 | 4.25% - 4.75% | May-2024 | 62,900,000 |
| General Obligation, Series 1999B | Branch Library Construction | 3,570,000 | 4.75% - 5.60% | Nov-2019 | 3,115,000 |
| General Obligation, Series 2000A | Golf Course Improvements | 8,460,000 | 5.13% - 5.63% | Feb-2020 | 7,370,000 |
| General Obligation, Series 2000C | Detention Facility & Fire Equipment | 6,315,000 | 4.50% - 5.00% | Apr-2005 | 1,385,000 |
| General Obligation, Series 2000D | Storm Water Improvements | 10,675,000 | 4.25% - 5.00% | Dec-2010 | 7,960,000 |
| General Obligation, Series 2000E | Building Purchase/Renovation and Pool Renovation | 9,335,000 | 4.30% - 5.25% | Dec-2020 | 8,425,000 |
| General Obligation, Series 2001B | Purchase of Development Rights | 7,635,000 | 3.00% - 4.63% | Dec-2021 | 7,095,000 |
| General Obligation, Series 2002A | Equipment Purchase | 5,090,000 | 1.65% - 2.63% | May-2005 | 1,725,000 |
| General Obligation, Series 2002B | Building Renovation | 2,330,000 | 3.00% - 4.00% | May-2012 | 1,915,000 |
| General Obligation, Series 2002C | Storm Water Improvements and Road Construction | 4,570,000 | 3.00% - 4.70% | Dec-2022 | 4,305,000 |
| General Obligation, Series 2003A | Equipment Purchase | 4,465,000 | 2.00% | May-2006 | 3,005,000 |
| General Obligation, Series 2003B | Purchase of Fire Equipment | 1,455,000 | 2.00% - 3.00% | May-2010 | 1,255,000 |
| General Obligation, Series 2003A | Refunding | 19,185,000 | 2.00% - 3.13% | Feb-2011 | 19,185,000 |
| General Obligation, Series 2004A | Equipment Purchase | 4,240,000 | 1.00% - 3.00% | May-2007 | 4,240,000 |
| General Obligation, Series 2004B | Public Safety | 2,350,000 | 2.00% - 4.00% | May-2011 | 2,350,000 |
| General Obligation, KLC Series 2000 | Economic Development Project | 360,000 | 3.97% | May-2012 | 330,000 |
| Total Bonds, Notes and Loans | | <u>\$158,677,900</u> | | | <u>136,994,255</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | | | | | 14,256,608 |
| Unfunded Pension Liability | | | | | 18,190,102 |
| Total Other Liabilities | | | | | <u>32,446,710</u> |
| Total Governmental Activities | | | | | <u>\$169,440,965</u> |
| Business-Type Activities | | | | | |
| Bonds, Notes and Loans: | | | | | |
| Sanitary Sewer, Series 1993 | Refunding | \$15,545,000 | 2.60% - 4.70% | Jul-2005 | \$3,110,000 |
| Public Facilities, Series 1995 | Pool Renovation/Construction | 4,360,000 | 5.00% - 5.10% | Nov-2015 | 3,115,000 |
| Sanitary Sewer, Series 1996 | Refunding | 14,860,000 | 4.50% - 5.00% | Jul-2009 | 5,600,000 |
| Public Parking, Series 1993 | Refunding | 2,825,000 | 2.30% - 5.00% | Aug-2004 | 285,000 |
| Public Parking, Series 1998 | Refunding | 7,260,000 | 1.00% - 4.80% | Feb-2010 | 4,060,000 |
| Public Facilities, Series 1998 | Court Facility Construction | 69,120,000 | 4.00% - 5.25% | Oct-2031 | 66,480,000 |
| Sanitary Sewer, Series 2001A | Sewer Rehabilitation | 25,150,000 | 4.00% - 5.00% | Jul-2021 | 24,750,000 |
| Sanitary Sewer, Series 2001B | Refunding | 16,860,000 | 4.00% - 5.50% | Jul-2012 | 16,580,000 |
| Total Bonds, Notes and Loans | | <u>\$155,980,000</u> | | | <u>123,980,000</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | | | | | 744,313 |
| Landfill Closure & Postclosure Care Costs | | | | | 25,947,990 |
| Total Other Liabilities | | | | | <u>26,692,303</u> |
| Total Business-type Activities | | | | | <u>\$150,672,303</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

| Long-Term Liabilities | | | | | |
|---|----------------------|---------------------|---------------------|----------------------|---------------------|
| For the Year Ended June 30, 2004 | | | | | |
| | Balance | | | Balance | Due Within |
| | 06/30/2003 | Additions | Reductions | 06/30/2004 | One Year |
| Governmental Activities | | | | | |
| Bonds, Notes, Loans, and Leases | | | | | |
| General Obligation Bonds, Notes & Leases | \$119,795,000 | \$25,775,000 | \$9,010,000 | \$136,560,000 | \$13,980,000 |
| Mortgage Revenue Bonds | 285,000 | | 285,000 | | |
| Lease Revenue Notes Payable | 1,543,585 | | 1,109,330 | 434,255 | 176,566 |
| Total Bonds, Notes and Loans | <u>121,623,585</u> | <u>25,775,000</u> | <u>10,404,330</u> | <u>136,994,255</u> | <u>14,156,566</u> |
| Other Liabilities | | | | | |
| Compensated Absences | 14,136,819 | 2,906,461 | 2,786,672 | 14,256,608 | 2,545,485 |
| Unfunded Pension Liability | 17,793,492 | 396,610 | | 18,190,102 | |
| Governmental Activities Long-term Liabilities | <u>\$153,553,896</u> | <u>\$29,078,071</u> | <u>\$13,191,002</u> | <u>\$169,440,965</u> | <u>\$16,702,051</u> |
| Business-type Activities | | | | | |
| Bonds, Notes and Loans | | | | | |
| Revenue Bonds | \$53,375,000 | | \$3,335,000 | \$50,040,000 | \$3,480,000 |
| Mortgage Revenue Bonds | 98,320,000 | | 24,380,000 | 73,940,000 | 2,260,000 |
| Total Bonds, Notes and Loans | <u>151,695,000</u> | | <u>27,715,000</u> | <u>123,980,000</u> | <u>5,740,000</u> |
| Other Liabilities | | | | | |
| Compensated Absences | 653,789 | 151,000 | 60,476 | 744,313 | 235,420 |
| Landfill Closure & Postclosure Care Costs | 26,484,916 | | 536,926 | 25,947,990 | 14,505,601 |
| Business-type Activities Long-term Liabilities | <u>\$178,833,705</u> | <u>\$151,000</u> | <u>\$28,312,402</u> | <u>\$150,672,303</u> | <u>\$20,481,021</u> |

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$52,215 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the General Fund and the Urban Services Fund.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

Principal requirements to maturity for the Primary Government's bonds and notes are as follows:

**Summary of Principal Requirements
(In Thousands)**

| Fiscal Year | Governmental Activities | | | Business-type Activities | | | Total Primary Government |
|---|---|--------------------------------------|------------------|--------------------------|------------------------------|------------------|--------------------------------|
| | General Obligation Bonds, Notes & Leases | Lease Revenue Notes Payable | Total | Revenue Bonds | Mortgage Revenue Bonds | Total | |
| 2005 | \$13,980 | \$177 | \$14,157 | \$3,480 | \$2,260 | \$5,740 | \$19,897 |
| 2006 | 12,175 | 186 | 12,361 | 3,645 | 2,055 | 5,700 | 18,061 |
| 2007 | 11,000 | 72 | 11,072 | 3,515 | 2,140 | 5,655 | 16,727 |
| 2008 | 9,025 | | 9,025 | 3,685 | 2,245 | 5,930 | 14,955 |
| 2009 | 7,650 | | 7,650 | 3,855 | 2,345 | 6,200 | 13,850 |
| 2010 - 2014 | 29,065 | | 29,065 | 18,785 | 10,210 | 28,995 | 58,060 |
| 2015 - 2019 | 27,200 | | 27,200 | 7,550 | 11,055 | 18,605 | 45,805 |
| 2020 - 2024 | 26,465 | | 26,465 | 5,525 | 13,430 | 18,955 | 45,420 |
| 2025 - 2029 | | | | | 17,345 | 17,345 | 17,345 |
| 2030 - 2032 | | | | | 10,855 | 10,855 | 10,855 |
| Total | 136,560 | 435 | 136,995 | 50,040 | 73,940 | 123,980 | 260,975 |
| Less Payable Within | | | | | | | |
| One Year | 13,980 | 177 | 14,157 | 3,480 | 2,260 | 5,740 | 19,897 |
| Long Term Principal Due After One Year | <u>\$122,580</u> | <u>\$258</u> | <u>\$122,838</u> | <u>\$46,560</u> | <u>\$71,680</u> | <u>\$118,240</u> | <u>\$241,078</u> |

Debt service requirements (principal and interest) to maturity for the Primary Government's bonds and notes are as follows:

**Annual Requirements to Amortize the Debt Outstanding
(In Thousands)**

| Fiscal Year | Governmental Activities | | | | Business-type Activities | | | |
|--------------|--|------------------|--------------------------------|--------------|--------------------------|-----------------|---------------------------|-----------------|
| | General Obligation Bonds, Notes & Leases | | Lease Revenue Notes Payable | | Revenue Bonds | | Mortgage Revenue Bonds | |
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal |
| 2005 | \$5,700 | \$13,980 | \$18 | \$177 | \$2,414 | \$3,480 | \$3,663 | \$2,260 |
| 2006 | 5,236 | 12,175 | 9 | 186 | 2,246 | 3,645 | 3,569 | 2,055 |
| 2007 | 4,867 | 11,000 | 1 | 72 | 2,076 | 3,515 | 3,477 | 2,140 |
| 2008 | 4,502 | 9,025 | | | 1,906 | 3,685 | 3,380 | 2,245 |
| 2009 | 4,168 | 7,650 | | | 1,726 | 3,855 | 3,278 | 2,345 |
| 2010 - 2014 | 16,431 | 29,065 | | | 5,461 | 18,785 | 14,755 | 10,210 |
| 2015 - 2019 | 10,300 | 27,200 | | | 2,363 | 7,550 | 12,087 | 11,055 |
| 2020 - 2024 | 3,508 | 26,465 | | | 424 | 5,525 | 9,018 | 13,430 |
| 2025 - 2029 | | | | | | | 5,096 | 17,345 |
| 2030 - 2032 | | | | | | | 853 | 10,855 |
| Total | <u>\$54,712</u> | <u>\$136,560</u> | <u>\$28</u> | <u>\$435</u> | <u>\$18,616</u> | <u>\$50,040</u> | <u>\$59,176</u> | <u>\$73,940</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

