

PRELIMINARY OFFICIAL STATEMENT DATED MAY 31, 2012

New Issue – Book Entry Only

Ratings: Moody's : "Aa2"
S&P: "AA"
(See "RATINGS" herein.)

In the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, under existing law (i) interest on the Series 2012A Bonds will be includible in the gross income of the holders thereof for purposes of federal income taxation, (ii) interest on the Series 2012B Bonds will be excludible from gross income of the holders thereof for purposes of federal income taxation and interest on the Series 2012B Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) interest on the Series 2012 Bonds is exempt from income taxation and the Series 2012 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions, all subject to the qualifications described herein under the heading "TAX TREATMENT."

\$37,065,000*

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT (KENTUCKY)
GENERAL OBLIGATION BONDS**

\$31,000,000*

**Taxable General Obligation
Pension Funding Bonds
Series 2012A**

\$6,065,000*

**Various Purpose
General Obligation Refunding Bonds
Series 2012B**

Dated Date: Date of Delivery

Due: As shown on the inside front cover

The above-captioned Series 2012A Bonds and Series 2012B Bonds (collectively, the "Series 2012 Bonds") of the Lexington-Fayette Urban County Government will be sold pursuant to a competitive sale as provided in the Official Terms and Conditions of Bond Sale included in **Appendix F** hereto. The Series 2012 Bonds are dated, mature and bear interest as set forth under "MATURITY SCHEDULE" on the inside cover page hereof. The Series 2012A Bonds pay interest semiannually on each April 1 and October 1 to maturity, commencing October 1, 2012. The Series 2012B Bonds pay interest semiannually on each January 1 and July 1 to maturity, commencing January 1, 2013.

The Series 2012 Bonds will be initially issued as fully registered bonds in book entry form in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of Series 2012 Bonds to owners of book entry interests. So long as DTC or its nominee is the sole registered owner, DTC will receive all payments of principal and interest (i) with respect to the Series 2012A Bonds from U.S. Bank National Association, Louisville, Kentucky, as paying agent and registrar (the "Series 2012A Paying Agent and Registrar") and (ii) with respect to the Series 2012B Bonds from The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as paying agent and registrar (the "Series 2012B Paying Agent and Registrar"). DTC is required by its rules and procedures to remit such payments to participants in DTC for subsequent disbursement to the owners of book entry interests. So long as DTC or its nominee is the registered owner of the Series 2012 Bonds, references herein to the Bondholders or registered owners (other than under the captions "LEGAL MATTERS—TAX TREATMENT" and "CONTINUING DISCLOSURE") shall mean DTC or its nominee, and not the owners of book entry interests in the Series 2012 Bonds. The Series 2012 Bonds will be issued in denominations of \$5,000 each or integral multiples thereof.

The Series 2012 Bonds are subject to redemption prior to maturity as described herein.

The Series 2012 Bonds are offered when, as and if issued, subject to the approval of legality and tax treatment by Peck, Shaffer & Williams LLP, Bond Counsel, Covington, Kentucky. The Series 2012 Bonds are expected to be available for delivery on or about June 21, 2012.

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.

**CIVIC FINANCE ADVISORS, LLC
RAYMOND JAMES | MORGAN KEEGAN
Financial Advisors**

*Preliminary; subject to change.

MATURITY SCHEDULE*

\$31,000,000*

Taxable General Obligation Pension Funding Bonds Series 2012A

Year (Oct. 1)	Amount*	Interest Rate	Price	Yield	CUSIP[†]
2013	\$1,250,000				
2014	1,260,000				
2015	1,275,000				
2016	1,290,000				
2017	1,310,000				
2018	1,335,000				
2019	1,360,000				
2020	1,390,000				
2021	1,425,000				
2022	1,465,000				
2023	1,510,000				
2024	1,560,000				
2025	1,610,000				
2026	1,660,000				
2027	1,720,000				
2028	1,780,000				
2029	1,845,000				
2030	1,910,000				
2031	1,985,000				
2032	2,060,000				

* Preliminary; subject to change.

[†] Copyright 2012, CUSIP Global Services. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the holders only at the time of issuance of the Series 2012 Bonds, and the City does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2012 Bonds.

\$6,065,000*
Various Purpose
General Obligation Refunding Bonds
Series 2012B

Year (July 1)	Amount*	Interest Rate	Price	Yield	CUSIP[†]
2013	\$ 80,000				
2014	85,000				
2015	85,000				
2016	215,000				
2017	215,000				
2018	755,000				
2019	765,000				
2020	775,000				
2021	795,000				
2022	805,000				
2023	820,000				
2024	670,000				

* Preliminary; subject to change.

[†] Copyright 2012, CUSIP Global Services. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by Standard & Poor's. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the holders only at the time of issuance of the Series 2012 Bonds, and the City does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2012 Bonds.

REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2012 Bonds 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 Series 2012 Bonds 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 Series 2012 Bonds 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 Series 2012 Bonds 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 Series 2012 Bonds 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 Series 2012 Bonds.

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; and “State” or “Kentucky” means the Commonwealth of Kentucky.

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LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Mayor
Jim Gray

Council Members at Large
Linda Gorton (Vice Mayor)
Chuck Ellinger II
Steve Kay

Council Members by District

1 st District Chris Ford	5 th District Bill Farmer, Jr.	9 th District Jay McChord
2 nd District Tom Blues	6 th District Kevin O. Stinnett	10 th District R. Douglas Martin
3 rd District Diane Lawless	7 th District K.C. Crosbie	11 th District Peggy Henson
4 th District Julian Beard	8 th District George Myers	12 th District Ed Lane

Commissioner of Finance
Jane Driskell

Clerk of the Lexington-Fayette Urban County Council
Susan Lamb

PAYING AGENT AND REGISTRAR

(Series 2012A Bonds)
U.S. Bank National Association, Louisville, Kentucky

(Series 2012B Bonds)
The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky

CO-FINANCIAL ADVISORS

Civic Finance Advisors, LLC
Lexington, Kentucky

Morgan Keegan & Company, Inc.
Lexington, Kentucky

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

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Appendix A-1	Estimated Debt Service Requirements for the Series 2012A Bonds [*]
Appendix A-2	Estimated Debt Service Requirements for the Series 2012B Bonds [*]
Appendix B	Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011
Appendix C	Statement of Indebtedness
Appendix D-1	Specimen Opinion of Bond Counsel (Series 2012A Bonds)
Appendix D-2	Specimen Opinion of Bond Counsel (Series 2012B Bonds)
Appendix E	Actuarial Report, dated July 1, 2011, prepared by Cavanaugh Macdonald Consulting, LLC
Appendix F	Official Terms and Conditions of Bond Sale

^{*} Preliminary; subject to change.

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 \$37,065,000* aggregate principal amount of General Obligation Bonds by the Lexington-Fayette Urban County Government, consisting of the following:

(a) \$31,000,000* Taxable General Obligation Pension Funding Bonds, Series 2012A (the “Series 2012A Bonds”); and

(b) \$6,065,000* Various Purpose General Obligation Refunding Bonds, Series 2012B (the “Series 2012B Bonds” and together with the Series 2012A Bonds, the “Series 2012 Bonds”).

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 the Series 2012 Bonds to potential investors is made only by means of the entire Official Statement.

The Issuer

The Series 2012 Bonds 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.

Security and Sources of Payment for the Series 2012 Bonds

The Series 2012 Bonds are general obligation debt of the Lexington-Fayette Urban County Government. The basic security for the Series 2012 Bonds is the Lexington-Fayette Urban County Government’s ability to levy an annual tax to pay the interest on and principal of the Series 2012 Bonds as and when the same become due and payable. (See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2012 BONDS” herein.)

* Preliminary; subject to change.

Purpose of the Series 2012 Bonds

The Series 2012 Bonds are being issued for the following purposes:

(a) ***The Series 2012A Bonds.*** The Series 2012A Bonds are being issued for the purpose of (i) funding certain unfunded liabilities to the Policemen's and Firefighters' Retirement Fund of the Lexington-Fayette Urban-County Government (the "Series 2012A Project"), based on computations set forth in the Actuarial Report (as defined herein), and (ii) paying certain costs related to the issuance of the Series 2012A Bonds. (See "PURPOSE OF THE SERIES 2012A BONDS – General" "- Summary of the Actuarial Reports" and "- Funding Plan for Unfunded Liabilities" herein.).

(b) ***The Series 2012B Bonds.*** The Series 2012B Bonds are being issued to (i) advance refund a portion of the outstanding principal amount of the \$4,570,000 Lexington-Fayette Urban County Government General Obligation Bonds, Series 2002C (the "Series 2002C Bonds") and the \$9,640,000 Lexington-Fayette Urban County Government General Obligation Bonds (Day Treatment Center, Multi-Use Facility and Expansion Area Boulevard Projects), Series 2004C (the "Series 2004C Bonds" and, together with the Series 2002C Bonds, the "Prior Bonds") and (ii) pay the costs of issuance of the Series 2012B Bonds. See "PURPOSE OF THE SERIES 2012B BONDS General" and "- Plan of Refunding" herein.).

Description of the Series 2012 Bonds

The Series 2012 Bonds mature as indicated under "MATURITY SCHEDULE" on the inside cover page hereof. The Series 2012 Bonds are being offered in the denominations of \$5,000 or any integral multiple thereof. The Series 2012 Bonds, 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 Series 2012 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2012 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2012 Bonds, payments of the principal of and interest due on the Series 2012 Bonds will be made directly to DTC.

[Remainder of page intentionally left blank]

Redemption

Optional Redemption. The Series 2012A Bonds maturing October 1, 2023 and thereafter are subject to ordinary optional redemption prior to maturity, commencing October 1, 2022. The Series 2012B Bonds maturing July 1, 2022 and thereafter are subject to ordinary optional redemption prior to maturity, commencing July 1, 2021. (See “DESCRIPTION OF THE SERIES 2012 BONDS - Redemption Provisions – Optional Redemption” herein).

Mandatory Sinking Fund Redemption. The Series 2012A Bonds maturing on October 1, ____ are subject to mandatory sinking fund redemption as set forth herein. The Series 2012B Bonds maturing on July 1, ____ are subject to mandatory sinking fund redemption as set forth herein. (See “DESCRIPTION OF THE SERIES 2012 BONDS - Redemption Provisions – Mandatory Sinking Fund Redemption” herein).

Notice of Redemption. In the event any Series 2012 Bonds are called for redemption, notice shall be given by mailing a copy of the redemption notice at least thirty (30) days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed (see “DESCRIPTION OF THE SERIES 2012 BONDS - Redemption Provisions – Notice of Redemption” herein).

Parties to the Issuance of the Series 2012 Bonds

U.S. Bank National Association, Louisville, Kentucky, will serve as paying agent and registrar with respect to the Series 2012A Bonds (the “Series 2012A Paying Agent and Registrar”). The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, will serve as paying agent and registrar with respect to the Series 2012B Bonds (the “Series 2012B Paying Agent and Registrar”). Legal matters incident to the issuance of the Series 2012 Bonds and with regard to the tax treatment of the interest thereon are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The Underwriter is shown on the cover page. The co-Financial Advisors to the Lexington-Fayette Urban County Government are Civic Finance Advisors, LLC and Morgan Keegan & Company, Inc. (or its successors in interest).

Payment of Series 2012 Bonds

The Series 2012 Bonds will be fully registered and may be transferred at the designated office of the respective Paying Agent and Registrar, without cost except for any taxes or other governmental charges.

As a precondition to the exchange or transfer of any Series 2012 Bond, the Lexington-Fayette Urban County Government or the respective Paying Agent and Registrar may charge the Bondholder 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 respective Paying Agent and Registrar shall be required to make any transfer during the 15 days immediately preceding the mailing of a notice of redemption nor to transfer any Series 2012 Bond selected for redemption in whole or in part.

Principal and any redemption premium is payable to the registered owner at the designated office of the respective Paying Agent and Registrar. Interest will be payable by electronic transfer or check or draft mailed by the respective Paying Agent and Registrar 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.

Interest

The Series 2012 Bonds shall be dated their date of delivery and bear interest at the rates set forth on the inside cover hereof. Interest on the Series 2012 A Bonds shall be payable semi-annually on April 1 and October 1, commencing October 1, 2012. The record dates for April 1 and October 1 interest payment dates shall be the preceding March 15 and September 15, respectively. Interest on the Series 2012 B Bonds shall be payable semi-annually on January 1 and July 1, commencing January 1, 2013. The record dates for January 1 and July 1 interest payment dates shall be the preceding December 15 and June 15, respectively.

Book Entry

The Series 2012 Bonds are issuable only as fully registered bonds, without coupons. The Series 2012 Bonds, 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 securities depository for the Series 2012 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2012 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2012 Bonds, payments of the principal of and interest due on the Series 2012 Bonds will be made directly to DTC. Principal of, redemption premium, if any, and interest on the Series 2012 Bonds will be paid directly to DTC by the respective Paying Agent and Registrar. See “DESCRIPTION OF THE SERIES 2012 BONDS – Book-Entry Only System” herein.

Tax Treatment

Series 2012A Bonds. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series 2012A Bonds is includable in gross income for Federal income tax purposes. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series 2012A Bonds. Interest on the Series 2012A Bonds is exempt from income taxation and the Series 2012A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

Series 2012B Bonds. Under the laws, regulations, rulings, and judicial decisions in effect as of the date hereof, interest on the Series 2012B Bonds is excludible from gross income for federal income tax purposes, pursuant to the Code. Furthermore, interest on the Series 2012B Bonds 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 Series 2012B Bonds. Interest on the Series 2012B Bonds is exempt from income taxation and the Series 2012B Bonds 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 Series 2012B Bonds as “qualified tax-exempt obligations” with respect to certain financial institutions under Section 265 of the Internal Revenue Code of 1986, as amended (the “Code”).

Forms of Opinions. See ***Appendix D*** hereto for the forms of the opinions that Bond Counsel proposes to deliver in connection with the Series 2012 Bonds.

Authority for Issuance

Authority for the issuance of the Series 2012 Bonds is provided by Sections 66.011 through 66.191 of the Kentucky Revised Statutes and (i) with respect to the Series 2012A Bonds, Ordinance No. 64-2012 (the “Series 2012A Ordinance”) adopted by the Lexington-Fayette Urban County Council (the “Urban County Council”) on May 17, 2012 and (ii) with respect to the Series 2012B Bonds, Ordinance No. 65-2012 (the “Series 2012B Ordinance” and together with the Series 2012A Ordinance, the “Authorizing Ordinance”) adopted by the Lexington-Fayette Urban County Council (the “Urban County Council”) on May 17, 2012.

Offering and Delivery of the Series 2012 Bonds

The Series 2012 Bonds are offered when, as and if issued by the Lexington-Fayette Urban County Government. The Series 2012 Bonds will be delivered on or about June 21, 2012 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 Series 2012 Bonds, including the Authorizing Ordinance 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 which has been omitted in accordance with such 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 Series 2012 Bonds, is available from (i) Civic Finance Advisors, LLC, 333 West Vine Street, Suite 1610, Lexington, KY 40509, Telephone: (855) 211-1525, Attention: Keith Brock; and (ii) Morgan Keegan & Company, Inc., 489 East Main Street, Lexington, Kentucky 40507, telephone (859) 232-8211, Attn: Bob Pennington.

DESCRIPTION OF THE SERIES 2012 BONDS

General

The Series 2012 Bonds are dated their date of delivery and bear interest from such date at the rates set forth under “MATURITY SCHEDULE” on the inside cover page hereof, calculated on the basis of a 360 day year with 30 day months. The Series 2012 Bonds are being issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Series 2012A Bonds is payable semi-annually on April 1 and October 1, commencing October 1, 2012. Interest on the Series 2012B Bonds is payable semi-annually on January 1 and July 1, commencing January 1, 2013. Interest on all Series 2012 Bonds is payable by electronic transfer or check or draft mailed to the registered holder by the respective Paying Agent and Registrar. Principal is payable when due to the registered holder of the Series 2012 Bonds at the designated office of the respective Paying Agent and Registrar.

Book-Entry Only System

The following information concerning DTC and DTC’s book-entry system has been obtained from DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but neither the Lexington-Fayette Urban County Government nor either Paying Agent and Registrar takes any responsibility for the accuracy of such statements.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2012 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by

the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the respective Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Lexington-Fayette Urban County Government, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Lexington-Fayette Urban County Government, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Lexington-Fayette Urban County Government, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Lexington-Fayette Urban County Government. Under such circumstances, in the event that a successor depository is not obtained, Security 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-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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. The Lexington-Fayette Urban County Government will not have any responsibility or obligations to any Direct Participants or Indirect Participants or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or any such Direct Participant or Indirect Participant; (ii) the payment by any Participant of any amount due to the Beneficial Owner in respect of the principal of, premium, if any, or interest on the Series 2012 Bonds; (iii) the delivery by any such Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted to be given to owners of the Series 2012 Bonds; (iv) the selection of the Beneficial Owners to receive payments in the event of any partial redemption of the Series 2012 Bonds; or (v) any consent given or other action taken by DTC as Registered Owner.

Security and Source of Payment for Series 2012 Bonds

The Series 2012 Bonds 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 Series 2012 Bonds when due.

The basic security for the general obligation debt of the Lexington-Fayette Urban County Government, including the Series 2012 Bonds, 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 Series 2012 Bonds 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 Series 2012 Bonds as well as the principal of and interest on all outstanding general obligation bonds and Series 2012 Bonds 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 Authorizing 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 Authorizing 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 Series 2012 Bonds 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 Lexington-Fayette 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.

Redemption Provisions

Optional Redemption. The Series 2012A Bonds maturing October 1, 2023 and thereafter are subject to optional redemption prior to maturity, commencing October 1, 2022. The Series 2012B Bonds maturing July 1, 2022 and thereafter are subject to optional redemption prior to maturity, commencing July 1, 2021. The Series 2012A Bonds and the Series 2012B Bonds,

respectively, are subject to such optional redemption prior to maturity, in whole or in part, in any order of maturity and by lot within any maturity at the election of the Lexington-Fayette Urban County Government upon 45 days' written notice to the respective Paying Agent and Registrar, at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption.

Series 2012A Bonds. The Series 2012A Bonds maturing on October 1, ____ are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed plus accrued interest to the date of redemption, on October 1, in the years and in the respective principal amounts as follows:

Redemption Date <u>(October 1)</u>	Principal Amount Subject to <u>Mandatory Redemption</u>
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Series 2012B Bonds. The Series 2012B Bonds maturing on July 1, ____ are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed plus accrued interest to the date of redemption, on July 1, in the years and in the respective principal amounts as follows:

Redemption Date <u>(July 1)</u>	Principal Amount Subject to <u>Mandatory Redemption</u>
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Selection of Series 2012 Bonds to be Redeemed. If less than all Series 2012 Bonds which are payable by their terms on the same date are to be called, the particular Series 2012 Bonds or portions of Series 2012 Bonds payable on such same date and to be redeemed from such series shall be selected by lot by the respective Paying Agent and Registrar, in such manner as the respective Paying Agent and Registrar in its discretion may determine; provided, however, that the portion of any Series 2012 Bond to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof, and that, in selecting Series 2012 Bonds for redemption, the respective Paying Agent and Registrar shall treat each bond as representing that number of Series 2012 Bonds which is obtained by dividing the principal amount of such Series 2012 Bond by \$5,000.

In case part but not all of an outstanding Series 2012 Bond shall be selected for redemption, the registered owner thereof or his attorney or legal representative shall present and surrender such Series 2012 Bond to the respective Paying Agent and Registrar for payment of the principal amount hereof so called for redemption, and the Lexington-Fayette Urban County Government shall execute and the respective Paying Agent and Registrar shall authenticate and deliver to or upon the order of such registered owner or his legal representative, without charge

therefor, for the unredeemed portion of the principal amount of the Series 2012 Bond so surrendered a Series 2012 Bond of the same series and maturity and bearing interest at the same rate.

Notice of Redemption to Registered Owners. At least thirty (30) days before the optional redemption date of any Series 2012 Bonds the respective Paying Agent and Registrar shall cause a notice of such redemption signed by the respective Paying Agent and Registrar, to be mailed, first class, postage prepaid, to all registered owners of the Series 2012 Bonds to be redeemed at their addresses as they appear on the registration books kept by the respective Paying Agent and Registrar, but failure to mail any such notice shall not affect the validity of the proceedings for such redemption of Series 2012 Bonds for which such notice has been sent. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Series 2012 Bonds being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive number or letters, if any, of such Series 2012 Bonds to be redeemed.

On the date so designated for redemption, notice having been published in the manner under the conditions hereinabove provided and moneys for payment of the redemption price being held in the Series 2012 Bond Payment Fund by the respective Paying Agent and Registrar for the registered owners of the Series 2012 Bonds to be redeemed, the Series 2012 Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Series 2012 Bonds on such date, interest on the Series 2012 Bonds so called for redemption shall cease to accrue, and the registered owners of such Series 2012 Bonds shall have no right in respect thereof except to receive payment of the redemption price thereof.

PURPOSE OF THE SERIES 2012A BONDS

General

The Series 2012A Bonds are being issued for the purpose of (i) funding certain unfunded liabilities to the Policemen's and Firefighters' Retirement Fund of the Lexington-Fayette Urban-County Government (the "Series 2012A Project"), based on computations set forth in an actuarial report entitled, *GASB Update Report of the Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund*, dated July 1, 2011 (the "Actuarial Report"), prepared by Cavanaugh Macdonald Consulting, LLC (the "Actuaries"), and (ii) paying certain costs related to the issuance of the Series 2012A Bonds.

Summary of the Actuarial Reports

The Actuarial Report, a copy of which is attached in ***Appendix E*** and should be read in its entirety for more detailed information concerning the Policemen's and Firefighters' Pension Fund, reports that there were 935 retired participants and 1,051 active participants covered under the Policemen's and Firefighters' Pension Fund as of July 1, 2011. Pursuant to the Actuarial Report, the Policemen's and Firefighters' Pension Fund had an actuarial value of assets of \$501,069,884 as of July 1, 2011, compared to an actuarial liability of \$758,851,546, thereby leaving an unfunded actuarial balance as of July 1, 2011 of \$257,781,662.

Funding Plan for Unfunded Liabilities

Background. The statutory authority to set the required rate of the contribution of the Lexington-Fayette Urban County Government to the Policemen's and Firefighters' Retirement Fund of the Lexington-Fayette Urban-County Government (the "Policemen's and Firefighters' Pension Fund"), used in determining the amount of the unfunded liabilities, was the subject of a suit filed in 2003 in Fayette Circuit Court by members of the Policemen's and Firefighters' Pension Fund (the "Fund Members"). In *Tommy Puckett, et al. v. Lexington-Fayette Urban County Government*, the Fund Members maintained that the Board of Trustees of the Policemen's and Firefighters' Pension Fund (the "Board of Trustees") is entitled under KRS 67A.520 to fix the rate of the contribution of the Lexington-Fayette Urban County Government to the Policemen's and Firefighters' Pension Fund and that the Lexington-Fayette Urban County Government had failed to make contributions at the rate set by the Board of Trustees. The Lexington-Fayette Urban County Government argued that the Board of Trustees does not have sole authority under KRS 67A.520 to set the contribution rate and maintained that the Lexington-Fayette Urban County Government is to be an equal partner in the rate-setting process.

On December 21, 2006, the Fayette Circuit Court rendered an opinion and order in favor of the Fund Members, concluding that KRS 67A operates to vest with the Board of Trustees the authority to fix the rate of the contribution by the Lexington-Fayette Urban County Government to the Policemen's and Firefighters' Pension Fund. This opinion and order were affirmed on February 1, 2008 by the Commonwealth of Kentucky Court of Appeals and the Supreme Court of Kentucky denied a motion for discretionary review on January 14, 2009.

To reduce its unfunded liabilities to the Policemen's and Firefighters' Pension Fund, the Lexington-Fayette Urban County Government has previously issued its \$70,610,000 Taxable General Obligation Pension Funding Bonds, Series 2009B (the "Series 2009B Bonds") and \$35,825,000 Taxable General Obligation Pension Funding Bonds, Series 2010D (the "Series 2010D Bonds").

Additional Pension Funding Bonds. In addition to the issuance of the Series 2009B Bonds, the Series 2010D Bonds and the Series 2012A Bonds, the Lexington-Fayette Urban County Government anticipates issuing additional general obligation pension funding bonds in the approximate amount of \$30 million each fiscal year from 2013-2014. Following the issuance of the Series 2012A Bonds and the additional pension funding bonds, it is anticipated that the Lexington-Fayette Urban County Government will have substantially reduced its unfunded liabilities to the Policemen's and Firefighters' Pension Fund.

PURPOSE OF THE SERIES 2012B BONDS

General

The Series 2012B Bonds are being issued to (i) advance refund a portion of the outstanding principal amount of the \$4,570,000 Lexington-Fayette Urban County Government General Obligation Bonds, Series 2002C (the "Series 2002C Bonds") and the \$9,640,000 Lexington-Fayette Urban County Government General Obligation Bonds (Day Treatment Center, Multi-Use Facility and Expansion Area Boulevard Projects), Series 2004C (the "Series

2004C Bonds” and, together with the Series 2002C Bonds, the “Prior Bonds”) and (ii) pay the costs of issuance of the Series 2012B Bonds.

Plan of Refunding

Series 2002C Bonds. The Lexington-Fayette Urban County Government has heretofore issued, and intends to refund and retire all or a portion of its Series 2002C Bonds, the proceeds of which were used to finance (i) road improvements, consisting of enlargements to a planned two-lane boulevard to alternatively provide a four-lane boulevard and (ii) improvements to storm and surface water collection, drainage and control facilities (the “Series 2002C Project”). A portion of the proceeds of the Series 2012B Bonds will be deposited in a separate and distinct escrow fund with respect to the Series 2002C Bonds to be refunded (the “Refunded Series 2002C Bonds”) to be held by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as escrow trustee (the “Escrow Trustee”), under an Escrow Trust Agreement, dated June 21, 2012 (the “Escrow Agreement”), by and between the Lexington-Fayette Urban County Government and the Escrow Trustee. The Escrow Trustee will apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the “United States Treasury Obligations”), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the principal of and interest on the Refunded Series 2002C Bonds as same becomes due and to redeem the Refunded Series 2002C Bonds on December 1, 2012 (the “Series 2002C Redemption Date”), at the applicable redemption price of the principal amount thereof plus accrued interest on the Refunded Series 2002C Bonds to the Series 2002C Redemption Date. See “VERIFICATION OF MATHEMATICAL ACCURACY” herein. Upon the making of the foregoing deposits with the Escrow Trustee, the Refunded Series 2002C Bonds will no longer be deemed to be outstanding. The refunding plan for the Refunded Series 2002C Bonds is being undertaken to provide net debt service savings to the Lexington-Fayette Urban County Government.

Series 2004C Bonds. The Lexington-Fayette Urban County Government has heretofore issued, and intends to refund and retire a portion of its Series 2004C Bonds, the proceeds of which were used to finance the (i) acquisition, construction and equipping of a day treatment facility, (ii) acquisition, renovation and equipping of a multi-use facility and (iii) acquisition of rights of way and construction of road improvements (the “Series 2004C Project”). A portion of the proceeds of the Series 2012B Bonds will be deposited in a separate and distinct escrow fund with respect to the Series 2004C Bonds to be refunded (the “Refunded Series 2004C Bonds”) to be held by the Escrow Trustee under the Escrow Agreement. The Escrow Trustee will apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the “United States Treasury Obligations”), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the principal of and interest on the Refunded Series 2004C Bonds as same becomes due and to redeem the Refunded Series 2004C Bonds on July 1, 2014 (the “Series 2004C Redemption Date”), at the applicable redemption price of the principal amount thereof plus accrued interest on the Refunded Series 2004C Bonds to the Series 2004C Redemption Date. See “VERIFICATION OF MATHEMATICAL ACCURACY” herein. Upon the making of the foregoing deposits with the Escrow Trustee, the Refunded Series 2004C Bonds will no longer be

deemed to be outstanding. The refunding plan for the Refunded Series 2004C Bonds is being undertaken to provide net debt service savings to the Lexington-Fayette Urban County Government.

Verification of Mathematical Accuracy

AMTEC Corporation of Avon, Connecticut will deliver to the Lexington Fayette Urban County Government, on or before the settlement date of the Series 2012B Bonds, its report indicating that it has examined the information and assertions provided by the Lexington Fayette Urban County Government and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the computations of the adequacy of the cash, the maturing principal of and interest on the defeasance securities deposited with the paying agent for the Series 2002C Bonds and the Series 2004C Bonds to pay, when due, the maturing principal, interest and redemption premium on the Refunded Series 2002C Bonds and the Refunded Series 2004C Bonds on or prior to their respective redemption dates as described in “PURPOSE OF THE SERIES 2012B BONDS – Plan of Refunding” herein and (b) the computations supporting the conclusion of Bond Counsel that the Series 2012B Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder. AMTEC has expressed no opinion on the assumptions provided to them, nor as to the exemption from income taxation of interest on the Series 2012B Bonds.

SOURCES AND USES OF FUNDS

Series 2012A Bonds

The following table sets forth the sources and uses of funds by the Lexington-Fayette Urban County Government in connection with the issuance of the Series 2012A Bonds:

<u>Sources</u>	
Par Amount of Series 2012A Bonds	
Net [Premium] [Discount]	
TOTAL SOURCES	
<u>Uses</u>	
Policemen's and Firefighters' Pension Fund Unfunded Liability	
Bond Issuance Expenses ⁽¹⁾	
TOTAL USES	

⁽¹⁾ Includes underwriters' discount, printing costs, rating agency fees, legal fees, paying agent fees and other issuance costs.

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Series 2012B Bonds

The following table sets forth the sources and uses of funds by the Lexington-Fayette Urban County Government in connection with the issuance of the Series 2012B Bonds:

Sources	
Par Amount of Series 2012B Bonds	
Net [Premium] [Discount]	
TOTAL SOURCES	
Uses	
Deposit to Escrow Fund with respect to the Refunded Series 2002C Bonds (SLGS Purchases)	
Deposit to Escrow Fund with respect to the Refunded Series 2004C Bonds (SLGS Purchases)	
Bond Issuance Expenses ⁽¹⁾	
TOTAL USES	

⁽¹⁾ Includes underwriters' discount, printing costs, rating agency fees, legal fees, paying agent fees, escrow agent fees, verification agent fees and other issuance costs.

INVESTMENT CONSIDERATIONS

The Series 2012 Bonds, 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 Series 2012 Bonds may need to consult their own tax advisors prior to any purchase of the Series 2012 Bonds as to the impact of the Internal Revenue Code of 1986, as amended, upon their acquisition, holding or disposition of the Series 2012 Bonds.