Component Units

The Government is contingently liable for the Lexington Center Corporation and Airport Board's debt. For a complete discussion of this liability see Note 5. Principal requirements for component units' debt are as follows:

Summary of Principal Requirements

| Fiscal Year | Lexington Center Corporation | Lexington Airport Board | Nonmajor Component Units | Total |
|--|------------------------------------|----------------------------|--------------------------------|---------------------|
| 2005 | \$2,645,000 | \$896,374 | \$42,923 | \$3,584,297 |
| 2006 | 2,655,000 | 901,809 | 44,944 | 3,601,753 |
| 2007 | 3,230,000 | 1,007,552 | 47,061 | 4,284,613 |
| 2008 | 2,166,125 | 1,650,765 | 49,278 | 3,866,168 |
| 2009 | 2,043,522 | 1,475,000 | 25,509 | 3,544,031 |
| 2010 - 2014 | 8,923,772 | 8,500,000 | | 17,423,772 |
| 2015 - 2019 | 10,600,000 | 7,225,000 | | 17,825,000 |
| 2020 - 2022 | 7,500,000 | 8,625,000 | | 16,125,000 |
| 2025 - 2029 | | 10,525,000 | | 10,525,000 |
| 2030 - 2034 | | 9,100,000 | | 9,100,000 |
| Total | 39,763,419 | 49,906,500 | 209,715 | 89,879,634 |
| Less Payable Within One Year | 2,645,000 | 896,374 | 42,923 | 3,584,297 |
| Less Refinancing Loss/Premium-Discount | 121,844 | 248,956 | | 370,800 |
| Long Term Principal Due After One Year | <u>\$36,996,575</u> | <u>\$48,761,170</u> | <u>\$166,792</u> | <u>\$85,924,537</u> |

General Description of the Government's Bonds and Notes Payable

The Sanitary Sewer System (the System) issues revenue bonds to finance improvements and expansions of the sanitary sewer system operated by the Government. The Sanitary Sewer System has issued the following bonds:

1. \$15,545,000 of Refunding Bonds, Series of 1993, to refund \$13,785,000 principal remaining on the 1985 series of refunding bonds.
2. \$14,860,000 of Refunding Bonds, Series of 1996, to refund the \$14,920,000 total principal remaining on the 1986 and 1988 bonds. The refunding bonds were issued to reduce interest rates on the debt. The refunded bonds were issued to provide local share funding for upgrading and expanding the Town Branch Treatment Plant.
3. \$25,150,000 of Revenue Bonds, Series A of 2001, to pay for the rehabilitation of gravity sewer pipe and appurtenances at various locations throughout the Urban Services area.
4. \$16,860,000 of Refunding Bonds, Series B of 2001 to reduce interest rates on debt by refunding the \$17,340,000 total principal remaining on the 1992 bonds. The refunded bonds were issued to provide funds for expansion of the West Hickman Creek wastewater treatment plant and to finance the installation of the Lower Cane Run system.

The bond ordinances provide that the gross income and revenues of the Sanitary Sewer System be deposited into the Revenue and Operations Account. Monies in the Revenue and Operations Account are to be disbursed as follows:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

- Each month to the Sinking Fund, 1/6 of the next interest payment and 1/12 of the next principal payment and, if necessary, 1/24th of the required Debt Service Reserve which is the maximum annual debt service on the 1993, 1996, and 2001 Series A and B Bonds, and any parity bonds until the Debt Service Reserve equals the requirement.
- Pay, as they accrue, the proper and necessary costs of operating, maintaining and insuring the System as set out in the "Current Expenses" contained in the annual budget and to accumulate and maintain an amount sufficient to pay said costs for three months.
- Each month to the Depreciation Fund, 1/24th of the required Depreciation Reserve (defined as 5% of the outstanding bonds or such larger amount as required by an Independent Consulting Engineer) until the required Depreciation Reserve has been accumulated.
- To the Capital Projects Fund any surpluses after the Sinking Fund, Debt Service Reserve and Depreciation Fund are fully funded and the Revenue and Operations Account contains an amount sufficient to operate, maintain and insure the System for three full months.

The bond ordinances also outline parity provisions for the issuance of additional bonds for the acquisition or construction of sewer system facilities. The "net income and revenues" of the System, as defined in the bond ordinance, must provide coverage of 125% of Maximum Annual Debt Service. The bonds are insured by Municipal Bond Insurance Association; and supplemental issues, if insured, must also be approved by the insurer.

The Public Facilities Corporation (PFC) was created by the Government to act as the agency and instrumentality of the Government in acquiring, developing and financing public improvements and public projects. The PFC financed various projects through bank and mortgage notes and the issuance of revenue bonds. The debt is collateralized by the properties, a pledge of specified Government revenues, and lease payments from the Government sufficient to retire the debt and to provide for the operation and maintenance of the facilities.

The Government entered into various contracts, leases and option agreements with the PFC. These agreements provide that the PFC receives title to the properties mortgaged as security for the revenue bond issues, the proceeds of which have been used to finance the acquisition, construction and improvements to the properties. Upon payment of the outstanding bonds, title to the properties may be conveyed to the Government. The lease agreements are renewable annually, and the likelihood of the leases not being renewed is remote.

The Public Facilities Corporation has issued the following bonds:

1. \$4,360,000 of Mortgage Revenue Bonds, Series 1995, to finance constructing, renovating, installing and equipping swimming pools and family aquatic centers located at Castlewood, Southland, and Woodland parks. Renovations of the existing facilities were needed to maintain and enhance the recreational swimming and watersports activities in Lexington. Renovation also allows for accessibility for elderly and physically disabled patrons, a feature unavailable at other public pools in Lexington.
2. \$69,120,000 in Mortgage Revenue Bonds, Series 1998, to finance a court facility that includes a Circuit Court Building, a District Court Building, and an adjoining parking garage. The Government entered into a sublease with the Administrative Office of the Court (AOC) of the Commonwealth of Kentucky which provides for lease payments based on the percentage of space occupied by AOC functions in the courthouses and the AOC share of costs of the parking garage. The resulting AOC sublease payments will account for approximately 89% of the debt service payments; the remaining debt service payments will be paid by the Government.

The Public Parking Corporation (PPC) was created to act as an agency and instrumentality of the Government in the acquisition and financing of public parking projects. Debt issued by the PPC is collateralized by the properties and lease payments from the Government. The Government leases the properties from the PPC for amounts

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

sufficient to pay the bond principal and interest maturities and to operate, insure, and maintain the properties. Upon payment of the outstanding bonds, title to the properties will be conveyed to the Government. The lease agreements are renewable annually, and the likelihood of the leases not being renewed is remote.

The Public Parking Corporation has issued the following bonds:

1. \$2,825,000 of mortgage revenue refunding bonds to refund the \$2,410,000 principal remaining on \$3,000,000 of Mortgage Revenue Bonds, Series of 1984. The 1984 Bonds were issued to pay the costs of constructing a parking structure. The net revenues of the structure are pledged for debt service.
2. \$7,260,000 of Refunding Bonds, Series of 1998, to refund the \$6,655,000 total principal remaining on the 1990 bonds and to reduce interest rates on the debt. The refunded bonds were issued to finance the construction of a downtown transit center, parking garage and the Martin Luther King Boulevard construction project. The Transit Center is a central location for users of the public transportation system, or LexTran, to transfer from one bus route to another. A parking garage is on top of the Transit Center. In addition, structural support is designed to accommodate future construction above the parking garage. The Martin Luther King Boulevard realignment project remedied the problem of a cross street that did not properly align with East Main Street.

The bond indenture requires a debt service reserve in the amount of the outstanding maximum annual debt service requirement. As of June 30, 2004, the required reserve of \$1,078,824 was fully funded. The monies in the debt service reserve are available to pay annual debt service in the event there are insufficient funds in the bond fund.

The Fayette County Detention Center Corporation (Detention Center Corporation) is an instrumentality of the Government to provide for the financing and construction of detention facilities for the Government. The Government has entered into lease and option agreements with the Detention Center Corporation under which the Detention Center Corporation received title to the properties that were mortgaged as security for these revenue bond issues. The Government leases the properties from the Detention Center Corporation for amounts sufficient to pay the bond principal and interest maturities. Operating expenses are paid through the Government's General Fund. Upon payment of the outstanding bonds, title to the properties will be conveyed to the Government. The lease agreements are renewable annually and the likelihood of the leases not being renewed is remote. The Government has included the Detention Center Corporation in its general purpose financial statements as a debt service fund.

In 1996, the Detention Center Corporation entered into a ten-year lease purchase agreement with PNC Bank, Kentucky, Inc. for the purchase of 71 acres on Old Frankfort Pike for \$1,527,900. The land serves as the site for a new detention center.

General Obligation Bonds and Notes - The Government issues general obligation bonds and notes to provide funds for the acquisition and construction of capital assets used by governmental activities. The Government has issued the following general obligation bonds and notes:

1. \$67,115,000, Series 1999A, to finance the construction of and equipment for a new detention facility. The new detention center is comprised of approximately 415,000 gross square feet holding approximately 1,280 inmates with future expansion to approximately 2,000 inmates.
2. \$3,570,000, Series 1999B, to pay for the construction of a new branch library that is located on the corner of Laredo Drive and Tates Creek Road in Lexington, Kentucky.
3. \$8,460,000, Series 2000A, to finance the acquisition of and improvements to the Picadome Golf Course facility (formerly known as the Campbell House Golf Course) and improvements to existing golf courses. The Picadome Golf Course facility is situated on approximately 103 acres in southcentral Lexington and includes an 18-hole course, a pro shop, a swimming pool, a tennis court, and a clubhouse.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

4. \$6,315,000, Series 2000C, to finance the acquisition of equipment for the new detention center facility and the construction and equipping of fire stations.
5. \$10,675,000, Series 2000D, to finance the construction of various storm water improvements.
6. \$9,335,000, Series 2000E, to finance the improvement and renovation of the Tates Creek and Douglass swimming pools, and the acquisition, improvement and renovation of buildings for use as government office space.
7. \$7,635,000, Series 2001B, to finance the Purchase of Development Rights Program (PDR), a program to purchase conservation easements in Fayette County. This program is one component of an overall rural land use plan to preserve and manage the unique agricultural, rural and natural lands of Fayette County. The PDR program purchases and/or accepts donations of conservation easements from rural property owners in exchange for removal of future development rights from rural land.
8. \$5,090,000 Series 2002A, to finance the acquisition of certain equipment and vehicles including police cars, computer equipment, fire equipment and various other equipment for the benefit of numerous departments of the Government.
9. \$2,330,000, Series 2002B, to finance the acquisition, installation, and renovation of the Government Center, including replacement of the elevators and the HVAC system.
10. \$4,570,000, Series 2002C, to finance the construction of various stormwater improvements and two lanes of a four-lane boulevard.
11. \$4,465,000 Series 2003A, to finance the acquisition of certain equipment and vehicles including police cars, computer equipment, fire equipment and various other equipment for the benefit of numerous departments of the Government.
12. \$1,455,000, Series 2003B, to finance the acquisition and installation of certain fire equipment, including fire pumpers and fire aerial units.
13. \$19,185,000, Refunding Series 2003A, to refund the \$18,760,000 principal outstanding on the PFC 1993 Refunding Bonds. While this refunding resulted in an accounting loss of \$28,517, there was an economic gain and present value savings of \$660,865 at an effective interest rate of 2.4299%. These bonds bear interest rates of 2.00% to 3.13%.
14. \$4,240,000, Series 2004A, to finance the installation of a new HVAC system in the Government Center and the acquisition of certain equipment and vehicles including police cars, computer equipment, fire equipment and various other equipment for the benefit of numerous departments of the Government. These notes bear interest rates of 1.0% to 3.0%.
15. \$2,350,000, Series 2004B, to finance the purchase of fire trucks and a public safety radio system. These notes bear interest rates of 2.0% to 4.0%.

General Obligation Lease Agreement – In FY 2002 the Government entered into a general obligation lease agreement as lessee with the Kentucky League of Cities Funding Trust for the financing of the Webasto Roof Systems, Inc. economic development project. The principal amount of the lease is \$360,000, bears an interest rate of 3.97%, and is amortized over ten years.

Landfill Closure and Postclosure Care Cost - State and federal laws and regulations require the Government to place final covers on its landfills and to perform certain maintenance and monitoring functions at the Haley Pike

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

landfill for thirty years. Since the operations of the Government's landfill is accounted for in an Enterprise Fund, the accrued liability for these costs are reported in the Landfill Fund as required by GASB 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. The \$25,947,990 liability reported at June 30, 2004 is based on the use of 97.58% of the estimated capacity of the Haley Pike landfill and 100% of the Old Frankfort Pike landfill. The remaining cost to perform all closure and postclosure care is estimated to be \$643,568. The Government will recognize this cost as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. The Government expects to close the Haley Pike landfill in the year 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

E. Net Assets

The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted, and unrestricted.

Investment in Capital Assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the unspent proceeds and any associated unamortized cost. The following schedule demonstrates how the investment in capital assets is calculated:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

| Issue | Amount Outstanding | Reserve | Unamortized Issuance Cost | Unspent Proceeds | Net Related Debt |
|---|-----------------------|--------------------|---------------------------------|---------------------|------------------------|
| Capital Assets - Governmental | | | | | |
| 1997 Detention Center | \$434,255 | | | | \$434,255 |
| 1999 Detention Center | 62,900,000 | | | | 62,900,000 |
| 1999B Tates Creek Library | 3,115,000 | | | | 3,115,000 |
| 2000 KLC | 330,000 | | 6,193 | 2,094 | 321,713 |
| 2000A Picadome Golf Course | 7,370,000 | | | | 7,370,000 |
| 2000C Public Safety | 1,385,000 | | | | 1,385,000 |
| 2000D Storm Water Projects | 7,960,000 | | | 1,005,278 | 6,954,722 |
| 2000E KU Building and Pool | 8,425,000 | | | | 8,425,000 |
| 2001B Purchase of Development Rights | 7,095,000 | | 34,516 | | 7,060,484 |
| 2002A Equipment 2002 | 1,725,000 | | 8,958 | 167,936 | 1,548,106 |
| 2002B HVAC Government Center | 1,915,000 | | 10,525 | 7,392 | 1,897,083 |
| 2002C EAMP/Storm Water Projects | 4,305,000 | | 54,205 | 1,704,503 | 2,546,292 |
| 2003A Equipment 2003 | 3,005,000 | | 36,037 | 59,173 | 2,909,790 |
| 2003B 2003 Go Series Notes | 1,255,000 | | 3,766 | 1,450,195 | (198,961) |
| 2003A Public Facilities Projects | 19,185,000 | | 69,614 | | 19,115,386 |
| 2004A Equipment 2004 | 4,240,000 | | 17,698 | 817,537 | 3,404,765 |
| 2004B Public Safety | 2,350,000 | | 8,326 | 2,321,377 | 20,297 |
| Total Governmental | <u>\$136,994,255</u> | <u>\$0</u> | <u>\$249,838</u> | <u>\$7,535,485</u> | 129,208,932 |
| Net Capital Assets | | | | | <u>237,396,698</u> |
| Invested in Capital Assets, net of related debt | | | | | <u>\$108,187,766</u> |
| Capital Assets - Proprietary | | | | | |
| 1993 Sanitary Sewers | \$3,110,000 | | \$35,798 | | \$3,074,202 |
| 1996 Sanitary Sewers | 5,600,000 | | 118,994 | | 5,481,006 |
| 2001A Sanitary Sewers | 24,750,000 | 2,502,000 | 78,510 | 9,465,826 | 12,703,664 |
| 2001B Sanitary Sewers | 16,580,000 | | 57,010 | | 16,522,990 |
| 1993 Public Parking | 285,000 | 299,250 | 660 | | (14,910) |
| 1998 Public Parking | 4,060,000 | 779,574 | 77,401 | | 3,203,025 |
| 1995 Public Facilities | 3,115,000 | | 99,158 | | 3,015,842 |
| 1998 Public Facilities | 66,480,000 | | 1,390,269 | | 65,089,731 |
| | <u>\$123,980,000</u> | <u>\$3,580,824</u> | <u>\$1,857,800</u> | <u>\$9,465,826</u> | 109,075,550 |
| Net Capital Assets | | | | | <u>354,343,377</u> |
| Invested in Capital Assets, net of related debt | | | | | <u>\$245,267,827</u> |

Restricted Assets are liquid assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Government uses the Construction and Capital Acquisitions assets for their intended purpose before using unrestricted assets. The other restricted assets are required to be maintained until the related bonds mature. The balances of the restricted assets accounts in the governmental funds are as follows:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

| | |
|---|---------------------------|
| Storm Water general obligation bonds account | \$1,666,227 |
| Public Safety obligation bonds and notes account | 3,852,989 |
| Office Building and Pool general obligation bonds account | 39,323 |
| Various Purpose general obligation notes account | 1,961,581 |
| Golf Course general obligation bonds account | 39,031 |
| Purchase of Development Rights general obligation bonds account | 147,380 |
| Equipment general obligation notes account | 1,435,754 |
| Public Properties Projects general obligation bond account | 24,537 |
| Public Library Corporation general obligation bond account | 188,693 |
| Total restricted assets | <u><u>\$9,355,515</u></u> |

The balances of the restricted assets accounts in the enterprise funds are as follows:

| | |
|--|----------------------------|
| Sanitary sewer system maintenance and operations account | \$4,100,470 |
| Sanitary sewer revenue bond sinking fund account | 4,727,103 |
| Sanitary sewer revenue bonds construction account | 11,748,414 |
| Sanitary sewer depreciation account | 2,502,000 |
| Sanitary sewer debt service reserve account | 5,893,605 |
| Public Facilities revenue bonds construction account | 899,091 |
| Public Facilities revenue bonds sinking fund account | 667,577 |
| Public Parking Corporation debt service reserve account | 1,101,899 |
| Total restricted assets | <u><u>\$31,640,159</u></u> |

Unrestricted Assets represent unrestricted liquid assets. While Government management may have categorized and segmented portions for various purposes, the Urban County Council has the unrestricted authority to revisit or alter these management decisions.

NOTE 4. SELF-INSURANCE PROGRAM

A. Health, Dental, and Vision Care - The Government offers health, dental, and vision care insurance options to employees of the Government under a self-insurance plan. The plan provides Anthem Blue Cross Blue Shield, Humana, United Health Care, Delta Dental, and Cole Vision coverage. Third party administrators are responsible for the processing of claims and cost containment. Premiums are paid through payroll deductions and may be funded fully or partially by the Benefit Pool provided by the Government. The Health, Dental, and Vision Care Insurance Fund accounts for these activities and is reported in an internal service fund. Changes in the balances of claims liabilities during the past two years are as follows:

| | |
|---|---------------------------|
| Liability at June 30, 2002 | \$2,178,226 |
| Claims and changes in estimates - FY 2003 | 21,863,372 |
| Claims paid FY 2003 | <u>(22,088,881)</u> |
| Liability at June 30, 2003 | 1,952,717 |
| Claims and changes in estimates - FY 2004 | 21,673,106 |
| Claims paid FY 2004 | <u>(21,062,097)</u> |
| Liability at June 30, 2004 | <u><u>\$2,563,726</u></u> |

B. Insurance and Risk Management - The Government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered through the Insurance and Risk Management Fund (the Fund), a self-insurance program established

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

in 1982. There are four types of insurance coverage provided by the self-insurance program: auto liability and physical damage, general liability, property and casualty, and workers' compensation.

All assets and employees of the primary government are covered by the Fund. Premiums are paid into the fund by the General Fund, the Urban Services Fund, and the Sanitary Sewer System and are based on both exposure and experience factors. Premiums include amounts needed to pay prior and current-year claims and administrative costs.

Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends, and other economic and social factors. Estimated recoveries, for example from subrogation and excess insurance policies, are another component of the claims liability estimate.