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 Series 2012 Bonds 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 BONDS" 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 Lexington-Fayette Urban County Council.

The Mayor is the chief executive officer and is elected to serve a four-year term. The Lexington-Fayette 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 department commissioners who are appointed by the Mayor with approval of the Lexington-Fayette Urban County Council. The Lexington-Fayette Urban County Government has seven departments, headed by 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 2,800 authorized full-time equivalent positions. Of these positions, 48% are police, fire and community correction personnel, and the remaining 52% are civil service, non-civil service, appointed or elected positions.

The Department of Finance and Administration 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, Community Development, Human Resources, Purchasing, Revenue and Risk Management.

The Department of Public Safety includes the divisions of Police, Fire and Emergency Services, Community Corrections, Emergency Management/E-911 and Code Enforcement.

The Department of Public Works and Development 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, Streets, Roads and Forestry, Traffic Engineering, Historic Preservation, Planning, Purchase of Development Rights and Building Inspection.

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 and Tenant Services, Family Services and Youth Services.

The Department of General Services includes the divisions of Facilities and Fleet Management 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 Environmental Quality includes the divisions of Environmental Policy, Water Quality and Waste Management.

The Department of Law provides legal services for the Lexington-Fayette Urban County Government. 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 Lexington-Fayette Urban County Council at least sixty days prior to the beginning of the next fiscal year. The Lexington-Fayette Urban County 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 Lexington-Fayette 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 Lexington-Fayette 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. In December 1996, the Lexington-Fayette 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 2011, there was an estimated balance of \$14.47 million 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 Lexington-Fayette 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 bonds;

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 bonds, 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 C.*)

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 C 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 Series 2012 Bonds), 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 \$2,727,823,100 and the Lexington-Fayette Urban County Government's net debt subject to such limitation presently outstanding (including the Series 2012 Bonds) is \$370,863,000* leaving a balance of approximately \$2,356,960,100* of 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 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.

* Preliminary; subject to change.

Appendix C 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 (0.2535 per \$100 of assessed valuation, which includes 0.1735 which is dedicated for specific purposes) and certifying that the issuance of the Series 2012 Bonds will not cause such rate to increase to an amount which would exceed the maximum permissible rate.

Bond Anticipation Notes

Under Kentucky law, notes, including renewal notes, issued in anticipation of general obligation bonds may be issued from time to time upon the same terms and conditions as bonds except that notes may be sold by private negotiated sale in a manner determined or authorized by the legislative authority.

The ability of the Lexington-Fayette Urban County Government to retire bond anticipation notes from the proceeds of the sale of either renewal notes or bonds will be dependent upon the marketability of such renewal notes or bonds under market conditions then prevailing.

Future Borrowings of the Lexington-Fayette Urban County Government

In the next twelve months, the Lexington-Fayette Urban County Government currently anticipates issuing a \$3.6 million short term general obligation note for capital purchases and approximately \$30 million in sewer revenue bonds to support capital improvements related to a consent decree.

Additionally, the Lexington-Fayette Urban County Government anticipates issuing additional general obligation pension funding bonds in the approximate amount of \$30 million in fiscal year 2013 in order to reduce its unfunded liabilities to the Policemen's and Firefighters' Pension Fund, subject to budgetary approval and economic conditions.

LEGAL MATTERS

General Information

Legal matters incident to the issuance of the Series 2012 Bonds and with regard to the tax treatment thereof are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Bond Counsel. Upon delivery of the Series 2012 Bonds of the Lexington-Fayette Urban County Government to the successful bidder therefor, the Series 2012 Bonds will be accompanied by approving opinions dated the date of such delivery, rendered by Peck, Shaffer & Williams LLP. Forms of such legal opinions for the Series 2012 Bonds are attached hereto as *Appendices D-1* and *D-2*.

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 Series 2012

Bonds that may be made available by the Lexington-Fayette Urban County Government or others to the bidders or holders of the Series 2012 Bonds 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 Series 2012 Bonds, 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 “INTRODUCTION—Security and Sources of Payment for Series 2012 Bonds and “—Authority for Issuance”; “LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT—Debt Limitation” and “—Tax Limitation”; and “TAX TREATMENT” 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 Series 2012 Bonds 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 Series 2012 Bonds, the security for the Series 2012 Bonds or the improvements being financed from the proceeds of the Series 2012 Bonds. A No-Litigation Certificate to that effect will be delivered to the purchaser at the time of the delivery of the Series 2012 Bonds.

TAX TREATMENT

Series 2012A Bonds

In the opinion of Bond Counsel for the Series 2012A Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2012A Bonds is includable in gross income for Federal income tax purposes. Furthermore, Bond Counsel for the Series 2012A Bonds is of the opinion that interest on the Series 2012A Bonds is exempt from income taxation and the Series 2012A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A form of the opinion of Bond Counsel for the Series 2012A Bonds is set forth in *Appendix D-1* attached hereto.

Series 2012B Bonds

General. In the opinion of Bond Counsel for the Series 2012B Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2012B Bonds will be excludible from gross income for Federal income tax purposes. Bond Counsel for the Series 2012B Bonds is also of the opinion that interest on the Series 2012B Bonds will not be 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 Series 2012B Bonds is of the opinion that interest on the Series 2012B Bonds is exempt from income taxation and the Series 2012B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Series 2012B Bonds is set forth in *Appendix D-2*, 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 Series 2012B Bonds. The Lexington-Fayette Urban County Government has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Series 2012B Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series 2012B Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series 2012B Bonds. 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 Series 2012B Bonds may adversely affect the tax status of the interest on the Series 2012B Bonds.

Certain requirements and procedures contained or referred to in the Series 2012B Bond documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2012B Bonds) 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 Series 2012B Bonds 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 Series 2012B Bonds is of the opinion that interest on the Series 2012B Bonds will be excludible from gross income for Federal income tax purposes and that interest on the Series 2012B Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012B Bonds may otherwise affect a Holder'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 Holder or the Holder'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 Holder or potential Holder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series 2012B Bonds on the tax liabilities of the individual or entity.

For example, although Bond Counsel is of the opinion that interest on the Series 2012B Bonds will not be a specific item of tax preference for the federal 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 corporation. Receipt of tax-exempt interest, ownership or disposition of the Series 2012B Bonds may result in other collateral federal, state or local tax consequence for certain taxpayers. Such effects include, 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 amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Series 2012B Bonds 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 Series 2012B Bonds 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 Series 2012B Bonds.

The Lexington-Fayette Urban County Government has not designated the Series 2012B Bonds as “qualified tax-exempt obligations” within the meaning of Section 265 of the Code.

Original Issue Premium. “Acquisition Premium” is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series 2012B Bonds that bear an interest rate that is higher than the yield (as shown under “MATURITY SCHEDULE” on the inside cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the “Premium Bonds”). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes (“tax-exempt bonds”) must be amortized and will reduce the holder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining a holder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series 2012B Bonds, that must be amortized during any period will be based on the “constant yield” method, using the original holder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series 2012B Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount. The Series 2012B Bonds having a yield that is higher than the interest rate (as shown as shown under “MATURITY SCHEDULE” on the inside cover page hereof) are being offered and sold to the public at an original issue discount (“OID”) from the amounts payable at maturity thereon (the “Discount Bonds”). OID is the excess of the stated

redemption price of a bond at maturity (the face amount) over the “issue price” of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the “yield to maturity”). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

RATINGS

As noted on the cover page of this Official Statement, Moody's Investors Service (“Moody's”) has assigned its municipal bond rating of “Aa2” (stable outlook) to the Series 2012 Bonds and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), has assigned its municipal bond rating of “AA” (stable outlook) to the Series 2012 Bonds. 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 Series 2012 Bonds.

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 Series 2012 Bonds.

CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the “Rule”) and so long as the Series 2012 Bonds are outstanding the Lexington-Fayette Urban County Government (the “Obligated Person”) will agree pursuant to a Continuing Disclosure Certificate to be dated as of June 21, 2012, to be delivered on the date of delivery of the Series 2012 Bonds, to cause the following information to be provided:

(i) to the Municipal Securities Rulemaking Board (“MSRB”), certain annual information and operating data, including audited financial statements, generally consistent with the information contained in **Appendix B** 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;

(ii) to the MSRB, in a timely manner, not in excess of ten business days after the occurrence of the event, notice of the occurrence of the following events with respect to the Series 2012 Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
- (g) Modifications to rights of security holders, if material;
- (h) Bond calls, if material, and tender offers (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, if material;

(k) Rating changes;

(l) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);

(m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(iii) to the MSRB, notice of a failure (of which the Obligated Person 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.

As required by the Rule, the Continuing Disclosure Certificate provides that the information to be filed with the MSRB described in the preceding paragraph is to be filed in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB. An MSRB rule change approved by the Securities and Exchange Commission establishes a continuing disclosure service of the MSRB's Electronic Municipal Market Access system ("EMMA") for the receipt of, and for making available to the public, continuing disclosure documents and related information to be submitted pursuant to continuing disclosure undertakings (such as the Continuing Disclosure Certificate) entered into on or after July 1, 2009, consistent with the Rule. In general, all continuing disclosure documents and related information are to be submitted to the MSRB's continuing disclosure service through an Internet-based electronic submitter interface (EMMA Dataport) or electronic computer-to-computer data connection, accompanied by certain identification information, in portable document format (PDF) files configured to permit document to be saved, viewed, printed and retransmitted by electronic means and must be word-searchable.

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 Authorizing Legislation. The Continuing Disclosure Certificate may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series 2012 Bonds are advised that the Continuing Disclosure Certificate, copies of which are available at the office of the Lexington-Fayette Urban County Government, 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 Series 2012 Bonds;
- (b) there are no credit enhancements applicable to the Series 2012 Bonds;
- (c) there are no liquidity providers applicable to the Series 2012 Bonds; and
- (d) there is no property securing the repayment of the Series 2012 Bonds.

The Lexington-Fayette Urban County Government is already providing ongoing market disclosure as required by the Rule pursuant to agreements entered into in connection with other outstanding securities and has complied with requirements of the Rule. The Lexington-Fayette Urban County Government is in compliance in all material respects with all previous undertakings with regard to the Rule to provide annual financial information or notices of material events pursuant to the Rule.

UNDERWRITING

The Series 2012A Bonds are being purchased for reoffering by _____ (the "Series 2012A Underwriter"). The Series 2012A Underwriter has agreed to purchase the Series 2012A Bonds at an aggregate purchase price of \$_____ (reflecting the par amount of the Series 2012A Bonds of \$_____, [plus premium of \$_____] [less original issue discount of \$_____], less Series 2012A Underwriter's discount of \$_____). The initial public offering prices which produce the yields set forth on as shown under "MATURITY SCHEDULE" on the inside cover page hereof may be changed by the Series 2012A Underwriter and the Series 2012A Underwriter may offer and sell the Series 2012A Bonds to certain dealers (including dealers depositing Series 2012A Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth herein under "MATURITY SCHEDULE."

The Series 2012B Bonds are being purchased for reoffering by _____ (the "Series 2012B Underwriter"). The Series 2012B Underwriter has agreed to purchase the Series 2012B Bonds at an aggregate purchase price of \$_____ (reflecting the par amount of the Series 2012B Bonds of \$_____, [plus premium of \$_____] [less original issue discount of \$_____], less Series 2012B Underwriter's discount of \$_____). The initial public offering prices which produce the yields set forth as shown under "MATURITY SCHEDULE" on the inside cover page hereof

may be changed by the Series 2012B Underwriter and the Series 2012B Underwriter may offer and sell the Series 2012B Bonds to certain dealers (including dealers depositing Series 2012B Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth herein under “MATURITY SCHEDULE.”

FINANCIAL ADVISOR

Prospective bidders are advised that Civic Finance Advisors, LLC and Morgan Keegan & Company, Inc.[†] (together the “Financial Advisor”) have been employed as co-Financial Advisors in connection with the issuance of the Series 2012 Bonds. The respective fees for services of the Financial Advisors with respect to the sale of the Series 2012 Bonds are contingent upon the issuance and delivery thereof.

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 Series 2012 Bonds.

[Remainder of page intentionally left blank]

[†] On April 2, 2012, Raymond James Financial, Inc. (“RJF”), the parent company of Raymond James & Associates, Inc. (“Raymond James”), acquired all of the stock of Morgan Keegan & Company, Inc. (“Morgan Keegan”) from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing “Raymond James | Morgan Keegan” as their trade name. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

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

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT**

By: _____
Mayor

Dated: June __, 2012

APPENDIX A-1

ESTIMATED DEBT SERVICE REQUIREMENTS FOR THE SERIES 2012A BONDS*

Date	Principal	Interest	Total		FY Total
10/1/2012		\$238,050.69	\$238,050.69		
4/1/2013		\$428,491.25	\$428,491.25		\$666,541.94
10/1/2013	\$1,250,000.00	\$428,491.25	\$1,678,491.25		
4/1/2014		\$422,241.25	\$422,241.25		\$2,100,732.50
10/1/2014	\$1,260,000.00	\$422,241.25	\$1,682,241.25		
4/1/2015		\$415,941.25	\$415,941.25		\$2,098,182.50
10/1/2015	\$1,275,000.00	\$415,941.25	\$1,690,941.25		
4/1/2016		\$409,566.25	\$409,566.25		\$2,100,507.50
10/1/2016	\$1,290,000.00	\$409,566.25	\$1,699,566.25		
4/1/2017		\$399,891.25	\$399,891.25		\$2,099,457.50
10/1/2017	\$1,310,000.00	\$399,891.25	\$1,709,891.25		
4/1/2018		\$390,066.25	\$390,066.25		\$2,099,957.50
10/1/2018	\$1,335,000.00	\$390,066.25	\$1,725,066.25		
4/1/2019		\$376,716.25	\$376,716.25		\$2,101,782.50
10/1/2019	\$1,360,000.00	\$376,716.25	\$1,736,716.25		
4/1/2020		\$361,756.25	\$361,756.25		\$2,098,472.50
10/1/2020	\$1,390,000.00	\$361,756.25	\$1,751,756.25		
4/1/2021		\$346,118.75	\$346,118.75		\$2,097,875.00
10/1/2021	\$1,425,000.00	\$346,118.75	\$1,771,118.75		
4/1/2022		\$328,306.25	\$328,306.25		\$2,099,425.00
10/1/2022	\$1,465,000.00	\$328,306.25	\$1,793,306.25		
4/1/2023		\$306,331.25	\$306,331.25		\$2,099,637.50
10/1/2023	\$1,510,000.00	\$306,331.25	\$1,816,331.25		
4/1/2024		\$283,681.25	\$283,681.25		\$2,100,012.50
10/1/2024	\$1,560,000.00	\$283,681.25	\$1,843,681.25		
4/1/2025		\$258,331.25	\$258,331.25		\$2,102,012.50
10/1/2025	\$1,610,000.00	\$258,331.25	\$1,868,331.25		
4/1/2026		\$232,168.75	\$232,168.75		\$2,100,500.00
10/1/2026	\$1,660,000.00	\$232,168.75	\$1,892,168.75		
4/1/2027		\$205,193.75	\$205,193.75		\$2,097,362.50
10/1/2027	\$1,720,000.00	\$205,193.75	\$1,925,193.75		
4/1/2028		\$175,093.75	\$175,093.75		\$2,100,287.50
10/1/2028	\$1,780,000.00	\$175,093.75	\$1,955,093.75		
4/1/2029		\$143,943.75	\$143,943.75		\$2,099,037.50

* Preliminary; subject to change.

Date	Principal	Interest	Total		FY Total
10/1/2029	\$1,845,000.00	\$143,943.75	\$1,988,943.75		
4/1/2030		\$111,656.25	\$111,656.25		\$2,100,600.00
10/1/2030	\$1,910,000.00	\$111,656.25	\$2,021,656.25		
4/1/2031		\$75,843.75	\$75,843.75		\$2,097,500.00
10/1/2031	\$1,985,000.00	\$75,843.75	\$2,060,843.75		
4/1/2032		\$38,625.00	\$38,625.00		\$2,099,468.75
10/1/2032	\$2,060,000.00	\$38,625.00	\$2,098,625.00		\$2,098,625.00
Total	\$31,000,000.00	\$11,657,978.19	\$42,657,978.19		\$42,657,978.19

APPENDIX A-2

ESTIMATED DEBT SERVICE REQUIREMENTS FOR THE SERIES 2012B BONDS*

Date	Principal	Interest	Total	FY Total
07/01/2012	-	-	-	
01/01/2013	-	\$55,879.00	\$55,879.00	\$55,879.00
07/01/2013	\$80,000.00	52,938.00	132,938.00	
01/01/2014	-	52,738.00	52,738.00	185,676.00
07/01/2014	85,000.00	52,738.00	137,738.00	
01/01/2015	-	52,478.75	52,478.75	190,216.75
07/01/2015	85,000.00	52,478.75	137,478.75	
01/01/2016	-	52,164.25	52,164.25	189,643.00
07/01/2016	215,000.00	52,164.25	267,164.25	
01/01/2017	-	51,239.75	51,239.75	318,404.00
07/01/2017	215,000.00	51,239.75	266,239.75	
01/01/2018	-	50,100.25	50,100.25	316,340.00
07/01/2018	755,000.00	50,100.25	805,100.25	
01/01/2019	-	45,306.00	45,306.00	850,406.25
07/01/2019	765,000.00	45,306.00	810,306.00	
01/01/2020	-	39,683.25	39,683.25	849,989.25
07/01/2020	775,000.00	39,683.25	814,683.25	
01/01/2021	-	33,018.25	33,018.25	847,701.50
07/01/2021	795,000.00	33,018.25	828,018.25	
01/01/2022	-	25,346.50	25,346.50	853,364.75
07/01/2022	805,000.00	25,346.50	830,346.50	
01/01/2023	-	16,974.50	16,974.50	847,321.00
07/01/2023	820,000.00	16,974.50	836,974.50	
01/01/2024	-	7,872.50	7,872.50	844,847.00
07/01/2024	<u>670,000.00</u>	<u>7,872.50</u>	<u>677,872.50</u>	<u>677,872.50</u>
Total	<u>\$6,065,000.00</u>	<u>\$962,661.00</u>	<u>\$7,027,661.00</u>	<u>\$7,027,661.00</u>

* Preliminary; subject to change.

APPENDIX B

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(See “Statistical Section” which begins on page 128 of the Comprehensive Annual Financial Report for Financial, Economic, Tax Base and Debt Information of the Lexington Fayette Urban County Government)



LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2011



The historic Fayette County courthouse on Main Street is now home to the Lexington History Museum - *Photo courtesy Ian Davis*

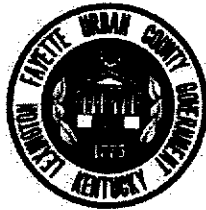
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
LEXINGTON, KENTUCKY



PREPARED BY THE DEPARTMENT OF FINANCE AND ADMINISTRATION

Paid for with Lexington-Fayette Urban County Government Funds



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INTRODUCTORY SECTION



Lexington-Fayette Urban County Government
OFFICE OF THE MAYOR

Jim Gray
Mayor

January 11, 2012

Dear Citizens,

The Comprehensive Annual Financial Report for the Lexington-Fayette Urban County Government for the fiscal year ended June 30, 2011, reflects significant improvements in the financial management of the government, a top priority for my administration.

We built our budget around preserving government's core services, like public safety and economic development, while reducing (largely through attrition) the number of employees in areas that are not core governmental responsibilities. We have asked our remaining employees to continuously improve the city's efficiency and effectiveness.

Employee health insurance has been a key focus of our financial reform efforts. In recent years, the government has been heavily subsidizing the cost of employee health insurance. Now, we are moving to a fee for service model that shifts more costs to employees, while also offering employees ways to save through an employee health clinic and pharmacy, and wellness initiatives.

While we have cut back, we are also putting together a plan to invest in our city brand through the Rupp Arena, Arts and Entertainment Task force. Like any good business, we must make both cuts and investments to improve our economy so it can attract the best jobs for our citizens.

We have also invested in improving our Rainy Day Fund, a step that was long overdue.

Henry Clay saw his adopted hometown as a Great American City. He dreamed big dreams for Lexington. As we seek to follow in his footsteps, we can do no less.

Sincerely,

Handwritten signature of Jim Gray.

Jim Gray
Mayor

FOLLOW MAYOR GRAY: www.facebook.com/MayorJimGray
www.twitter.com/JimGrayLexKY

ELECTED OFFICIALS

MAYOR

Jim Gray

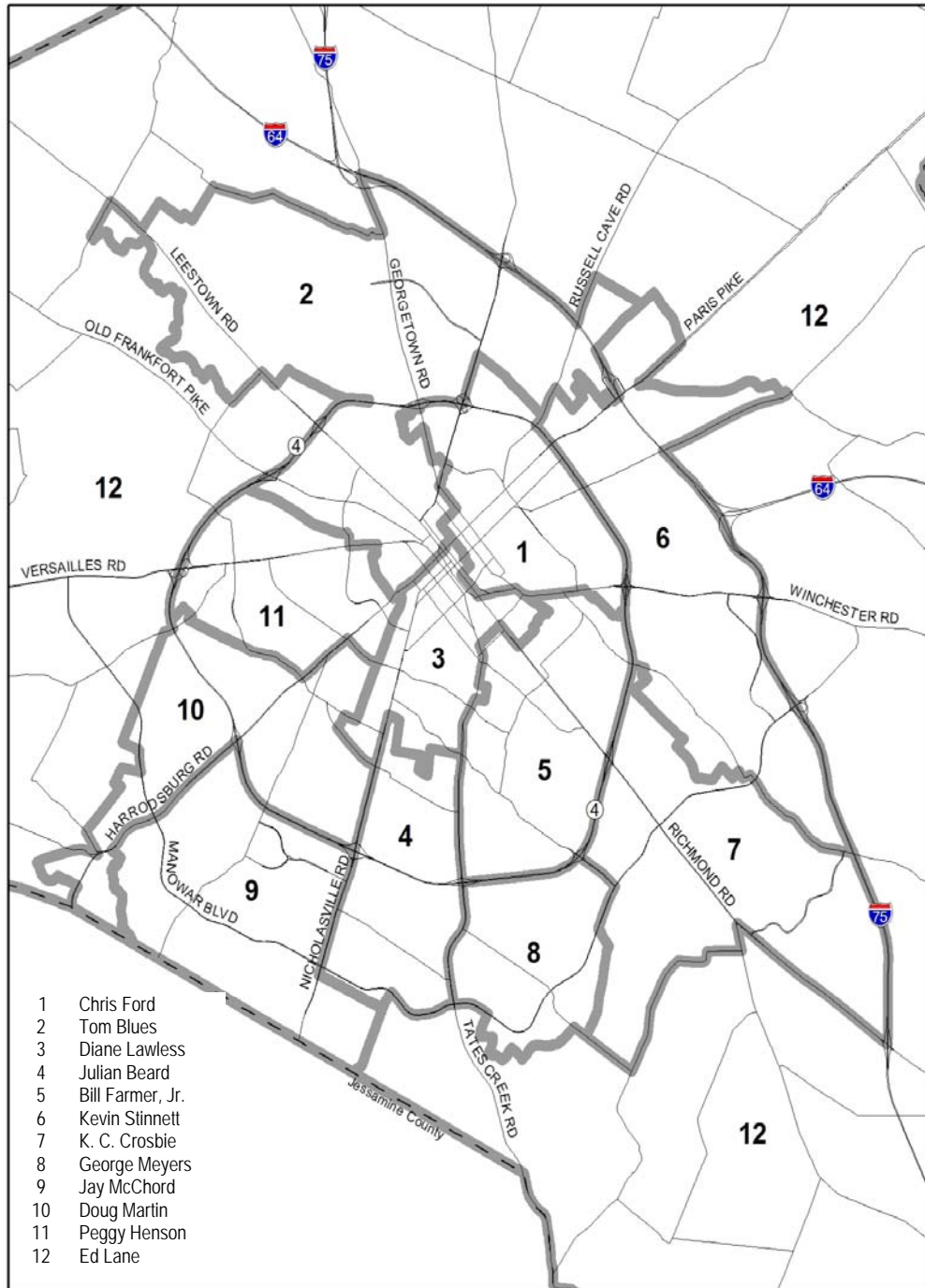
COUNCILMEMBERS-AT-LARGE

Linda S. Gorton – Vice Mayor

Charles W. Ellinger, II

Steve Kay

DISTRICT COUNCILMEMBERS





Lexington-Fayette Urban County Government
DEPARTMENT OF FINANCE & ADMINISTRATION

Jim Gray
Mayor

Jane C. Driskell
Commissioner

January 11, 2012

Citizens of Lexington-Fayette Urban County
Honorable Mayor Jim Gray
Members of the Urban County Council
Lexington-Fayette Urban County Government

Dear Citizens, Mayor and Members of the Urban County Council:

As Commissioner of Finance, I present the Comprehensive Annual Financial Report (CAFR) of the Lexington-Fayette Urban County Government (the Government) for the fiscal year ended June 30, 2011. The CAFR has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the reporting standards of the Governmental Accounting Standards Board (GASB). The CAFR includes all funds of the Government and its component units.

The report is organized into three sections: an introductory section, a financial section and a statistical section. This introductory section provides general information on the Government's structure, as well as information useful in assessing the Government's financial condition. The financial section contains the independent auditor's report on the financial statement audit, the management's discussion and analysis, the basic financial statements, required supplementary information, and information on individual funds not separately provided in the basic financial statements. The statistical section provides a broad range of trend data covering financial, demographic and economic activity useful in assessing the Government's financial condition.

This CAFR was prepared by the Division of Accounting, with assistance from staff in the Departments of Finance, Revenue, and Budgeting. These entities are responsible for both the accuracy of the data presented and the completeness and fairness of the presentation. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed to protect the Government's assets from loss, theft or misuse and to compile sufficient reliable information for preparation of the financial statements in conformance with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits likely to be derived from their use and that such cost-benefit evaluation requires estimates and judgment by management.

State statute and the Charter of the Government both require that an independent financial audit be conducted annually. The accounting firm of Dean Dorton Allen Ford, PLLC performed the audit for the fiscal year ended June 30, 2011. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Government for the fiscal year ended June 30, 2011 are free of material misstatements. The independent audit involved 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. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the Government's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component in the financial section of this report.

Additionally, the audit engagement also included an audit of federal grants meeting the requirements of federal grantor agencies, as outlined by the Federal Single Audit Act of 1984, the Single Audit Act Amendment of 1996, and related OMB Circular A-133. These standards require the auditor to report not only on the fairness of the representation of the financial statement, but also on the internal controls and compliance with legal requirements of the federal awards. These reports will be available in the Government's separately issued Single Audit Report.

Profile of the Government (As of December 31, 2011)

Lexington-Fayette Urban County Government (LFUCG) is an urban county with the powers of both a city of the second class and a county created from the merger of the City of Lexington and the County of Fayette in 1974. LFUCG operates pursuant to Chapter 67A of the Kentucky Revised Statutes. The 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 a four-year term. The Urban County Council has 15 members, including 12 members elected from districts, who serve two-year terms, and three at-large members 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 two senior advisors, a Chief Administration Officer (CAO) and six Department Commissioners. The senior advisors, CAO, and Commissioners are appointed by the Mayor with the approval of the Urban County Council. This senior leadership team is responsible for administering programs and implementing policies. Each department is divided into divisions that are managed by division directors who are civil service employees.

The Chief Administration Officer is charged with the responsibility of providing supervision, direction and management to the six Departments of the Urban County Government. The six Departments of the Government are: Environmental Quality and Public Works, Finance, General Services, Law, Public Safety, and Social Services. The CAO ensures that policies established by the Mayor, Council and Charter are followed and develops programs to meet current and future organizational and community needs. Additionally, the Offices of Risk Management, Computer Services, Government Communications, Enterprise Solutions, Grants and Special Programs, Historic Preservation, Planning, and Purchase of Development Rights report to the Chief Administration Officer.

The Chief Administration Officer is charged with providing leadership to all of government in technology and communications. The Office includes the Division of Computer Services and the Division of Government Communications. Computer Services provides mainframe and microcomputer support, database development and information services to LFUCG and some outside agencies. Government Communications prepares and distributes information about the city in a variety of ways including LexCall (a One-Stop call for city hall services), GTV3 (the city's cable television station) and the city's website.

The Department of Finance includes the Divisions of Accounting, Central Purchasing, Revenue, Budgeting, and Finance. This Department 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 CAFR. The Division of Budgeting works with the Mayor and other executive leadership to prepare the annual operating budget and the Capital Improvement Plan that the Mayor recommends to the Council each year, coordinates with the council as they review the Mayor's recommendations and ultimately authorize revenue and expenditure levels for government for the fiscal year. The division also monitors the spending of the various Departments throughout the fiscal year and ensures all units stay within the expenditure levels adopted by the Council.

The Department of Public Safety is the largest in the Urban County Government. It includes the Divisions of Community Corrections, Police, Fire and Emergency Services, Emergency Management, Enhanced 911 and Code Enforcement. Readers should be familiar with the services provided by Corrections, Police and Fire, but may not

be as familiar with the other Divisions, which provide a variety of services including emergency communications and management, disaster preparedness, inspections of properties for code violations and nuisance abatement.

The Department of Social Services provides services to Fayette County residents by helping families become self sufficient, offering specialized programs to help Lexington youth and providing financial and social services to eligible senior citizens in the community. The Divisions in this Department include Adult Services, Family Services and Youth Services. Other programs in the Department include Aging Services and management of the Cardinal Valley Center, which works to bridge cultural gaps among neighbors.

The Department of General Services includes the Divisions of Fleet and Facilities Management and Parks and Recreation. The Division of Fleet and Facilities Management handles the acquisition, maintenance and repair of more than 1500 vehicles and pieces of equipment owned by LFUCG, in addition to maintaining the city's primary buildings, as well as minor renovations. The LFUCG real estate holdings comprise approximately 4 million square feet of space under roof. The Division of Parks and Recreation operates 103 parks consisting of more than 4,500 acres with green space areas, 6 golf courses, 6 community centers and 9 aquatic facilities. In addition, the Commissioner's Office oversees the management of the Urban County Government telephone system, utilities and parking garages.

The Department of Law provides legal services for the Government. The Corporate Counsel Division prepares all legal instruments of the Government and provides advice to its elected officials, employees and agencies. The Litigation Division represents the Urban County Government in civil cases and administrative hearings and coordinates representation of cases handled by outside attorneys. Claims management, insurance procurement and administration of the self insurance fund are also handled in the Department of Law. The Commissioner also oversees the Department of Human Resources, which manages all hiring of employees and benefits administration.