Annually, as of June 30, the Fund has a third party actuary review the claim history for all claim years for which open claims are outstanding. The actuary projects the ultimate claim payment obligation (including the incurred but not reported claims) for each year's claim experience. The Government elected to establish the liability for these claims and loss expenses at their present value with a discount rate of 3.5%. As of June 30, 2004, the undiscounted estimated liability was \$19,513,207. The discounted estimated liability as of June 30, 2004 was \$16,682,814. Changes in the balances of claims liabilities during the past two years are as follows:

| | Auto Liability and Physical Damage | General Liability | Property | Workmen's Compensation | Total |
|---|--|----------------------|------------------|---------------------------|---------------------|
| Liability at June 30, 2002 | \$732,818 | \$2,436,396 | \$81,968 | \$8,389,649 | \$11,640,831 |
| Claims and changes in estimates FY 2003 | 588,614 | 3,425,475 | 402,429 | 2,484,494 | 6,901,012 |
| Claims paid FY 2003 | (514,746) | (2,235,031) | (371,099) | (2,029,463) | (5,150,339) |
| Liability at June 30, 2003 | 806,686 | 3,626,840 | 113,298 | 8,844,680 | 13,391,504 |
| Claims and changes in estimates FY 2004 | 937,685 | 2,546,260 | (277,774) | 3,226,791 | 6,432,962 |
| Claims paid FY 2004 | (270,112) | (777,837) | 293,533 | (2,387,236) | (3,141,652) |
| Liability at June 30, 2004 | <u>\$1,474,259</u> | <u>\$5,395,263</u> | <u>\$129,057</u> | <u>\$9,684,235</u> | <u>\$16,682,814</u> |

The Fund uses excess insurance policies, purchased from various commercial carriers, to reduce its exposure to large losses on all types of insured events or for exposures that are difficult to self-insure. These insurance policies permit recovery of a portion of losses from the insurance carriers, although it does not discharge the primary liability of the Self-Insurance Retention Fund as the direct source for payment of claims made against the LFUCG. From fiscal year 2003 to fiscal year 2004, the LFUCG was totally self-insured for general liability, auto liability, and public officials' liability. Workers' compensation self-insured retention remained \$500,000 and Property self-insured retention remained \$250,000. Settlements have exceeded funding for each of the past five fiscal years resulting in a negative fund balance when Incurred But Not Reported (IBNR's) Claims are included in the total future liabilities. The following schedule indicates the types of excess insurance purchased the deductible or SIR (self-insured retention level) maintained by the Fund, and the limit of the excess insurance coverage:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

| Line of coverage | Self-Insurance Retention Per Occurrence | Excess Reinsurance Annual Aggregate | |
|--------------------------------|--|--|----------------|
| Property | \$250,000 | \$500,000,000 | Per location |
| Flood loss (Excl. Zone A or B) | 250,000 | 100,000,000 | Per occurrence |
| Flood loss (Zone A or B) | 250,000 | 2,000,000 | Per occurrence |
| Earthquake loss | 250,000 | 100,000,000 | Per occurrence |
| Auto Physical damage | 250,000 | 5,000,000 | Per occurrence |
| Boiler Machinery | 250,000 | Included in | Per occurrence |
| | | property limits | |
| Electronic Data Processing | 250,000 | Included in | Per year |
| | | property limits | |
| Traffic Control Equipment | 100,000 | 3,000,000 | Per year |
| General Liability | Self-Insured | 5,000,000 | Per occurrence |
| Auto Liability | Self-Insured | 5,000,000 | Per occurrence |
| Workers' Compensation | 500,000 | Statutory | Per accident |
| Public Official Liability | Self-Insured | 5,000,000 | Per occurrence |

NOTE 5. CONTINGENT LIABILITIES

A. Litigation - The Lexington-Fayette Urban County Government is party to numerous legal proceedings, many of which normally occur in government operations and will not involve any potential liability to the Government. The Government's Department of Law estimates that there are 94 pending cases in which there is a reasonably possible likelihood that the Government will incur some liability. The Department of Law and Division of Risk Management estimate the aggregate potential liability for the cases covered by self-insurance at \$4,198,998.

A lawsuit was filed as a putative class action on September 25, 2002, in the U.S. District Court, Eastern District of Kentucky (the "September 2002 action"). The plaintiffs are proceeding anonymously on behalf of themselves and other similarly-situated alleged victims of unlawful transactions by the executive director of Micro-City Government, Inc. Micro-City received financing through the Government for certain low-income work and lunch programs. The plaintiffs claim that the defendants, who include current or former Government officials, actively concealed knowledge of illegal activities and failed to warn any participants in Micro-City programs. The plaintiffs were seeking a monetary judgment, in the amount of \$10 million for each plaintiff and member of the putative class, damages, and costs. The defendants filed an answer to the complaint, denying liability. On January 9, 2003, the Court entered an order denying class certification. On January 24, 2003, the plaintiffs filed a petition for permission to appeal this order. The Sixth Circuit Court of Appeals denied this petition by order dated June 17, 2003.

On January 10, 2003, the plaintiffs filed a motion for leave to amend the complaint to add 58 additional individuals, or, in the alternative, to allow these 58 individuals to intervene. The defendants responded on January 27, 2003, and in an order dated April 15, 2003, the Court denied this motion. On January 13, 2003, three of the four attorneys for the plaintiffs in the above-referenced lawsuits filed a second federal court action, on behalf of these 58 anonymous individuals (the "January 2003 action"). This action appears to be almost identical to the action filed in September 2002. The defendants answered the complaint on February 4, 2003, denying liability.

Motions for summary judgment were filed by the defendants in both the September 2002 and January 2003 actions, and the motions were granted. In the September 2002 action, on April 15, 2003, the Court entered summary judgment in favor of the defendants, dismissing with prejudice the federal claims of all but one of the plaintiffs, as time barred under the applicable statute of limitations. The Court declined to exercise jurisdiction over the plaintiffs' state claims, and dismissed those without prejudice. On August 22, 2003, the Court dismissed with prejudice the remaining federal claim of this lone plaintiff, again on the basis that the claim was time barred, and entered a judgment dismissing the entire action from the docket.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
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Similarly, in the January 2003 action, the Court granted the defendants' motion for summary judgment on November 21, 2003, dismissing with prejudice all of the federal claims as time barred, and declining to exercise jurisdiction over the remaining state claims, which were dismissed without prejudice. The plaintiffs in both cases filed notices of appeal with the Sixth Circuit, and the appeals were consolidated. The consolidated appeals have now been fully briefed.

On November 6, 2003, the same plaintiffs as filed the September 2002 and January 2003 actions attempted, in cases styled Guy et al. v. Lexington Fayette Urban County Government ("Guy") and John Doe 1 et al. v. Pam Miller et al. ("Doe I"), to re-open and vacate judgments dismissing previous similar plaintiffs' claims as settled and denying class certification, on the grounds that the settlements were collusive. The purpose of these suits was to collaterally attack the successful statutes of limitations defenses in the September 2002 and January 2003 actions by arguing that the statutes of limitation never should have started running again when Guy and Doe I were dismissed. The plaintiffs' motions to vacate the judgments in Guy and Doe I were rejected by the district court, and those denials of relief have also been appealed to the Sixth Circuit, where they were consolidated. The consolidated appeals have now been fully briefed.

All four appeals in the above-referenced cases were consolidated by the Sixth Circuit for the purposes of oral argument. The Sixth Circuit has not yet set a date to hear oral argument in these cases. We are unable at this time to assess the likelihood of an unfavorable outcome or estimate the amount or range of potential loss the Government might sustain. Accordingly, no provision for this matter has been made in the Government's financial statement.

B. Lexington Center Corporation - Lexington Center Corporation (LCC) is a non-profit, non-stock corporate agency and instrumentality of the Lexington-Fayette Urban County Government. The Government entered into a Lease Agreement that provides for leasing for the Lexington Center from the Lexington Center Corporation on an annual basis beginning June 15, 1993. This Lease Agreement replaces a Contract Lease and Option Agreement that began October 1, 1974. The annual rental to be paid by the Government to Lexington Center Corporation is an amount equal to interest and principal on the bonds, plus costs of operating, maintaining and insuring the leased premises, less all receipts of Lexington Center Corporation that are not required to be otherwise applied. The agreement grants the Government an exclusive option to renew the lease for additional one-year periods through June 30, 2013, but the Government may elect not to renew the lease with written notice to Lexington Center Corporation.

The Government may acquire title to the facilities on any interest payment date by notifying the Lexington Center Corporation and the Trustee within sixty days before such date and by paying to the Trustee an amount equal to principal, interest and redemption premiums on bonds outstanding at that time, plus costs associated with the redemption of the bonds. The Government may also acquire title at the retirement of the bond issue if all annual renewals of the lease were executed and all rental payments were made.

On May 21, 1998, LCC and the University of Kentucky Athletic Association (UKAA) entered into a lease agreement for a term of the 1998-99 through 2003-04 basketball seasons for the use of Rupp Arena. After July 1, 2000, but during the term of the lease, UKAA has the option to purchase Rupp Arena and/or the Lexington Center Corporation Complex at appraised value. On August 13, 2001, UKAA entered into a lease extension through the 2017-18 basketball season and further agreed to eliminate its option to purchase Rupp Arena and/or the Lexington Center Complex.

Revenues from the operations of the LCC and proceeds from a statutorily dedicated transient room tax were sufficient to pay the debt service requirement in fiscal year 2004.

C. Lexington-Fayette Urban County Airport Corporation (Airport Corporation) - The Lexington-Fayette Urban County Airport Corporation is a nonprofit, nonstock corporate agency and instrumentality of the Lexington-Fayette Urban County Government and the Lexington-Fayette Urban County Airport Board (Airport Board). The Government and the Airport Board have entered into a joint and severable Contract Lease and Option Agreement

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
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that provides for leasing to the Bluegrass Airport from the Airport Corporation on an annual basis beginning October 1, 1976. The annual rental to be paid by the Government to the Airport Corporation is an amount equal to interest and principal on the bonds, plus costs of operating, maintaining and insuring the leased premises, less all receipts of the Airport Corporation that are not required to be otherwise applied. The agreement grants the Government the option to renew the lease for additional one-year periods through June 30, 2024, but the Government may elect not to renew the lease with written notice to the Airport Corporation. The Airport Corporation has had sufficient revenues to pay all debt service costs without a lease payment from the Government. The financial status is expected to remain the same.

D. Lexington-Fayette Urban County Government Water Revenue Bond Anticipation Notes, Series 2003

The Government entered into condemnation proceedings to acquire Kentucky-American Water Company on July 9, 2003. If acquired, the acquisition and water operations would be financed through water utility revenues. On September 25, 2003 the Urban County Council approved Ordinance 235-2003 authorizing the issuance of Series 2003 notes for the amount of \$750,000. The notes are secured by the future revenues of the water company if acquired. The notes are limited obligations of the LFUCG and are payable solely from the proceeds of bonds issued to acquire the Water System or revenues from the water system. The notes will be forgiven if the Government is unable to acquire the Water System or if the costs of acquisition of the Water System would result in an increase in excess of 5% of water usage rates in existence at the time of acquisition.

E. Vine Center Parking Garage - The Government is contingently liable for 37 1/2% of the debt service on the \$335,054 outstanding principal amount of the Kentucky State Property and Buildings Commission Economic Development Revenue Bonds, Project No. 30, Series 5 and Project No. 60. relating to the Vine Center Parking Garage Sub-Project.