The Department of Environmental Quality and Public Works was first established as part of the July 1, 2007, reorganization and includes the Divisions of Environmental Policy, Water and Air Quality and Waste Management, Engineering, Streets and Roads, and Traffic Engineering. The Department consolidates environmental functions together under one umbrella, allowing LFUCG to take a more streamlined, focused and effective approach to protecting the environment.

Significant Events (as of December 31, 2011)

Infrastructure Highlights

- Construction began on the long awaited Clays Mill road widening project with completion expected in FY 2012.
- The renovation of the intersection of Harrodsburg Road and New Circle Road began at the end of FY 2011. The design for this project incorporates an innovative traffic pattern called a 'double crossover diamond' and is considered highly progressive. It allows for increased traffic flow and enhanced safety by routing traffic through a non-traditional road pattern.
- Street improvement on the South Limestone corridor, which connects downtown to the University of Kentucky, continued. The street was re-opened to motorist traffic and the streetscape enhanced.
- Streetscape projects along Main Street, including new sidewalks and landscaping, were completed.
- Construction commenced in Triangle Park with planned improvements including a seasonal ice rink and permanent food concession stand.

Bluegrass Economic Advancement Movement

The Bluegrass Economic Advancement Movement (BEAM) was initiated as a partnership between Lexington and Louisville dedicated to the development of a joint regional business plan supporting the growth of high quality jobs in advanced manufacturing. BEAM will leverage private sector and government resources, with the help of the Brookings Institution, to create a 'super-region' of expert manufacturing that can compete on a global scale.

Enhanced Recycling Facilities

The Manchester Street recycling center added capacity to accommodate 600 tons of recyclables. Additionally \$3.7M in new equipment has been installed to speed the recycling process and allow for single-stream recycling, meaning residents no longer must separate glass from other recyclables. The enhancements process three times the volume of recyclables, which translates into cost savings by reducing annual landfill disposal fees. Revenue from recycling operations has also increased.

Consent Decree

The Consent Decree requires Lexington to address structural, operational, and procedural issues within its storm and sanitary sewer systems in accordance with the schedule developed jointly with the United States Environmental Protection Agency. To date Lexington has met every Consent Decree deadline. In fiscal year 2011 Lexington completed the \$5.3M Group 1 Sanitary Sewer Assessment, the first phase of a multi-year assessment project. Near term sanitary sewer upgrades completed in FY 2011 include the South Elkhorn Force Main and Pump Station (\$15M), sewer rehabilitation to reduce inflow and infiltration (\$2M), and treatment plant initiatives (\$2.5M). Additionally construction began on the Dixie and Deep Springs pump stations.

Eastern State Hospital Project

In FY 2011 the Lexington-Fayette Urban County Public Facilities Corporation, acting on behalf of the Lexington-Fayette Urban County Government, was able to expedite the original Eastern State Hospital financing schedule by a year and provide permanent financing for this collaborative effort through the issuance of its lease revenue bonds, secured by a lease among the Lexington-Fayette Urban County Public Facilities Corporation, the Finance Cabinet of the Commonwealth, and the Cabinet for Health and Family Services of the Commonwealth. The proceeds of the bonds were used to refund the general obligation notes and to provide additional funds to complete the Eastern State Hospital project. The lease payments from the Finance Cabinet of the Commonwealth and the Cabinet for Health and Family Services of the Commonwealth are to be applied to the payment of debt service on the bonds. Neither the Lexington-Fayette Urban County Government nor the Lexington-Fayette Urban County Public Facilities Corporation is obligated to pay debt service on the bonds.

Arena, Arts, and Entertainment Task Force

The Arena, Arts, and Entertainment Task Force was appointed by Mayor Gray in March. The Task Force is composed of forty-seven community leaders and is charged with the responsibility to make recommendations to the community about the future of Rupp Arena, the Lexington Center, and a proposed arts and entertainment area. The members of the Task Force will consider ways to integrate the city center with other Lexington landmarks, including the University of Kentucky and the Distillery District.

Legacy Trail

The Legacy Trail is a 12-mile walking, biking, interpretive trail and public art venue beginning in the East End of downtown Lexington at the Isaac Murphy Memorial Art Garden and running to the Kentucky Horse Park. Over 8.5 miles of the trail are off-street and paved to accommodate a variety of uses. The Legacy Trail will ultimately link to the University of Kentucky and to other significant destinations and projects in the urban area and become a showpiece of Downtown Development.

Strengthening Fiscal Management

Introduction

FY 2011 continued to be a challenging year due to economic conditions. Like all American cities, Lexington faced the dilemma of declining revenue streams and high unemployment. The Government implemented an expense reduction plan that identified opportunities to operate more efficiently and effectively with available resources.

Factors Affecting Financial Condition

Following is a brief discussion of critical factors affecting the financial condition of the Government. Additional detailed information and discussion of the Government's financial condition can be found in the Management's Discussion and Analysis section.

Local Economy

The unemployment rate in Fayette County was 7.6% in June 2011, down from 7.8% in June, 2010. The June 2011 rate is below the national and state rates of 9.2% and 9.6% respectively. Employment as measured by a household survey, which is by place of residence, was 147,052 in June, 2011 compared to 142,196 in June, 2010.

Budget Control and Financial Management

The Mayor of the Urban County Government submits a proposed annual operating budget and a five-year capital improvement budget to the Urban County Council at least sixty days prior to the beginning of each succeeding fiscal year. The Council, upon receipt of the proposed budget, conducts a series of public hearings on the proposed budget. The Charter of the 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 and for all debt service requirements. Other budgeting policies include that the budget must be balanced for each fund, and 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 moving money within the personnel category or from one category to another (personnel, operating, capital). 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 divisional 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.

Long-Term Financial Policies

Annually, the Government adopts a Capital Improvement Plan prior to the completion of the annual operating budget. The development of the capital improvement plan budget is coordinated with the development of the operating budgets. Requests for capital projects are accompanied by estimates of project impact on annual operating costs and revenues. Additionally, multi-year forecasts of revenues and expenditures, including operating and capital expenditures, are prepared throughout the year to monitor the adequacy of funding resources and debt capacity.

Cash Management and Investment Policy

The Department of Finance is responsible for the custody, investment and disbursement of all funds of the Government in accordance with the procedures and standards adopted by the Urban County Council. It is the policy of the Government to invest funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the Government. The Government's investments are governed by state statutes (KRS 66.480) and an investment policy approved by the Urban County Council. In FY 2011, all funds were invested in either obligations of the United States and its agencies of instrumentalities, mutual funds comprised of those securities, repurchase agreements, collateralized Certificates of Deposit or commercial paper.

Awards and Acknowledgements

For the 18th consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for the Excellence in Financial Reporting to the Lexington-Fayette Urban County Government for its comprehensive annual financial report for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the Government must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to the program standards. This report must also satisfy generally accepted accounting principles and applicable legal requirements.

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

Preparation of this report could not have been accomplished without the professional, efficient and dedicated services of the staff of the Departments of Accounting, Finance, Revenue, and Budgeting. Further appreciation is extended to the Mayor, the members of the Urban County Council, Commissioners and Division Directors for their cooperation and support.

Respectfully submitted,

A handwritten signature in dark ink that reads "Jane C. Driskell". The signature is written in a cursive, flowing style.

Jane C. Driskell, Commissioner
Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lexington-Fayette Urban
County Government, Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



Linda C. Sandison

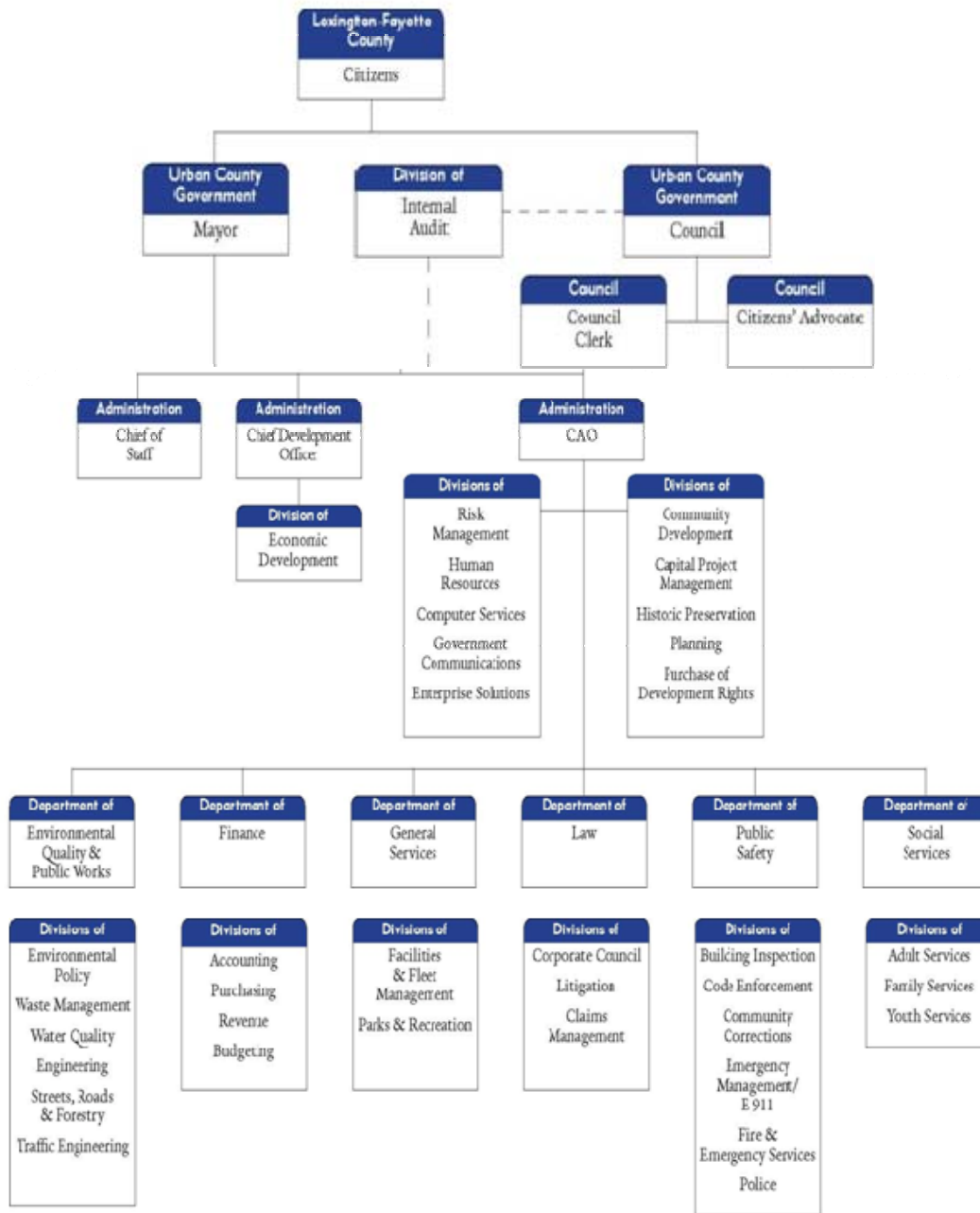
President

Jeffrey R. Ennis

Executive Director



Lexington-Fayette Urban County Government Organizational Chart



DIRECTORY OF GOVERNMENTAL OFFICIALS

Council Office
Citizens' Advocate Office

Council Clerk's Office

Office of the Mayor

Office of the Chief Administrative Officer
Grants and Special Projects
Risk Management
Computer Services
Enterprise Solutions
Government Communications
Historic Preservation
Planning
Purchase of Development Rights

Office of Policy and Budget
Budgeting

Office of the Chief Development Officer

Internal Audit

Finance
Accounting
Purchasing
Revenue

Environmental Quality and Public Works
Environmental Policy
Water and Air Quality
Waste Management
Engineering
Streets and Roads
Traffic Engineering

Law
Corporate Counsel
Litigation
Human Resources

Public Safety
Building Inspection
Code Enforcement
Community Corrections
Division of Emergency Management/911
Division of Emergency Management/911
Fire and Emergency Services
Police

Social Services
Adult and Tenant Services
Family Services
Youth Services

General Services
Facilities and Fleet Management
Parks and Recreation

Jeannette Williams, (Acting) Council Administrator
Paula Campbell, (Acting) Director

Susan Lamb, Council Clerk

Jim Gray, Mayor

Richard Moloney, Chief Administrative Officer
Irene Gooding, (Acting) Director
Patrick R. Johnston, Director
Mike Nugent, Director
Chad Cottle, Director
David L. Sullivan, Director
Bettie L. Kerr, Director
Chris King, Director
Billy Van Pelt, Program Manager

Ryan Barrow, Director

Kevin Atkins, Chief Development Officer

Bruce Sahli, Director

Jane Driskell, Commissioner
Phyllis Cooper, Director
Brian Marcum, Director
William O'Mara, Director

Cheryl Taylor, Commissioner
Susan Bush, Director
Charles H. Martin, Director
Steve Feese, Director
Marwan Rayan, Director
Sam Williams, Director
Ron Herrington, Director

Janet Graham, Commissioner
Vacant
Leslye Bowman, Director
Leslie Jarvis, (Acting) Director

Clay Mason, Commissioner
Dewey Crowe, Director
David Jarvis, Director
Ronald L. Bishop, Director
Patricia Dugger, Director of Environmental & Emergency Mgmt
David Lucas, Director of Enhanced 911
Keith Jackson, (Acting) Chief
Ronnie Bastin, Chief

Beth Mills, Commissioner
Cheryl Lewis, Director
Joanna Rodes, Director
Stephanie Hong, Director

Vacant, Commissioner
Jamshid Baradaran, Director
Jerry Hancock, Director



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FINANCIAL SECTION

DEAN || DORTON || ALLEN || FORD
P.L.L.C.

The Honorable Mayor, Members of the
Urban County Council and Citizens
Lexington-Fayette Urban County Government
Lexington, Kentucky

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components 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, 2011, 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 Convention and Visitors Bureau, Lexington Public Library, Lexington-Fayette Urban County Airport Board, Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation, which represent 99% of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Lexington Transit Authority, Lexington Convention and Visitors Bureau, Lexington Public Library, Lexington-Fayette Urban County Airport Board, Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

106 West Vine Street
Suite 600
Lexington, KY 40507
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200 South Fifth Street
Suite 201 South
Louisville, KY 40202
502.589.6050 *phone*
502.581.9016 *fax*

In our opinion, based upon our audit and the report of the 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective Budgetary Comparison for the General Fund and Full Urban Services District Fund 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 under separate cover our report dated January 11, 2012 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 14 through 27 are not a required part of the basic financial statements but are 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 it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lexington-Fayette Urban County Government's basic financial statements. The accompanying Introductory Section on pages 1 through 11, Combining and Individual Fund Statements on pages 99 through 104 and 109 through 124, Schedule of Expenditures of State Awards on page 108, and the Statistical Section on pages 127 through 153 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 107 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Combining and Individual Fund Statements, Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory and Statistical Sections 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.

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC
January 11, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Management’s Discussion and Analysis of Lexington-Fayette Urban County Government’s Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the Urban County Government’s financial performance for the fiscal year ended June 30, 2011. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide a readable explanation of the information within the basic financial statements. It should be read in conjunction with the Letter of Transmittal (which can be found preceding this narrative on page 3) and the financial statements immediately following the analysis.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government – Wide Highlights

The assets of the Urban County Government exceeded its liabilities at the close of the fiscal year by \$1.1 billion (net assets).