F. Lexington Cultural Center - The Government proposed the development of a cultural center and entered into an agreement with the Commonwealth of Kentucky to provide financing for a portion of the project. The Commonwealth agreed to provide financing for the land acquisitions and related costs necessary for the project with the Government acting as the Commonwealth's agent to acquire the property under a Memorandum of Understanding dated 1990. The Commonwealth contributed \$9,635,114 for this project. A subsequent Memorandum of Understanding (MOU) and Mutual Releases between the Commonwealth of Kentucky and the Lexington-Fayette Urban County Government were signed January 22, 1997 to accommodate changes in the project scope. The Government has agreed to invest \$15,220,000 in various cultural projects, and as of June 30, 2003, the Government had contributed \$17,758,250; one project remains uncompleted. In addition, \$4,350,000 has been donated and pledged from private sources, and it is anticipated that \$500,000 more will be pledged.

G. Liens and Encumbrances - While the Government does have satisfactory title to all owned assets, there may be some liens and encumbrances on such assets for matters other than related to bond issues. Only a complete accurate title search of all properties would disclose such liens and encumbrances.

H. Conduit Debt - The Government has issued Industrial Revenue Bonds to provide financial assistance to private sector and nonprofit entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector or nonprofit entity served by the bond issue. The Government is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2004 the outstanding balance on conduit debt issues was \$246,467,239.

NOTE 6. SPECIAL ASSESSMENT DEBT

Neighborhood sewer projects are financed with Special Assessment Bonds. Special assessments are collected from the property owners as the individual installments become due and payable. Bonds totaling \$250,000 remained outstanding as of June 30, 2004. The Government is not liable for repayment but is only acting as agent for the

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
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For the Year Ended June 30, 2004

property owners in collecting assessments, forwarding collections to paying agent and initiating foreclosure proceedings when necessary. The assets and liabilities related to these bonds are reported in an Agency Fund.

NOTE 7. THE SINGLE AUDIT ACT

The U.S. Office of Management and Budget's Circular No. A-133 for Audits of States, Local Governments and Non-Profit Organizations requires non-federal entities that expend \$500,000 or more a year in federal awards to have an audit performed in accordance with the provisions of the Circular. A separate supplemental report will be issued on active grant programs of the Lexington-Fayette Urban County Government in accordance with applicable provisions of the Single Audit Act of 1984, P.L. 98-502 and the Single Audit Act Amendments of 1996, P.L. 104-156.

NOTE 8. SUBSEQUENT EVENTS

Primary Government – On July 8, 2004 the Government sold \$9.64 million in General Obligation Bonds, Series 2004C to finance projects including \$5.0 million for construction of a day treatment facility, \$2.7 million for purchase of property and renovation of the building on that property and \$1.8 million for construction of a roadway.

On August 26, 2004 Council passed a reimbursement ordinance stating its intent to finance \$3.0 million for the Purchase of Development Rights program.

On November 4, 2004 the Government passed reimbursement resolutions stating intent to finance a variety of capital projects through either available funds or a future bond issue. The projects include \$2.0 million for Neighborhood Development projects, \$2.0 million for stormwater projects and \$2.0 million for a boulevard in the Bluegrass Aspendale area.

NOTE 9. DEFINED BENEFIT PENSION PLANS AND OTHER POST EMPLOYMENT BENEFIT

The Policemen's and Firefighters' Retirement Fund and The City Employees' Pension Fund

A. Plan Descriptions - The Government contributes to two single employer defined benefit pension plans: The Policemen's and Firefighters' Retirement Fund (PFRF) and The City Employees' Pension Fund (CEPF).

The sworn personnel of the divisions of Police and Fire are eligible to participate in the Policemen's and Firefighters' Retirement Fund. Benefits vest in this fund after twenty years of service. Employees who retire with 20 years of credited service receive 2.5% of their average salary times years of service. Members may add unused sick leave to service credit and average annual salary for purposes of calculating retirement benefits. In addition, the plan includes post-retirement benefits where any retired member who has been retired one year or more, will have an annual increase to his pension payment of between 2% and 5%, as determined by the Board of Trustees. The PFRF also provides death and disability benefits.

Civil service employees of the City of Lexington were covered by the City Employees' Pension Fund. In 1973, the Governments of the City of Lexington and Fayette County merged to form the Lexington-Fayette Urban County Government. In December 1973 the City of Lexington froze admission of new entrants into the CEPF, and in January 1974 the new merged Government assumed the City of Lexington's liability for covered employees and the CEPF was closed to any new members. A member who has attained age 60 and completed 20 years of service or completed 30 years of service regardless of age may apply for retirement. Members who are 45 years old or older with 10 years of service may request a deferred retirement benefit to be paid when they reach 60 years of age. Retirees receive 2.5% of their average salary for each year of service up to 20 years plus 1% of average salary for each year of service over 20 years, with a maximum benefit of 65% of average salary. Members may add unused sick leave to service credit and average annual salary for purposes of calculating retirement benefits. Death and disability benefits are also provided under certain conditions. In addition, the plan includes an annual cost of living adjustment of 3% for any member retiring after July 1, 1981 that has attained age 61 or has been retired for one year.

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Both pension plans are included in the Government's comprehensive annual report and do not issue stand-alone financial reports.

Membership of each plan consisted of the following at June 30, 2004:

| | Policemen's and Firefighters' | City Employees' |
|---|----------------------------------|--------------------|
| Inactive Plan Participants: | | |
| Retirees and beneficiaries currently receiving benefits | 804 | 146 |
| Active Plan Participants: | | |
| Vested | 117 | 1 |
| Nonvested | 816 | |
| Total | 1,737 | 147 |

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - The preparation of the financial statements of the Policemen's and Firefighters' Retirement Fund and the City Employees' Pension Fund conform to the provisions of the GASB Statement No. 25. The financial statements are prepared on an accrual basis.

Investments - Investments are stated at fair value. Securities traded on a national exchange are valued at the last reported sales price. Gains or losses on the sale of fixed income securities are recognized using the completed transaction method. There are no significant investments (other than U.S. Government and U.S. Government Agencies & Instrumentalities) in any one organization that represent 5% or more of net assets available for benefits.

C. Contributions - The contribution requirements and benefit provisions for the Policemen's & Firefighters' Pension Fund and City Employees' Pension Fund are established by state statute and Government ordinance. In fiscal year 2004, the Government contributed 20.0% to the PFRF. All other contributions were equal to the required contribution rates shown in the following table.

| | Policemen's and Firefighters' | City Employees' |
|------------------------------|-------------------------------|-----------------|
| Required Contribution Rates: | | |
| Government | 17.0% | 17.5% |
| Plan Member | 11.0% | 8.5% |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

D. Supplemental Information

Schedule of Funding Progress

| Actuarial Accrued | | | | | | |
|--|-------------------------------|---------------------------------|---------------------------|--------------------|---------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll (b-a)/(c) |
| <i>Policemen's and Firefighters' Pension Fund (3% COLA)</i> | | | | | | |
| 7/1/99 | \$274,004,727 | \$327,753,558 | \$53,748,831 | 83.6% | \$37,020,940 | 145.2% |
| 7/1/00 | 275,380,829 | 354,463,673 | 79,082,844 | 77.7% | 39,260,250 | 201.4% |
| 7/1/01 | 294,632,299 | 379,910,000 | 85,277,701 | 77.6% | 41,017,120 | 207.9% |
| 7/1/02 | 292,510,573 | 400,184,454 | 107,673,881 | 73.1% | 41,309,602 | 260.7% |
| 7/1/03 | 288,541,052 | 436,508,177 | 147,967,125 | 66.1% | 40,622,159 | 364.3% |
| 7/1/04 | 329,683,295 | 467,385,573 | 137,702,278 | 70.5% | 40,316,319 | 341.6% |
| <i>City Employees' Pension Fund</i> | | | | | | |
| 7/1/99 | 32,717,853 | 28,470,291 | (4,247,562) | 114.9% | 60,624 | N/A |
| 7/1/00 | 32,597,231 | 29,142,478 | (3,454,753) | 111.9% | 62,988 | N/A |
| 7/1/01 | 30,687,816 | 29,611,826 | (1,075,990) | 103.6% | 63,036 | N/A |
| 7/1/02 | 28,017,121 | 28,174,544 | 157,423 | 99.4% | 65,820 | 239.2% |
| 7/1/03 | 28,240,266 | 28,753,053 | 512,787 | 98.2% | 36,300 | 1,412.6% |
| 7/1/04 | 28,029,752 | 28,313,018 | 288,266 | 99.0% | 38,604 | 746.7% |

Schedule of Employer Contributions

| Year Ended June 30 | P&F Pension Fund (3% COLA) | | City Employees' Pension Fund | |
|-----------------------|------------------------------|------------------------|------------------------------|------------------------|
| | Annual Required Contribution | Percentage Contributed | Annual Required Contribution | Percentage Contributed |
| 1995 | \$8,742,268 | 52.7% | \$284,152 | 4.7% |
| 1996 | 11,733,278 | 40.5% | 0 | N/A |
| 1997 | 9,917,990 | 54.1% | 0 | N/A |
| 1998 | 9,341,031 | 63.2% | 0 | N/A |
| 1999 | 9,895,934 | 68.5% | 0 | N/A |
| 2000 | 12,078,971 | 66.1% | 0 | N/A |
| 2001 | 12,078,971 | 76.4% | 0 | N/A |
| 2002 | 14,314,388 | 67.1% | 0 | N/A |
| 2003 | 14,314,388 | 70.1% | 13,984 | 71.1% |
| 2004 | 17,048,783 | 60.1% | 45,550 | 14.2% |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

Annual Pension Cost and Net Pension Obligation

| | Policemen's and Firefighters' Pension Fund * | City Employees' Pension Fund |
|--|--|------------------------------------|
| Annual Required Contribution | \$10,680,500 | \$45,550 |
| Interest on net pension obligation | 1,263,814 | 159,665 |
| Adjustment to annual required contribution | (1,324,796) | (177,283) |
| Annual pension cost | 10,619,518 | 27,932 |
| Contributions made | (10,244,350) | (6,490) |
| Increase in net pension obligation | 375,168 | 21,442 |
| Net pension obligation beginning of year | 15,797,675 | 1,995,817 |
| Net pension obligation end of year | \$16,172,843 | \$2,017,259 |

*2% COLA

Three-Year Trend Information

| Fiscal Year Ending | Annual Pension Cost (APC) | Contribution | Percentage of APC Contributed | Net Pension Obligation |
|--|---------------------------------|--------------|-------------------------------------|------------------------------|
| <i>Policemen's and Firefighters' Pension Fund (2% COLA)</i> | | | | |
| 2002 | \$8,590,188 | \$9,604,845 | 112% | \$15,203,482 |
| 2003 | 10,621,813 | 10,027,620 | 94% | 15,797,675 |
| 2004 | 10,619,518 | 10,244,350 | 96% | 16,172,843 |
| <i>City Employees' Pension Fund</i> | | | | |
| 2002 | (17,993) | 10,803 | n/a | 2,009,520 |
| 2003 | (3,754) | 9,949 | n/a | 1,995,817 |
| 2004 | 27,932 | 6,490 | 23% | 2,017,259 |

The information presented in the supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is presented in the following table.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

| | <u>Policemen's and Firefighters' Pension Fund</u> | <u>City Employees' Pension Fund</u> |
|-------------------------------|---|-------------------------------------|
| Valuation date | July 1, 2004 | July 1, 2004 |
| Actuarial cost method | Entry Age Normal Funding | Entry Age Normal Funding |
| Amortization method | Level Dollar - Open | Level Dollar - Open |
| Remaining amortization period | 40 years | 30 years |
| Asset valuation method | Market | Market |
| Actuarial assumptions: | | |
| Investment rate of return | 8.0% | 8.0% |
| Projected salary increases | 5.0% | 5.0% |
| Projected benefit increases | 3.0% | 3.0% |
| Projected inflation rate | N/A | 4.0% |

E. Other Post Employment Benefit

In August 1999, the Council passed an ordinance that authorized the Government to provide a health insurance benefit to the retirees of both retirement funds, effective July 1, 1999. All retirees who continue to participate in the Government's group health insurance plan are eligible for this benefit. The Government paid the premiums for single coverage on a pay-as-you-go basis. In fiscal year 2004, 583 retirees of the PFRF received this benefit for a total cost of \$1,851,631; and 30 retirees of the CEPF received this benefit for a total cost to the Government of \$82,513.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended June 30, 2004

F. Pension Plan Financial Statements

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2004**

| | <u>Pension Trust Funds</u> | | <u>Total Pension Trust Funds</u> |
|--|---|--|--|
| | <u>Policemen's and Firefighters' Retirement</u> | <u>City Employees' Pension</u> | |
| ASSETS | | | |
| Cash | \$17,424,199 | \$9,399 | \$17,433,598 |
| Receivables: | | | |
| Member Contributions | 198,271 | 154 | 198,425 |
| Employer Contributions | 378,519 | 279 | 378,798 |
| Interest and Dividends | 1,597,065 | 209,217 | 1,806,282 |
| Due from Other Funds | 537,521 | | 537,521 |
| Total Receivables | <u>2,711,376</u> | <u>209,650</u> | <u>2,921,026</u> |
| Investments, at Fair Value: | | | |
| U. S. Government Obligations | 12,850,449 | 4,614,519 | 17,464,968 |
| U. S. Government Agency and Instrumentality Obligations | 25,020,677 | 7,380,245 | 32,400,922 |
| Municipal Bonds | 19,229,292 | | 19,229,292 |
| International Bonds | 2,732,336 | 419,678 | 3,152,014 |
| Corporate Bonds | 50,870,882 | 3,330,459 | 54,201,341 |
| Mutual Funds | 65,260,997 | | 65,260,997 |
| Domestic Stocks | 146,193,543 | 11,561,845 | 157,755,388 |
| International Stocks | 5,937,222 | 512,890 | 6,450,112 |
| Total Investments | <u>328,095,398</u> | <u>27,819,636</u> | <u>355,915,034</u> |
| Total Assets | <u>348,230,973</u> | <u>28,038,685</u> | <u>376,269,658</u> |
| LIABILITIES | | | |
| Refunds Payable and Other | 314,152 | 8,420 | 322,572 |
| Securities Lending Transactions | 18,233,526 | | 18,233,526 |
| Due to Other Funds | | 80 | 80 |
| Total Liabilities | <u>18,547,678</u> | <u>8,500</u> | <u>18,556,178</u> |
| NET ASSETS | | | |
| Held in Trust for Pension Benefits | <u>\$329,683,295</u> | <u>\$28,030,185</u> | <u>\$357,713,480</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

| | <u>Policemen's and Firefighters' Retirement</u> | <u>City Employees' Pension</u> | <u>Total</u> |
|--|---|--|----------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$8,020,335 | \$6,769 | \$8,027,104 |
| Employer - Administration | 2,224,015 | 83,219 | 2,307,234 |
| Plan Members | 4,361,984 | 3,122 | 4,365,106 |
| Member Purchase of Service | 1,435,362 | | 1,435,362 |
| Other | 22,736 | | 22,736 |
| Total Contributions | <u>16,064,432</u> | <u>93,110</u> | <u>16,157,542</u> |
| Income on Investments: | | | |
| Net Change in Fair Value of Investments | 43,763,771 | 816,134 | 44,579,905 |
| Interest | 6,611,630 | 814,557 | 7,426,187 |
| Dividends | 2,321,013 | 202,966 | 2,523,979 |
| Total Income on Investments | <u>52,696,414</u> | <u>1,833,657</u> | <u>54,530,071</u> |
| Less Investment Expense | 1,549,842 | 62,966 | 1,612,808 |
| Net Income on Investments | <u>51,146,572</u> | <u>1,770,691</u> | <u>52,917,263</u> |
| Income from Securities Lending Activities: | | | |
| Securities Lending Income | 233,566 | | 233,566 |
| Securities Lending Expenses | | | |
| Borrower rebates | 175,984 | | 175,984 |
| Management Fees | 22,975 | | 22,975 |
| Total Securities Lending Expenses | <u>198,959</u> | <u>0</u> | <u>198,959</u> |
| Net Income on Securities Lending Activities | <u>34,607</u> | <u>0</u> | <u>34,607</u> |
| Total Additions | <u>67,245,611</u> | <u>1,863,801</u> | <u>69,109,412</u> |
| DEDUCTIONS | | | |
| Benefit Payments | 25,658,314 | 2,044,199 | 27,702,513 |
| Refunds of Contributions | 412,234 | | 412,234 |
| Administrative Expense | 78,759 | 29,683 | 108,442 |
| Total Deductions | <u>26,149,307</u> | <u>2,073,882</u> | <u>28,223,189</u> |
| Net Increase (Decrease) | 41,096,304 | (210,081) | 40,886,223 |
| Net Assets, July 1 | <u>288,586,991</u> | <u>28,240,266</u> | <u>316,827,257</u> |
| Net Assets, June 30 | <u>\$329,683,295</u> | <u>\$28,030,185</u> | <u>\$357,713,480</u> |

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2004

G. The County Employees' Retirement System

Plan Description - The Government contributes to the Commonwealth of Kentucky's County Employees' Retirement System (CERS). CERS is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. At June 30, 2003, there were 1,367 local governments participating in CERS, which provides for retirement, disability and death benefits. Beginning October 27, 1975, all eligible full time employees of the Government were required to participate in CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

Funding Policy - For the year ended June 30, 2004, non-hazardous plan participating employees contributed 5% and hazardous plan participating employees contributed 8% of creditable compensation to CERS. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Participating employers contributed 7.34% of members' non-hazardous compensation and 18.51% for hazardous compensation for the year ended June 30, 2004. The Government's contributions to CERS for the years ending June 30, 2004, 2003, and 2002 were \$6,284,431, \$5,323,153, and \$5,084,130 respectively, and were equal to the required contributions for each year.

APPENDIX D

**STATEMENT OF INDEBTEDNESS OF THE
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**

- 5. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 (3 minus 4) is \$283,134,974
- 6. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 as computed in 5 above, does not exceed 10%* of the assessed valuation of all the taxable property in the County or \$2,330,957,514
- 7. The current tax rate of the LFUCG, for other than school purposes, upon the value of the taxable property therein is \$0.2904 (which includes .2104 which is dedicated for specific purposes) per \$100 for real and personal property which does not exceed the maximum permissible tax rate for the LFUCG as set forth in Section 157 of the Kentucky Constitution.
- 8. The issuance of the bonds, notes or other obligations set forth in 3 hereof will not cause the tax rate set forth in 7 hereof to increase in an amount which would exceed the maximum permissible tax rate for the LFUCG as set forth in Section 157 of the Kentucky Constitution.

*10% for cities having a population of fifteen thousand or more;
 5% for cities having a population of less than fifteen thousand but not less than three thousand; and
 3% for cities having a population of less than three thousand.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____

Name and Title

APPENDIX E

FORM OF LEGAL APPROVING OPINIONS OF BOND COUNSEL

The forms of the legal approving opinions of Peck, Shaffer & Williams LLP, bond counsel, are set forth as follows. The actual opinions will be delivered on the date of delivery of the Notes referred to therein and may vary from the form set forth to reflect circumstances both factual and legal at the time of such delivery. Recirculation of the Final Official Statement shall create no implication that Peck, Shaffer & Williams LLP has reviewed any of the matters set forth in such opinions subsequent to the date of such opinions.

SERIES A NOTES

April __, 2005

Lexington-Fayette Urban County Government

Lexington, Kentucky

RE: \$5,395,000* Various Purpose General Obligation Notes (Series 2005A) (the "Series A Notes")

Ladies and Gentlemen:

We have examined the transcript submitted relating to the issue of \$5,395,000 Various Purpose General Obligation Notes (Series 2005A) of the Lexington-Fayette Urban County Government (the "Issuer"), dated April 1, 2005, numbered AR-1 upward and of the denomination of \$5,000 and any integral multiple thereof and maturing serially April 1, 2006 – April 1, 2008 (the "Series A Notes"). The Series A Notes mature and bear interest upon the terms set forth therein. The Series A Notes are not subject to optional redemption prior to maturity. We have also examined a specimen Series A Note.

Based on this examination, we are of the opinion, based upon laws, regulations, rulings and decisions in effect on the date hereof, that:

1. The Series A Notes constitute valid obligations of the Issuer in accordance with their terms, which unless paid from other sources, are payable from taxes to be levied by the Issuer without limitation as to rate.
2. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series A Notes is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series A Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Series A Notes.
3. The interest on the Series A Notes is not subject to taxation by the Commonwealth of Kentucky, and the Series A Notes are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision thereof.

*Preliminary; subject to change.

The Issuer has not designated the Series A Notes as "qualified tax-exempt obligations" with respect to investments by certain financial institutions under Section 265 of the Code.