- Total assets of the primary government exceeded total liabilities by approximately \$1,136.79 million at the close of fiscal year 2011. This amount includes a deficit of approximately \$77.03 million in unrestricted net assets.
- Total net assets decreased by approximately \$37.28 million.
- Governmental Activities’ net assets were \$843.85 million at the end of fiscal year 2011. Of this amount, \$921.24 million was invested in capital assets, net of related debt. The investments in capital assets, net of related debt comprises 99.4% of total net assets.
- Business-Type Activities held a balance of \$292.94 million in net assets. The unrestricted fund balance at June 30, 2011 is \$33.0 million, or 44.6% of Business-Type Activity expenditures.

Fund Highlights

- As of June 30, 2011, the Urban County Government’s governmental funds reported combined ending fund balances of \$90.16 million, a decrease of \$30.17 million compared to the previous fiscal year. This includes an unassigned deficit fund balance of \$0.41 million.
- The General Fund, the primary operating fund of the Urban County Government, held an unassigned fund balance of \$0.56 million or .2% of General Fund expenditures. The assigned fund balance designation for economic stabilization held a balance of \$18.2 million, of which \$14.47 million is available for spending in the event of an economic downturn or unforeseen event. The remaining \$3.73 million represents funds required for the 27th payroll scheduled to occur in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the finances of the Lexington-Fayette Urban County Government. Three key elements comprise the basic financial statements, including:

- A) Government-Wide financial statements;
- B) Fund Financial Statements, and;
- C) Notes to the Financial Statements

A. Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Urban County Government's finances in a manner similar to a private-sector business. These statements report financial information about the entire Government, except for fiduciary activities and provide both short-term and long-term information about the Government's financial position, and assist in the assessment of the Urban County Government's economic condition at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses of the fiscal year regardless of when cash is received or paid. The Government-Wide Financial Statements include two statements: The *Statement of Net Assets* and the *Statement of Activities*.

The *Statement of Net Assets* reflects the financial position of the Urban County Government at fiscal year ended June 30, 2011. Accordingly, the Urban County Government's net assets, the difference between assets (what the citizens own) and liabilities (what the citizens owe) are one way to determine the financial condition of the Urban County Government. Over time, increases or decreases in net assets are one indicator of whether the financial health of the Urban County Government is improving or deteriorating. However, additional factors such as changes in the Urban County Government's revenue structure, its tax base, and its level of assets held, should be considered in order to assess thoroughly the overall financial condition of the Urban County Government.

The *Statement of Activities* reflects the Urban County Government's revenues and expenses, as well as other transactions that increase or decrease net assets. Program revenues are offset by program expenses in order to provide better information regarding program costs financed by general government revenues.

Both of the Government-Wide Financial Statements divide the Urban County Government's activities into three types:

1. **Governmental Activities** – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants), namely occupational license fees, property taxes, and service charges. Most services normally associated with local government fall into this category, including police, fire, solid waste, parks and general administration. Internal Service Fund balances are reported as part of Governmental Activities.
2. **Business-Type Activities** – These activities normally are intended to recover all or a significant portion of costs through user fees and charges to external users of goods and services provided by the Urban County Government. The Business-Type Activities of the Urban County Government include the operations of various Enterprise Funds, including sanitary sewer services, landfill and disposal costs, and leases and operating costs for public facilities related to debt issues.
3. **Discretely Presented Component Units** – The Urban County Government includes nine separate legal entities in its reports. Although legally separate and possessing independent qualities, the Urban County Government maintains financial accountability for these entities.

B. Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The *Fund Financial Statements* report the operations of the Urban County Government in greater detail than the Government-Wide Financial Statements by providing information about the Government's most significant funds. Local ordinance or bond covenants may require the creation of some funds; others may be created at the discretion of the administration for management and fiscal control of financial resources. All funds of the Urban County Government can be divided into three types of funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

1. **Governmental funds** – Governmental funds are used to account for essentially the same functions reported as Governmental Activities in the *Government-Wide Financial Statements*. However, unlike

the *Government-Wide Financial Statements*, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

Most of the basic services performed by the Urban County Government are reported in the governmental funds category. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. Because the focus of governmental funds is narrower than that of the *Government-Wide Financial Statements*, it is useful to compare the information presented for governmental funds with similar information presented for Governmental Activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Urban County Government's near term funding decisions. The governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and Governmental Activities.

2. Proprietary funds – When the Urban County Government charges a fee for services which is intended to cover the cost of providing those services – whether to outside customers or to other units of the Urban County Government – those services are generally reported in the proprietary funds category. The subcategories of the proprietary funds include enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as Business-Type Activities in the government-wide financial statements.

Internal service funds are used to accumulate and allocate costs internally among the various functions of the Urban County Government. The Urban County Government uses internal service funds to account for its health, general liability, auto, property and worker's compensation self-insurance. These services predominantly benefit Governmental Activities rather than Business-Type Activities; hence, they have been included with Governmental Activities in the *Government-Wide Financial Statements*.

The proprietary funds are reported in the same way that all activities are reported in the government-wide statements but the fund statements provide more detail. The Urban County Government considers the Sanitary Sewer Fund, the Public Facilities Corporation Fund, the Public Parking Corporation Fund and the Landfill Fund as its major proprietary funds.

3. Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support the programs of the Urban County Government. The accounting used for the fiduciary funds is similar to that used for proprietary funds. The Urban County Government is trustee, or fiduciary, for two employees' pension funds, the City Employees' Pension Fund and the Policemen's and Firefighters' Retirement Fund.

C. Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

Net assets may serve as a useful indicator of a government's financial position. In Table 1 below, the Urban County Government's combined net assets (Governmental and Business-Type Activities) totaled \$1.14 billion as of June 30, 2011, a decrease of \$37.28 million from the previous year. Total depreciation expense government wide was \$60.59 million.

The largest proportion of the Urban County Government's net assets, \$1.13 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Urban County Government uses these capital assets to provide services to its citizens. As such, these assets are not available for future spending.

Table 1
Lexington-Fayette Urban County Government
Summary of Net Assets
For Years As Stated
(in thousands)

	Total Net Assets (in thousands)		
	FY 2011	FY2010 (Restated)	Change
ASSETS			
Current and other assets	\$292,815	\$294,351	(1,536)
Capital assets	1,433,885	1,451,226	(17,341)
Total assets	1,726,700	1,745,577	(18,877)
LIABILITIES			
Current and other liabilities	59,468	56,460	3,008
Long-term liabilities	530,439	515,045	15,394
Total liabilities	589,907	571,505	18,402
NET ASSETS			
Invested in capital assets net of related debt	1,130,514	1,160,605	(30,091)
Restricted for:			
Capital Projects	65,869	38,322	27,547
Debt Service	7,939	7,939	0
Depreciation	3,021	3,247	(226)
Grants	546	116	430
Maintenance and Operations	5,901	5,851	50
Unrestricted	(76,999)	(42,008)	(34,991)
Total net assets	\$1,136,791	\$1,174,072	(\$37,281)

Approximately \$83.3 million, or 7.33% of total net assets, are subject to external restrictions regarding their use. Restricted net assets of governmental funds include fund balances of the general fund, the urban services fund and various special revenue funds. Please refer to the fund analysis beginning on page 23 for more information.

Table 2 indicates that the net assets of Governmental Activities totaled \$843.85 million, or 66.4% of total assets, a decrease of \$45.82 million from the previous year. Of these net assets, \$921.24 million is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets.

Table 2
Lexington-Fayette Urban County Government
Summary of Net Assets
For Years as Stated
(in thousands)

	Governmental Activities		
	FY 2011	FY2010 (Restated)	Change
ASSETS			
Current and other assets	\$174,725	\$199,255	(\$24,530)
Capital assets	<u>1,096,527</u>	<u>1,104,106</u>	<u>(7,579)</u>
Total assets	<u><u>1,271,252</u></u>	<u><u>1,303,361</u></u>	<u><u>(32,109)</u></u>
LIABILITIES			
Current and other liabilities	50,281	42,458	7,823
Long-term liabilities	<u>377,117</u>	<u>371,233</u>	<u>5,884</u>
Total liabilities	<u><u>427,398</u></u>	<u><u>413,691</u></u>	<u><u>13,707</u></u>
NET ASSETS			
Invested in capital assets			
net of related debt	921,237	920,939	298
Restricted for:			
Capital Projects	32,094	20,110	11,984
Grants	546	116	430
Unrestricted	<u>(110,023)</u>	<u>(51,495)</u>	<u>(58,528)</u>
Total net assets	<u><u>\$843,854</u></u>	<u><u>\$889,670</u></u>	<u><u>(\$45,816)</u></u>

Table 3 shows the net assets of Business-Type Activities totaled \$292.94 million at the end of Fiscal Year 2011, an increase of \$8.53 million from the previous fiscal year. Of these net assets, \$209.28 million, or 71.4%, is invested in capital assets, minus related debt outstanding, used to acquire those assets. The Urban County Government uses these capital assets in the same way as the capital assets held by Governmental Activities.

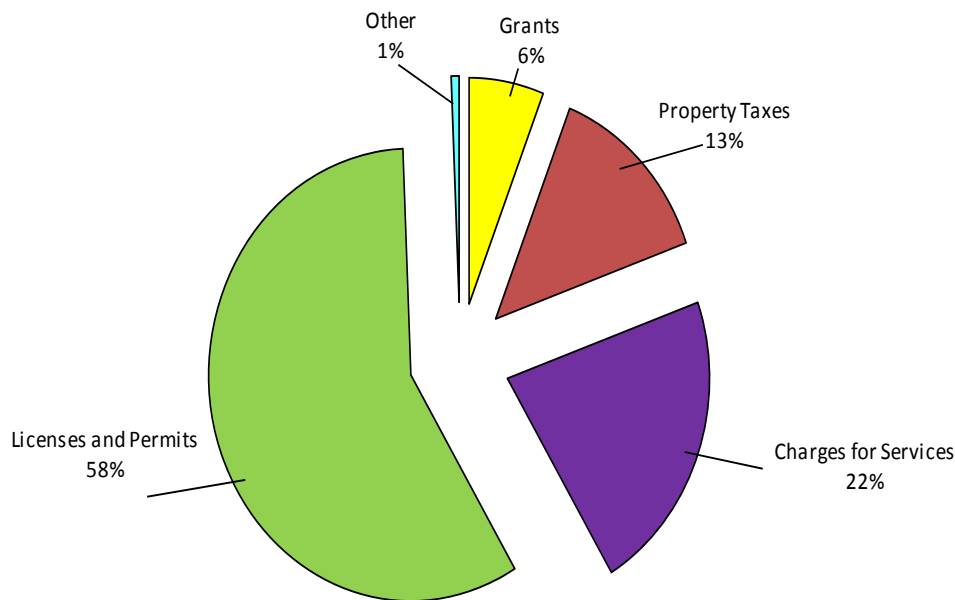
Table 3
Lexington-Fayette Urban County Government
Summary of Net Assets
For Years as Stated
(in thousands)

	Business-Type Activities		
	FY 2011	FY2010 (Restated)	Change
ASSETS			
Current and other assets	\$118,090	\$95,096	\$22,994
Capital assets	337,358	347,120	(9,762)
Total assets	455,448	442,216	13,232
LIABILITIES			
Current and other liabilities	9,188	14,001	(4,813)
Long-term liabilities	153,322	143,812	9,510
Total liabilities	162,510	157,813	4,697
NET ASSETS			
Invested in capital assets			
net of related debt	209,277	239,666	(30,389)
Restricted for:			
Capital Projects	33,776	18,213	15,563
Debt Service	7,939	7,939	0
Depreciation	3,021	3,246	(225)
Maintenance and Operations	5,901	5,851	50
Unrestricted	33,025	9,488	23,537
Total net assets	\$292,939	\$284,403	\$8,536

Governmental Activities

As indicated in Chart 1, the Urban County Government funds its Governmental Activities from revenue received from four significant categories. A clear majority, 58%, of the Urban County Government's revenue is provided through licenses and permits. This category includes fees placed on Employee Withholdings, Business Returns, Insurance Premiums, and Franchise Fees. Charges for Services were 22%, which was the second largest contributing category to governmental activity revenues. Revenues collected in this category include charges collected from the Detention Center, EMS charges, golf course collections, fees for building permits, and fees associated with parks and recreation programs. Property Taxes comprised 13% of governmental revenues just ahead of Federal and state grant funding which represents 6%. The remaining 1% Other category represents miscellaneous revenues collected by the Government.

Chart 1
Distribution of Governmental Activity Revenues



As indicated by Table 4, revenues from Governmental Activities totaled \$387.1 million, which was an increase of 3.55% from the previous fiscal year. Licenses and permits totaled \$224.4 million, representing 58% of total revenues. As stated earlier, this category includes Employee Withholdings in the form of an occupational license fee (OLF). This fee is comprised of an assessment of 2.25% on the total wages received by individuals employed in Lexington-Fayette County and an assessment of 2.25% on the net profits of businesses operating in the Lexington-Fayette County area. Licenses and permits increased by \$9.2 million, or 4.28% from the previous fiscal year. This is due in part to an increase in issuance of building permits over FY2010. Property taxes increased \$1.41 million from the previous fiscal year, up 2.75% which was largely due to an increase in new development. Charges for Services increased primarily due to increased Medicaid and Detention Center revenues.

As noted on Table 4, total expenses of Governmental Activities were \$434.17 million; an increase of \$26.12 million from the previous fiscal year. Expenditures were increased in several program categories, including \$8.04 million in Insurance claims, \$4.49 million in Finance, and \$3.99 million in Fire and Emergency Services. This increase was offset primarily by a decrease of \$1.16 million in Social Services program expenditures.

Business-Type Activities

Also indicated on Table 4, revenues from Business-type Activities increased \$6.49 million from the previous fiscal year. This is primarily due to an increase in revenues collected for services provided by the Government. Also noted on Table 4, total expenses of Business-type Activities remained relatively stable as compared to FY2010, increasing by \$1.72 million. This is primarily due to an increase in Sewer and Stormwater program expenses of \$2.77 million. This increase was offset primarily by a decrease of \$0.55 million in Enhanced 911 program expenses. The largest program among these activities is the Sanitary Sewer system, which utilized \$42.47 million at the end of the fiscal year, representing 57.4% of all Business-Type expenses.