In giving this opinion, we have relied upon covenants and certifications of facts, estimates and expectations made by officials of the Issuer and others contained in the transcript which we have not independently verified. It is to be understood that the enforceability of the Series A Notes may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion.

Very truly yours,

SERIES B NOTES

April __, 2005

Lexington-Fayette Urban County Government
Lexington, Kentucky

RE: \$2,830,000* Fire Equipment General Obligation Notes (Series 2005B) (the "Series B Notes")

Ladies and Gentlemen:

We have examined the transcript submitted relating to the issue of \$2,830,000 Fire Equipment General Obligation Notes (Series 2005B) of the Lexington-Fayette Urban County Government (the "Issuer"), dated April 1, 2005, numbered BR-1 upward and of the denomination of \$5,000 and any integral multiple thereof and maturing serially April 1, 2006 - April 1, 2012 (the "Series B Notes"). The Series B Notes mature and bear interest upon the terms set forth therein. The Series B Notes are not subject to optional redemption prior to maturity. We have also examined a specimen Series B Note.

Based on this examination, we are of the opinion, based upon laws, regulations, rulings and decisions in effect on the date hereof, that:

1. The Series B Notes constitute valid obligations of the Issuer in accordance with their terms, which unless paid from other sources, are payable from taxes to be levied by the Issuer without limitation as to rate.
2. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series B Notes is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series B Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Series B Notes.
3. The interest on the Series B Notes is not subject to taxation by the Commonwealth of Kentucky, and the Series B Notes are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision thereof.

The Issuer has not designated the Series B Notes as "qualified tax-exempt obligations" with respect to investments by certain financial institutions under Section 265 of the Code.

*Preliminary; subject to change.

In giving this opinion, we have relied upon covenants and certifications of facts, estimates and expectations made by officials of the Issuer and others contained in the transcript which we have not independently verified. It is to be understood that the enforceability of the Series B Notes may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion.

Very truly yours,

OFFICIAL BID FORM

Subject to the terms and conditions set forth in the Ordinance adopted by the Lexington-Fayette Urban County Government (the "Urban County Government") on April 14, 2005, providing for the sale of \$8,225,000* Lexington-Fayette Urban County Government General Obligation Notes, including \$5,395,000* Various Purpose General Obligation Notes (Series 2005A) (the "Series A Notes") and \$2,830,000* Fire Equipment General Obligation Notes (Series 2005B) (the "Series B Notes" and together with the Series A Notes, the "Notes"), and in accordance with the Notice of Bond Sale, as advertised in the Courier-Journal, published in Louisville, Kentucky and the Lexington Herald-Leader, published in Lexington, Kentucky, and in accordance with the Official Terms and Conditions of Bond Sale, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Notes.

SERIES A NOTES

We hereby bid for said \$5,395,000* principal amount of the Series A Notes maturing on April 1 of the years and in the amounts set forth below, the total sum of \$_____ (not less than \$5,368,025) plus accrued interest from April 1, 2005, at the following annual rate(s), payable semiannually, commencing October 1, 2005:

| Year (April 1) | Principal Amount* | Interest Rate |
|---------------------------|--------------------------|--------------------------|
| 2006 | \$1,755,000 | _____% |
| 2007 | \$1,795,000 | _____% |
| 2008 | \$1,845,000 | _____% |

The Series A Notes maturing in the following years: _____ are sinking fund redemption amounts for term bonds due _____.

SERIES B NOTES

We hereby bid for said \$2,830,000* principal amount of the Series B Notes maturing on April 1 of the years and in the amounts set forth below, the total sum of \$_____ (not less than \$2,815,850) plus accrued interest from April 1, 2005, at the following annual rate(s), payable semiannually, commencing October 1, 2005:

| Year (April 1) | Principal Amount* | Interest Rate |
|---------------------------|--------------------------|--------------------------|
| 2006 | \$370,000 | _____% |
| 2007 | \$380,000 | _____% |
| 2008 | \$390,000 | _____% |
| 2009 | \$400,000 | _____% |
| 2010 | \$415,000 | _____% |
| 2011 | \$430,000 | _____% |
| 2012 | \$445,000 | _____% |

The Series B Notes maturing in the following years: _____ are sinking fund redemption amounts for term bonds due _____.

Preliminary; subject to Permitted Adjustment

It is understood that the Lexington-Fayette Urban County Government will furnish or cause to be furnished the final, approving Legal Opinion of Peck, Shaffer & Williams LLP, Bond Counsel addressed to the Lexington-Fayette Urban County Government. We understand that no certified or bank cashier's check will be required to accompany the bid, but that if we are the successful bidder, we shall be required to wire transfer an amount equal to 2% of principal amount of the Notes by the close of business on the day following the award. Said amount will be applied (without interest) to the purchase price when the Notes are tendered to us for delivery.

If we are the successful bidder, we agree to accept and make payment for the Notes in immediately available funds within fourteen (14) days from the date of sale in accordance with the terms of the sale.

Respectfully submitted,

By: _____

Bidder

Address

SERIES A NOTES

| | |
|--|----------|
| Total interest cost from April 1, 2005 to final maturity | \$ _____ |
| Less premium or plus discount (if any) | \$ _____ |
| Total | \$ _____ |
| True Interest Cost (TIC) | _____% |

The above computations are submitted for information only and are not a part of this Bid.

ACCEPTED by the Lexington-Fayette Urban County Government for the final aggregate principal amount of \$ _____, with maturities set out below, at an adjusted purchase price of \$ _____, this 14th day of April, 2005.

| Year (April 1) | Final Amount* |
|---------------------------|----------------------|
| 2006 | \$ _____ |
| 2007 | _____ |
| 2008 | _____ |

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT**

By: _____
Mayor

SERIES B NOTES

| | |
|--|----------|
| Total interest cost from April 1, 2005 to final maturity | \$ _____ |
| Less premium or plus discount (if any) | \$ _____ |
| Total | \$ _____ |
| True Interest Cost (TIC) | _____% |

_____ The above computations are submitted for information only and are not a part of this Bid.

ACCEPTED by the Lexington-Fayette Urban County Government for the final aggregate principal amount of \$_____, with maturities and/or mandatory bond fund installments set out below, at an adjusted purchase price of \$_____, this 14th day of April, 2005.

| Year (April 1) | Principal Amount* | Interest Rate |
|---------------------------|--------------------------|--------------------------|
| 2006 | \$ _____ | _____% |
| 2007 | \$ _____ | _____% |
| 2008 | \$ _____ | _____% |
| 2009 | \$ _____ | _____% |
| 2010 | \$ _____ | _____% |
| 2011 | \$ _____ | _____% |
| 2012 | \$ _____ | _____% |

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT**

By: _____
Mayor

OFFICIAL TERMS AND CONDITIONS OF NOTE SALE

\$8,225,000¹

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT GENERAL OBLIGATION NOTES

\$5,395,000²

**Various Purpose
General Obligation Notes
(Series 2005A)**

\$2,830,000³

**Fire Equipment
General Obligation Notes
(Series 2005B)**

SALE: April 14, 2005 at 11:00 A.M., E.D.T.

As duly advertised in The Courier-Journal, published in Louisville, Kentucky and the Lexington Herald-Leader, published in Lexington, Kentucky, the Lexington-Fayette Urban County Government (the "Urban County Government") will, until the 14th day of April, 2005, at the hour of 11:00 A.M., E.D.T., at the offices of the Commissioner of Finance, 200 East Main Street, Third Floor, Lexington, Kentucky 40507, receive sealed competitive bids for the notes herein described (the "Notes"). To be considered, a proposal for the purchase of such notes must be submitted on an Official Bid Form and must be delivered to the Commissioner of Finance at the address indicated on the date of sale no later than the hour indicated. Bids may alternatively be submitted electronically via PARITY[®]. Bids will be opened and acted upon by the Lexington-Fayette Urban County Government later that same day.

STATUTORY AUTHORITY, PURPOSE OF ISSUE AND SECURITY

These Notes are authorized pursuant to Sections 66.011 to 66.181, inclusive, of the *Kentucky Revised Statutes* and are being issued in accordance with a Note Ordinance (the "Note Ordinance") expected to be adopted by the Council of the Lexington-Fayette Urban County Government on April 14, 2005. The Notes are general obligation notes and constitute a direct indebtedness of the Lexington-Fayette Urban County Government.

The Notes are secured by the Lexington-Fayette Urban County Government's ability to levy and its pledge to levy an ad valorem tax on all property within Lexington, Fayette County, Kentucky in a sufficient amount to pay the principal of and interest on the Notes when due.

The Series A Notes are being issued for the purpose of (i) financing the acquisition of certain equipment and vehicles including a fiber network, police cars, dump trucks and various

¹Preliminary; subject to Permitted Adjustment in accordance with paragraphs (F) and (G) under the heading "**Bidding Conditions and Restrictions.**"

²Preliminary; subject to Permitted Adjustment by increasing the amount to a maximum of \$5,934,000 or decreasing the amount to a minimum of \$4,856,000.

³Preliminary; subject to Permitted Adjustment by increasing the amount to a maximum of \$3,113,000 or decreasing the amount to a minimum of \$2,547,000.

other vehicles and equipment for the benefit of numerous departments of the Lexington-Fayette Urban County Government and (ii) paying certain costs related to the issuance of the Notes.

The Series B Notes are being issued for the purpose of (i) financing the acquisition and installation of certain fire equipment including fire engines, EMS units, fire aerial units and various other equipment and (ii) paying certain costs related to the issuance of the Notes.

**NOTE MATURITIES, PRIOR REDEMPTION
PROVISIONS AND PAYING AGENT**

The Series A Notes will bear interest from April 1, 2005, payable on the first day of each April, and October, commencing October 1, 2005. The Series A Notes are scheduled to mature in each of the years as follows:

| Year (April 1) | Principal Amount* |
|---------------------------|--------------------------|
| 2006 | \$1,755,000 |
| 2007 | \$1,795,000 |
| 2008 | \$1,845,000 |

The Series A Notes are not subject to optional redemption prior to maturity.

The Series B Notes will bear interest from April 1, 2005, payable on the first day of each April and October, commencing October 1, 2005. The Series B Notes are scheduled to mature in each of the years as follows:

| Year (April 1) | Principal Amount* |
|---------------------------|--------------------------|
| 2006 | \$370,000 |
| 2007 | \$380,000 |
| 2008 | \$390,000 |
| 2009 | \$400,000 |
| 2010 | \$415,000 |
| 2011 | \$430,000 |
| 2012 | \$445,000 |

The Series B Notes are not subject to optional redemption prior to maturity.

U.S. Bank National Association, Louisville, Kentucky, has been appointed Paying Agent and Registrar for the Notes.