TABLE 4
Lexington-Fayette Urban County Government
Summary of Statement of Activities
For Year as Stated
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$84,619	\$74,348	\$83,162	\$77,553	\$167,781	\$151,901
Operating Grants and Contributions	13,849	20,193			13,849	20,193
Capital Grants and Contributions	7,079	10,435			7,079	10,435
General revenues:					0	
Property taxes	52,548	51,143			52,548	51,143
Licenses and permits	224,400	215,197			224,400	215,197
Grants and unrestricted contributions	2,176	2,251			2,176	2,251
Other general revenues	2,430	254	580	(305)	3,010	(51)
Total revenues	387,101	373,821	83,742	77,248	470,843	451,069
Program expenses						
General Government	24,197	22,727			24,197	22,727
Administrative Services	1,386	1,299			1,386	1,299
Health, Dental, Vision, Workers Comp,					0	
General Insurance	34,755	26,712			34,755	26,712
Chief Information Officer	9,713	9,162			9,713	9,162
Finance	28,516	24,047			28,516	24,047
Public Works	63,671	61,841			63,671	61,841
Public Safety Other	11,163	11,260			11,163	11,260
Police	71,715	70,695			71,715	70,695
Fire and Emergency Services	67,107	63,116			67,107	63,116
Community Corrections	31,105	30,894			31,105	30,894
Environmental Quality	23,500	21,516			23,500	21,516
Social Services	10,673	11,837			10,673	11,837
General Services	14,243	14,629			14,243	14,629
Parks and Recreation	19,064	18,321			19,064	18,321
Law and Risk Management	10,227	9,301			10,227	9,301
Interest on Long-Term Debt	13,132	10,692			13,132	10,692
Sanitary Sewer System			42,473	41,453	42,473	41,453
Public Facilities			10,741	10,806	10,741	10,806
Public Parking			907	928	907	928
Landfill			6,582	6,642	6,582	6,642
Right of Way			313	313	313	313
Extended School Program			2,207	2,457	2,207	2,457
Prisoners' Account System			1,287	1,422	1,287	1,422
Enhanced 911			3,084	3,634	3,084	3,634
LexVan Program			84	58	84	58
Stormwater			6,280	4,528	6,280	4,528
Total expenses	434,167	408,049	73,958	72,241	508,125	480,290
Increase (Decrease) in Net Assets before Transfers	(47,066)	(34,228)	9,784	5,007	(37,282)	(29,221)
Transfers	1,250	1,738	(1,250)	(1,738)	0	0
Increase (Decrease) in Net Assets	(45,816)	(32,490)	8,534	3,269	(37,282)	(29,221)
Net Assets, July 1	889,445	934,590	289,618	286,349	1,179,063	1,220,938
Adjustment to Opening Net Assets (Note 2.D)	225	(12,655)	(5,214)		(4,989)	(12,655)
Net Assets, June 30	\$843,854	\$889,445	\$292,938	\$289,618	\$1,136,792	\$1,179,062

*Numbers may not total due to rounding.

During the year personnel related expenses for Police, Fire, and Community Corrections which are covered by collective bargaining agreements decreased approximately \$24.24 million. Salary and Wage costs including benefits, for non-collective bargaining employees increased 2%. Please see Chart 2 for more information on personnel costs for Governmental Activities during FY 11.

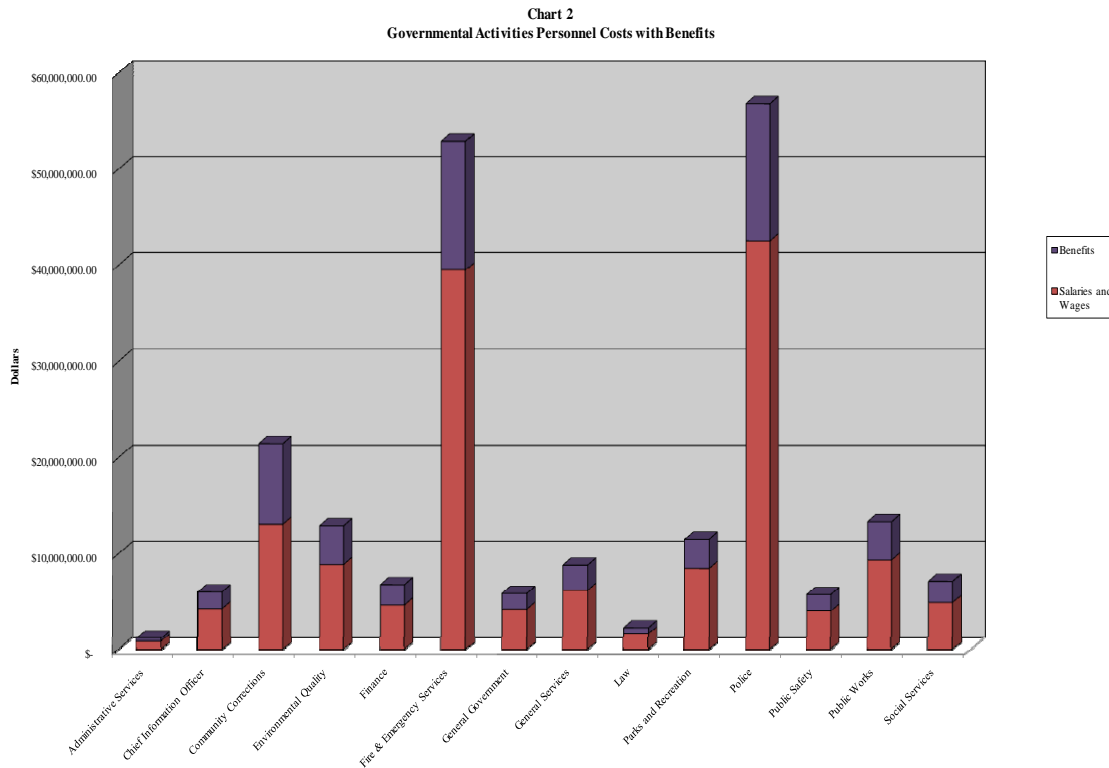
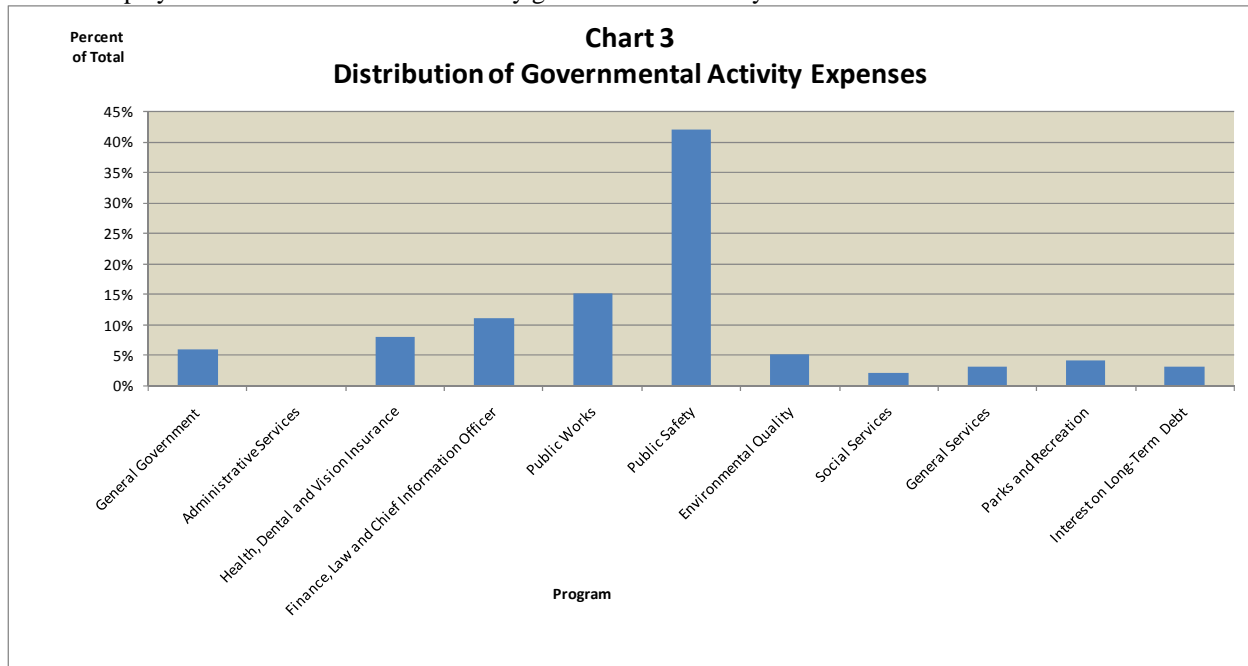


Chart 3 displays the distribution of total costs by governmental activity.



FUNDS OF THE LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

As discussed earlier, the Lexington-Fayette Urban County uses fund accounting to ensure and demonstrate compliance with Generally Accepted Accounting Principles (GAAP) and other finance-related legal requirements.

Governmental Funds

The Urban County Government's total governmental funds for the year ended June 30, 2011 reflect a combined ending fund balance of \$90.16 million, a decrease of \$30.17 million from the previous fiscal year. The Urban County Government reports fund balance as nonspendable, restricted, committed, assigned, or unassigned (refer to Note 1 for detailed information on the fund balance classifications). The Urban County Government had \$0.56 million of unassigned fund balance available in the General Fund at June 30, 2011. Unassigned fund balance of the General Fund (Urban County Government's main operating fund) represents approximately 0.2% of total general fund expenditures for fiscal year 2011.

At the end of Fiscal Year 2011, the fund balance held by the General Fund totaled \$24.19 million, a decrease of \$7.33 million, or 23.3%, from the previous fiscal year. This was primarily the result of a prior period adjustment decreasing beginning fund balance by \$7.95 million. Employee withholdings tax collections were higher than fiscal year 2010.

The Urban Services Fund is used to finance solid waste collection, streetlights, and street cleaning services for properties within designated property tax districts. At the end of the fiscal year, the Urban Services Fund held a total fund balance of \$20.42 million, a decrease of \$5.56 million over the prior fiscal year. This decrease is primarily due to capital equipment purchases in the current fiscal year. Restricted fund balance totaled \$20.42 million and reflects 49.4% of Urban Services Fund expenditures. Revenues of the Urban Services Fund increased \$1.91 million from the prior fiscal year due to increases in Property Taxes allocated to the Urban Services Fund. This increase was a result of increased assessed tax values and an increase in new development.

The Federal and State Grants Fund held a balance of \$0.55 million for fiscal year ended June 30, 2011, an increase of \$0.43 million compared to the previous fiscal year. This fund balance represents grant revenues received, but not spent, that are restricted for specific activities. During the 2011 Fiscal Year, expenditures were lower than revenues and the fund balance increased.

The Other Governmental Funds primarily relate to costs associated with various capital bond projects. As of June 30, 2011 \$28.87 million has been expended on these projects. Bond issues in the amount of \$15.26 million were issued to reimburse these expenditures and cover any additional costs associated with the projects. An additional issuance of \$4.47 million partially refunded a prior year bond.

Proprietary Funds

The Urban County Government's proprietary funds statements provide the same type of information found in the government-wide financial statements, but in more detail. Total net assets for the Urban County Government's proprietary funds totaled \$292.94 million as of June 30, 2011, an increase of \$3.32 million.

The Sanitary Sewer Fund held total net assets of \$209.15 million, an increase of \$4.79 million over the prior year. A prior period adjustment to reduce beginning net assets partially offset the increase. Of the total net assets held by the Sanitary Sewer Fund, \$49.18 million is restricted by bond covenants for maintenance, depreciation, capital projects, and debt service. Unrestricted net assets totaled \$13.94 million.

The Public Facilities Corporation (PFC) was created by the Government to act as an agency and instrumentality of the Government to finance and operate public projects. The net assets of the Public Facilities Corporation were \$33.75 million, a decrease of \$3.35 million from the prior year.

The Public Parking Corporation (PPC) was created in a similar fashion to the PFC. The Public Parking Corporation, an agency and authority of the Urban County Government, was established to acquire, finance, and operate public parking facilities for the Urban County Government. The net assets of the Public Parking Corporation totaled \$16.2 million, a decrease of \$46 thousand from the prior year.

At fiscal year ended June 30, 2011, the total net assets of the Landfill Fund held a balance of \$23.68 million, a decrease of \$3.9 million from the prior fiscal year resulting in a 14.1% decrease.

The other enterprise funds were established to account for the acquisition, operation and maintenance of the Government's facilities and services which are entirely or predominantly self-supported by user charges or where the Government has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. As of June 30, 2011 the other enterprise funds held total net assets of \$10.06 million, an increase of \$5.87 million over the previous year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund is the primary operating fund of the Urban County Government. Over the course of the year, the Urban County Council revises the budget numerous times; thus, exercising one of the primary duties of the Council as guardian of the government's funds. Supplemental appropriations are approved to reflect actual beginning fund balances and to re-appropriate funds for capital projects. As the year progresses and actual revenue collections and budgetary experience is known, amendments are processed in order to reflect the actual results and revised expectations of future revenue and expenditures.

For fiscal year ended June 30, 2011, General Fund revenues totaled \$281.36 million, an increase of 5.3% from the previous fiscal year. Total revenues were \$10.03 million above the final budgeted amount. This increase in actual revenue is the result of a slight rebound in the U.S. economy, which positively affects both employee withholdings and business returns.

General Fund expenditures of the Urban County Government totaled \$283.95 million, a decrease of \$25.28 million, or 8.2% over the previous year. Expenditures were \$4.98 million below the final budgeted amount. Personnel expenditures accounted for 66.4% of General Fund expenditures and this category accounted for the largest decrease among all expenditures, approximately \$32.01 million over the prior year. The decrease was realized by personnel savings in the divisions covered by collective bargaining agreements. Personnel expenditures from these divisions account for 44.1% of the general fund expenditures. Please see the Table 5 below for more details regarding the distribution of general fund personnel cost and the changes from prior year.

Table 5
Lexington-Fayette Urban County Government
Summary of General Fund Personnel Costs with Benefits
For Years Stated
(in Thousands)

Departments	2011	2010	Change	% Change	% General Fund Expenditures
Non-Collective Bargaining Divisions					
Administrative Services	\$1,167	\$949	\$218	23.0%	0.4%
Chief Information Officer	5,476	5,201	275	5.3%	1.9%
Department of Finance	6,131	6,624	(493)	-7.4%	2.2%
Department of General Services	8,810	8,583	227	2.6%	3.1%
Department of Law	2,229	2,466	(237)	-9.6%	0.8%
Department of Public Safety	5,446	5,147	299	5.8%	1.9%
Department of Social Services	5,610	5,799	(189)	-3.3%	2.0%
Department of Environmental Quality	5	-	5		0.0%
Department of Public Works & Development	11,374	11,678	(304)	-2.6%	4.0%
General Government	5,909	5,485	424	7.7%	2.1%
Parks and Recreation	11,061	10,949	112	1.0%	3.9%
Total Non-Collective Bargaining Divisions	63,218	62,881	337	0.5%	22.3%
Divisions with Collective Bargaining					
Police	53,751	71,565	(17,814)	-24.9%	18.9%
Community Corrections	21,112	21,518	(406)	-1.9%	7.4%
Fire and Emergency Services	50,433	64,562	(14,129)	-21.9%	17.8%
Total Collective Bargaining Divisions	125,296	157,645	(32,349)	-20.5%	44.1%
Total Personnel Costs with Benefits	\$188,514	\$220,526	(\$32,012)	-14.5%	66.4%

CAPITAL ASSETS

The Urban County Government's investment in capital assets totaled \$1.1 billion as of June 30, 2011. This investment includes land, buildings, equipment, park facilities, roads, bridges, and sewer systems. For Governmental Activities, the recorded capital investments, net of related debt totaled \$921.24 million. Governmental activity capital assets, net of related debt decreased by \$7.58 million over the prior year. The assets of Business-Type Activities totaled \$337.36 million, a decrease of \$9.76 million from the previous fiscal year.

This year's major changes in capital assets included:

- The decrease in construction in progress of \$25.65 million over the prior year was primarily responsible for the overall decrease in capital assets in the Governmental activity. In addition, infrastructure assets decreased \$10.4 million from the previous fiscal year. Infrastructure includes roads, bridges, storm water, fiber optics, traffic signals and similar items. This decrease was offset by capital additions of \$28.47 million overall within Governmental activity.
- Capital Assets for Business-Type Activities decreased by \$9.76 million.
- Construction in Progress (CIP) totaled \$29.47 million in the Governmental Activities and \$3.07 million in Business Type Activities accounting for a total decrease in CIP of \$40.7 million.