Preliminary; subject to change

BIDDING CONDITIONS AND RESTRICTIONS

The terms and conditions of the sale of the Notes are as follows:

(A) Bids are required to be submitted on the Official Bid Form in order to provide for uniformity in submission of bids and ready determination of the best bid. Bids may alternatively be submitted electronically via PARITY[®]. Electronic bids for the Bonds must be submitted through PARITY[®] and no other provider of electronic bidding services will be accepted. Subscription to the PARITY[®] Competitive Bidding System is required in order to submit an electronic bid. The Urban County Government will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY[®] shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY[®] conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Bond Sale shall prevail. Electronic bids made through the facilities of PARITY[®] shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Urban County Government. The Urban County Government shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY[®]. The use of PARITY[®] facilities are at the sole risk of the prospective bidders. For further information regarding PARITY[®], potential bidders may contact PARITY[®], telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form. Official Bid Forms, together with a Preliminary Official Statement, may be obtained at the office of the Financial Advisor, First Kentucky Securities Corporation, at 305 Ann Street, Suite 400, telephone (502) 875-4611, Attn: John B. Banks, Jr. or at www.firstky.com.

(B) Bidders are required to bid for the Series A Notes at a minimum price of not less than \$5,368,025 (99.5% of par), plus accrued interest from April 1, 2005, to the date of delivery, PAYABLE IN IMMEDIATELY AVAILABLE FUNDS.

(C) Bidders are required to bid for the Series B Notes at a minimum price of not less than \$2,815,850 (99.5% of par), plus accrued interest from April 1, 2005, to the date of delivery, PAYABLE IN IMMEDIATELY AVAILABLE FUNDS.

(D) Bidders must name an interest rate or rates in a multiple of 1/8 or 1/20 of 1%, which rates must be on an ascending scale, in that the rate on the Notes in any maturity is not less than the rate on the Notes for any preceding maturity and all Notes of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

(E) The Series A Notes and the Series B Notes will be awarded separately based on the bids received for each series of Notes.

(F) The determination of the best purchase bid for said Notes shall be made on the basis of all bids submitted for Notes at the maturities offered for sale hereunder but the Lexington-Fayette Urban County Government may adjust the principal amount of Series A Notes downward or upward by up to \$539,000 (the "Permitted Adjustment") so that the aggregate amount which may be awarded to such best bidder is a maximum of \$5,934,000 and a minimum of \$4,856,000, with such adjustment made in the principal amount maturing on any or all maturity dates. In the event of such Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price at which such adjusted principal amount of Series A Notes will be sold will be the same price per \$1,000 of Series A Notes as the price per \$1,000 for the \$5,395,000 of Series A Notes bid.

(G) The determination of the best purchase bid for said Notes shall be made on the basis of all bids submitted for Notes at the maturities offered for sale hereunder but the Lexington-Fayette Urban County Government may adjust the principal amount of Series B Notes downward or upward by up to \$283,000 (the "Permitted Adjustment") so that the aggregate amount which may be awarded to such best bidder is a maximum of \$3,113,000 and a minimum of \$2,547,000, with such adjustment made in the principal amount maturing on any or all maturity dates. In the event of such Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price at which such adjusted principal amount of Series B Notes will be sold will be the same price per \$1,000 of Series B Notes as the price per \$1,000 for the \$2,830,000 of Series B Notes bid.

(H) The Notes will be awarded to the bidder offering to purchase each series of Notes at the lowest true interest cost ("TIC") to the Lexington-Fayette Urban County Government based on the preliminary maturity schedules described above. TIC for this purpose means the discount rate that, when used to compute based on semiannual compounding of the present value as of the date of each series of Notes of all scheduled payments of principal of and interest on each series of Notes, produces an amount equal to the price bid for each series of Notes (excluding accrued interest). If two or more bidders offer bids at the same lowest TIC and the Lexington-Fayette Urban County Government wishes to award each series of Notes, the Lexington-Fayette Urban County Government shall determine by lot which bidder will be awarded each series of Notes.

(I) Bidders have the option of specifying that all the Notes maturing in any two or more consecutive years may, in lieu of maturing in each of such years, be combined to comprise one or more maturities of Notes scheduled to mature in the latest of such year and be subject to mandatory sinking fund redemption at par in each of the years and in the principal amounts of such term Notes scheduled in the year of maturity of the term Notes, which principal amount shall mature in that year.

(J) CUSIP identification numbers will be printed on the Notes at the expense of the Lexington-Fayette Urban County Government. The Lexington-Fayette Urban County Government shall pay the CUSIP Service Bureau Charge. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal

by the purchaser to accept delivery of and pay for the Notes in accordance with the terms of any accepted proposal for the purchase of the Notes.

(K) A reasonable quantity of Official Statements will be supplied to the Purchaser at no cost to the Purchaser.

(L) Bids need not be accompanied by a certified or bank cashier's good faith check, but the successful bidder will be required to wire transfer an amount equal to 2% of the par amount of the Notes by the close of business on the day following the award. Such amount will be forfeited as liquidated damages in the event of a failure of the successful bidder to take delivery of the Notes when ready. The good-faith amount will be applied (without interest) to the purchase price upon delivery of the Notes. The successful bidder shall not be required to take delivery and pay for the Notes unless delivery is made within 21 days from the date the bid is accepted.

(M) The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. They will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchases of the Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct Participants or securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant (the "Indirect Participants"). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

(N) Delivery will be made in Cincinnati, Ohio or Covington, Louisville or Lexington, Kentucky, at no expense to the purchaser or at any other place in the continental United States desired by the purchaser at its expense; PROVIDED, HOWEVER, the purchaser shall bear any bank service charge for processing the delivery of the Notes and closing the transaction if delivery is made at a location other than the principal office of the Bond Registrar. Payment shall be in IMMEDIATELY AVAILABLE FUNDS.

The purchaser shall be required to supply the Note Registrar with the name, address, social security number or taxpayer identification number, principal amount and

principal maturity for each person or entity in whose name Notes are to be registered. Failure of a purchaser to fully designate the Registered Owners of Notes shall result in the issuance of Note Certificates by the Registrar in the purchaser's "street name" (to the extent a purchaser fails to designate).

(O) The Lexington-Fayette Urban County Government reserves the right to reject any and all bids or to waive any informality in any bid. The Notes are offered for sale subject to the principal and interest not being subject to federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, in accordance with the final approving legal opinion of Peck, Shaffer & Williams LLP, Louisville, Kentucky, which opinion will be qualified in accordance with the section hereof on TAX TREATMENT.

(P) Bidders are advised that First Kentucky Securities Corporation has been employed as Financial Advisor in connection with the issuance of the Notes. Their fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery thereof. They may submit a bid for the purchase of the Notes at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Notes.

(Q) As required by the Internal Revenue Code of 1986 (the "Code"), the purchaser of the Notes will be required to certify to the Lexington-Fayette Urban County Government as to certain of its activities regarding any reoffering to the public of the Notes, including any reoffering prices. This information from the purchaser of the Notes shall also be made available to the Financial Advisor immediately after the sale of the Notes.

(R) At the election and cost of the purchaser of the Notes, one or more maturities of the Notes may be insured under a municipal bond insurance policy. In such event, the Lexington-Fayette Urban County Government agrees to cooperate with the purchaser to qualify the Notes for bond insurance; however, the Lexington-Fayette Urban County Government will not assume any of the expenses incident to the issuance of such a bond insurance policy, other than the costs for securing a rating of the Notes from Moody's Investors Service and Standard & Poor's Ratings Services.

CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the "Rule") and so long as the Notes are outstanding the Lexington-Fayette Urban County Government (the "Obligated Person") will agree pursuant to a Continuing Disclosure Certificate dated as of April 15, 2005, to be delivered on the date of delivery of the Notes, to cause the following information to be provided:

(i) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth of Kentucky, to its state information depository ("SID") certain annual financial information and operating data, including audited financial statements, generally consistent with the information

contained under the heading(s) "Appendix B" and "Appendix C" in the Official Statement (the "Annual Financial Information"); such Annual Financial Information to be supplied by reference to the Obligated Person's Comprehensive Annual Financial Report ("CAFR") which will be provided within nine months of the end of the fiscal year ending June 30; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditors for the Obligated Person;

(ii) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, if any, notice of the occurrence of the following events, if material, with respect to the Notes:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (g) Modifications to rights of security holders;
- (h) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
- (i) Defeasances;
- (j) Release, substitution or sale of property securing repayment of the securities;
- (k) Rating changes; and
- (l) The cure, in the manner provided under the Bond Ordinance, of any payment or nonpayment related default under the Bond Ordinance.

(iii) to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure (of which the Obligated Person or Disclosure Agent has knowledge) of an Obligated Person to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The Continuing Disclosure Certificate provides bondholders with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the Continuing Disclosure Certificate does not constitute a default under the Note Ordinance. The Continuing Disclosure Certificate may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Noteholders are advised that the Continuing Disclosure Certificate copies of which are available at the office of the Obligated Person should be read in its entirety for more complete information regarding its contents.

For purposes of this transaction with respect to material events as defined under the Rule:

- (a) there are no debt service reserve funds applicable to the Notes;
- (b) there are no credit enhancements applicable to the Notes;
- (c) there are no liquidity providers applicable to the Notes; and
- (d) there is no property securing the repayment of the Notes.

The Urban County Government has entered into previous disclosure agreements and certificates under the Rule. To the best of the Urban County Government's knowledge, the Urban County Government is currently in compliance with the continuing disclosure undertakings contained in such existing agreements.

TAX TREATMENT

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is excludible from gross income for Federal income tax purposes. Bond Counsel for the Notes is also of the opinion that interest on the Notes is not a specific item of tax preference under Section 57 of the Code for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from taxation, including personal income taxation, by the Commonwealth of Kentucky and its political subdivisions.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Notes. The Lexington-Fayette Urban County Government has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Notes will not be includable in gross income for federal income tax purposes. Failure to comply with these covenants could result in interest on the Notes being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the tax status of the interest on the Notes.

Certain requirements and procedures contained or referred to in the Note documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Notes is of the opinion that interest on the Notes will be excludible from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Noteholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Noteholder or the Noteholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax

consequences other than what is set forth in its opinion and each Noteholder or potential Noteholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Notes on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Notes is of the opinion that interest on the Notes will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Receipt of tax-exempt interest, ownership or disposition of the Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

The Lexington-Fayette Urban County Government has not designated the Notes as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

/s/ Teresa Isaac

Mayor
Lexington-Fayette
Urban County Government