TABLE 6
Lexington-Fayette Urban County Government
Summary of Capital Assets
For Years as Stated
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010		2010		2010	
	2011	(as restated)	2011	(as restated)	2011	(as restated)
Land	\$56,317	\$53,356	\$47,942	\$47,206	\$104,259	\$100,562
Purchase of Developmental Rights	67,938	62,877			67,938	62,877
Intangibles	6,580	4,128	30	213	6,610	4,341
Buildings and Improvements*	100,625	95,754	61,525	65,851	162,150	161,605
Vehicles, Equipment and Furniture	34,824	28,221	2,358	3,041	37,182	31,262
Land and Leasehold Improvements*	10,641	6,240	14,127	16,031	24,768	22,271
Infrastructure	776,973	787,372	204,243	193,464	981,216	980,836
Construction in Progress*	29,467	55,119	3,066	18,110	32,533	73,229
Developments in Progress*	13,162	11,039	4,066	3,204	17,228	14,243
Total	\$1,096,527	\$1,104,106	\$337,357	\$347,120	\$1,433,884	\$1,451,226

*Restated

Additional information on the Government's capital assets activity can be found in Note 3.B. beginning on page 73 of the report.

DEBT ADMINISTRATION

The Government began issuing General Obligation (GO) bonds in fiscal year 1999 because of changes in state law that had previously precluded this type of financing. Since GO bonds are backed by the full faith and credit of the Urban County Government, they carry a higher credit rating than other forms of debt and have lower interest rates. As a result, future debt issues on behalf of the Urban County Government will be GO debt unless such debt is secured by Enterprise Fund activities.

Prior to the issuance of GO bonds, mortgage revenue bonds were issued through various public corporations in order to finance public projects. For mortgage revenue bonds, the Urban County Government enters into annual renewable lease agreements automatically with the corporations whereby lease payments from the Government, combined with revenues generated by the operation of the facilities, are sufficient to meet debt service obligations. The underlying security for the bond is the annual lease agreements and the underlying mortgages on the property. Revenue bonds, where only the revenues from the operation of the facilities are pledged as security for the bonds, are issued to finance improvements to the sanitary sewer system.

At the end of Fiscal Year 2011, the Urban County Government had \$441.02 million in bonds and notes outstanding; Governmental Activities' debt decreased by \$12.49 million with total debt decreasing \$3.8 million resulting from the issuance of bonds related to FY 2011 approved capital projects, offset by principal payments made in the current fiscal year on outstanding debt. In addition, the Governmental activity restated beginning fund balance within the General Fund by \$7.95 million related to the elimination of the Eastern State Hospital bond. This bond issuance is no longer considered an obligation of the Urban County Government. For more information on this prior period adjustment, please refer to Note 2.D. The Business-type Activities debt increased \$8.7 million due to an increase in notes payable, primarily to be utilized along with other available funds of financing for the construction of major additions, betterment and extensions to the sanitary sewer

system. Additional information on the Governments long-term debt can be found in Note 3.D. beginning on page 76 of the report.

Despite recent legal changes that provide for the issuance of GO debt, legal limits remain on the total amount of GO indebtedness that may be incurred. The Kentucky Constitution provides that the total principal amount of GO debt cannot exceed 10% of the value of taxable property in the county, or \$2.5 billion. State law provides the same limitation as set forth in the constitution except that the limitation applies to “net indebtedness”, which excludes self-supporting obligations, revenue bonds, special assessment debt and non-tax supported debt issued prior to July 15, 1996 (the effective date of the previously discussed statutory change). The total amount of debt subject to the legal limitation is \$155.46 million.

TABLE 7
Lexington-Fayette Urban County Government
Summary of Outstanding Debt
For Years as Stated
(in thousands)

	<u>Governmental</u>		<u>Business-type Activities</u>		<u>Total Primary</u>	
	<u>2011</u>	<u>2010</u> <u>(as restated)</u>	<u>2011</u>	<u>2010</u> <u>(as restated)</u>	<u>2011</u>	<u>2010</u> <u>(as restated)</u>
General Obligation Bonds, Notes, Leases	\$303,865	\$308,355	\$15,105		\$318,970	\$308,355
Mortgage Revenue Bonds			61,990	63,890	61,990	63,890
Revenue Bonds			60,055	64,565	60,055	64,565
Total	\$303,865	\$308,355	\$137,150	\$128,455	\$441,015	\$436,810

The Urban County Government maintains a general obligation bond rating of “Aa2” from Moody’s and “AA” from Standard & Poor’s. The revenue bonds of the sanitary sewer system have a bond rating of “Aa3” from Moody’s and “AA” from Standard & Poor’s. The rating of the Urban County Government’s lease revenue debt is “AA3” from Moody’s and “AA-” from Standard & Poor’s. The Government has not issued lease revenue debt since 1998 due to changes in state law that provided for the issuance of general obligation debt.

Additional information regarding the Urban County Government’s long-term debt can be found in Note 3.D. beginning on page 74 of the report.

NEXT YEAR’S BUDGET

The Lexington-Fayette Urban County Government Fiscal Year 2012 Budget, for all funds combined, net of interfund transfers, is \$467,101 million. Significant initiatives in the budget include:

- A commitment of \$60.51 million for storm sewer projects and programs as required by the U.S. Environmental Protection Agency Consent Decree
- No general obligation bonds were approved as part of the FY 2012 budget

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Government’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Commissioner of Finance, 200 East Main Street, Lexington-Fayette Urban County Government, Lexington, Kentucky, 40507.

BASIC FINANCIAL STATEMENTS

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash	\$22,995,251	\$18,053,380	\$41,048,631	\$20,888,630
Investments	57,767,086	63,619,379	121,386,465	4,567,941
Receivables (net)	20,443,339	4,184,209	24,627,548	5,074,356
Due from Other Governments	5,255,586		5,255,586	6,532,003
Due from Fidicuciary Funds	306,193		306,193	
Due from Component Units	869,153		869,153	172,157
Due from Primary Government				272,139
Inventories	1,498,137	29,619	1,527,756	1,091,221
Prepaid Items				1,437,687
Net Pension Asset	35,613,328		35,613,328	680,559
Restricted Assets:				
Cash				7,104,911
Grants Receivable				444,217
Investments	27,577,571	26,760,890	54,338,461	20,957,804
Other				288,119
Capital Assets:				
Non-depreciable	169,791,979	55,074,434	224,866,413	28,293,381
Depreciable (Net)	926,734,870	282,283,336	1,209,018,206	227,083,298
Other Assets				609,465
Unamortized Bond Costs	2,400,013	5,442,363	7,842,376	2,834,294
Total Assets	1,271,252,506	455,447,610	1,726,700,116	328,332,182
LIABILITIES				
Accounts, Contracts Payable and				
Accrued Liabilities	15,432,613	4,121,319	19,553,932	7,800,583
Interest Payable	3,645,321	636,701	4,282,022	
Internal Balances	3,708,855	(3,708,855)	0	
Due to Fiduciary Funds	2,086,596		2,086,596	
Due to Component Units	97,501		97,501	172,157
Due to Primary Government				576,231
Unearned Revenue and Other	1,066,709	550,001	1,616,710	166,475
Claims Liabilities	24,243,593		24,243,593	
Liabilities Payable from				
Restricted Assets:				
Accounts, Contracts and Retainage				
Payable		269,096	269,096	699,329
Bonds and Notes Payable		5,990,000	5,990,000	
Interest Payable		1,329,282	1,329,282	741,000
Non-Current Liabilities:				
Due Within One Year:				
Bonds and Notes Payable	18,465,000	2,026,898	20,491,898	3,093,013
Compensated Absences	3,133,563	494,189	3,627,752	534,736
Landfill Closure and				
Postclosure Care Costs		5,952,949	5,952,949	
Due in More Than One Year:				
Unearned Revenue and Other	4,647,272	1,258,935	5,906,207	2,008,357
Bonds and Notes Payable	285,400,000	129,133,129	414,533,129	92,105,009
Compensated Absences	19,249,031	992,315	20,241,346	1,255,182
Landfill Closure and				
Postclosure Care Costs		13,464,060	13,464,060	
Unfunded Other Post Retirement				
Benefit Liability	44,645,362		44,645,362	
Unfunded Pension Liability	1,576,734		1,576,734	
Total Liabilities	427,398,150	162,510,019	589,908,169	109,152,072

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
NET ASSETS				
Investment in Capital Assets, Net of Related Debt	921,236,876	209,276,568	1,130,513,444	162,795,565
Restricted for:				
Governmental and Program Funds				225,459
Capital Projects	32,094,257	33,775,896	65,870,153	436,377
Debt Service		7,938,633	7,938,633	21,658,449
Depreciation		3,021,480	3,021,480	
Pension				533,938
Grants	546,461		546,461	
Maintenance and Operations		5,901,351	5,901,351	
Unrestricted (Deficit)	(110,023,238)	33,023,663	(76,999,575)	33,530,322
Total Net Assets	\$843,854,356	\$292,937,591	\$1,136,791,947	\$219,180,110

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, 2011

Function/Program Activities	Net (Expenses) Revenue and Changes in Net Assets					Component Units
	Primary Government					
	Program Revenues		Business-type Activities		Total	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
Primary Government:						
Governmental Activities:						
General Government	\$24,197,239	\$15,644,382	\$252,273	\$12,166	\$(8,288,418)	\$ -
Administrative Services	1,386,040	1,000			(1,385,040)	(1,385,040)
Health, Dental, and Vision	34,755,417	34,755,417			0	0
Chief Information Officer	9,713,226	20,876			(9,692,350)	(9,692,350)
Finance	28,515,655	3,145,043	522,824		(24,847,788)	(24,847,788)
Public Works	63,671,436	4,088,338	(550,268)	6,739,306	(53,394,060)	(53,394,060)
Public Safety	11,162,765	329,460	1,124,839		(9,708,466)	(9,708,466)
Police	71,714,415	2,402,840	3,294,086	260,256	(65,757,233)	(65,757,233)
Fire and Emergency Services	67,106,441	6,478,108	1,971,132		(58,657,201)	(58,657,201)
Community Corrections	31,104,781	7,429,351	265,144		(23,410,286)	(23,410,286)
Environmental Quality	23,500,067	2,406,997	4,024,930	67,001	(17,068,140)	(17,068,140)
Social Services	10,672,881	3,542,915	2,947,385		(4,115,580)	(4,115,580)
General Services	14,242,698	97,898			(14,144,800)	(14,144,800)
Parks and Recreation	19,064,298	4,258,091	(2,823)		(14,809,030)	(14,809,030)
Law and Risk Management	10,227,268	18,217			(10,209,051)	(10,209,051)
Interest on Long-Term Debt	13,131,617				(13,131,617)	(13,131,617)
Total governmental activities	434,166,244	84,618,933	13,849,522	7,078,729	(328,619,060)	0
Business-type Activities:						
Sanitary Sewer System	42,472,580	48,803,593			6,331,013	6,331,013
Public Facilities	10,741,225	7,157,088			(3,584,137)	(3,584,137)
Public Parking	906,926	859,874			(47,052)	(47,052)
Landfill	6,581,625	7,203,610			621,985	621,985
Right of Way	312,770	483,196			170,426	170,426
Extended School Program	2,207,310	2,038,391			(168,919)	(168,919)
Prisoners' Account System	1,287,139	1,121,799			(165,340)	(165,340)
Enhanced 911	3,083,806	3,749,409			665,603	665,603
LexVan Program	84,242	140,699			56,457	56,457
Stormwater	6,280,081	11,604,569	0	0	5,324,488	5,324,488
Total business-type activities	73,957,704	83,162,228	0	0	9,204,524	9,204,524
Total primary government	\$508,123,948	\$167,781,161	\$13,849,522	\$7,078,729	\$(328,619,060)	\$(319,414,536)

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Function/Program Activities Component Units:	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Lexington Center Corporation	\$17,752,312	\$12,322,259	\$948,000	\$57,085			
Lexington Airport Board	21,512,701	15,734,941		3,156,111			
Fayette County Department of Health	28,915,685	9,852,882	10,962,242				
Nonmajor component units	43,521,723	5,092,089	5,862,867	4,708,772			
Total component units	\$111,702,421	\$43,002,171	\$17,773,109	\$7,921,968	0	0	0
General Revenues:							
Property Taxes					52,548,109		52,548,109
Licenses Fees - Wages and Net Profits Taxes					224,399,866		224,399,866
Grants and Contributions Not Restricted to Specific Programs:							
Community Development Block Grant					2,175,565		2,175,565
Income on Investments					129,839	540,692	670,531
Net Change in Fair Value of Investments						39,149	39,149
Gain on Sale of Capital Assets					2,300,242		2,339,391
Miscellaneous							0
Payment from/to Lexington-Fayette Urban County Government							0
Total General Revenues					281,553,621	579,841	282,133,462
Transfers					1,249,888	(1,249,888)	
					282,803,509	(670,047)	282,133,462
Change in Net Assets					(45,815,551)	8,534,477	(37,281,074)
Net Assets, July 1					889,444,764	289,617,567	1,179,062,331
Adjustment to Opening Net Assets (Note 2.D.)					225,143	(5,214,453)	(4,989,310)
Net Assets - Restated, July 1					889,669,907	284,403,114	1,174,073,021
Net Assets, June 30					\$843,854,356	\$292,937,591	\$1,136,791,947

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Urban Services	Federal and State Grants	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$13,437,880	\$2,850	\$1,388,772	\$5,273,258	\$20,102,760
Investments	26,819,512	22,313,758		8,633,816	57,767,086
Receivables :					
Loans			4,602,912		4,602,912
License Fees	14,940,880				14,940,880
Other	8,370,828	355,961	519	250,293	8,977,601
Less Allowance for Uncollectible Amounts	(3,649,825)		(4,602,912)		(8,252,737)
Due from Other Governments	(497)		5,256,083		5,255,586
Due from Component Units	869,153				869,153
Due from Fiduciary Funds	306,193				306,193
Inventories and Prepaid Items	1,493,737	4,031		369	1,498,137
Internal Balances				11,848,604	11,848,604
Restricted Investments			27,148	27,550,423	27,577,571
Total Assets	62,587,861	22,676,600	6,672,522	53,556,763	145,493,746
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts and Contracts Payable	5,622,923	692,065	1,402,328	2,005,005	9,722,321
Accrued Payroll & Related Liabilities	5,056,909	393,460	88,350	2,109	5,540,828
Internal Balances	24,989,504	1,166,303	4,115,267	6,544,385	36,815,459
Due to Fiduciary Funds	2,086,596				2,086,596
Due to Component Units	97,501				97,501
Unearned Revenue and Other	546,593		520,116		1,066,709
Total Liabilities	38,400,026	2,251,828	6,126,061	8,551,499	55,329,414
Fund Balances:					
Nonspendable	1,493,737	4,031		369	1,498,137
Restricted for:					
Public Works				10,357,176	10,357,176
Public Safety				3,117,402	3,117,402
Capital Projects				32,094,257	32,094,257
Grants Projects			546,461		546,461
Urban Services		20,420,741			20,420,741
Assigned to:					
General Government	3,931,000			410,544	4,341,544
Economic Stabilization	18,200,738				18,200,738
Unassigned	562,360			(974,484)	(412,124)
Total Fund Balances	24,187,835	20,424,772	546,461	45,005,264	90,164,332
Total Liabilities and Fund Balances	\$62,587,861	\$22,676,600	\$6,672,522	\$53,556,763	\$145,493,746

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, 2011**

Fund balances - total governmental funds	\$90,164,332
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds.

Governmental capital assets	1,443,090,237	
Less accumulated depreciation	<u>(346,563,388)</u>	1,096,526,849

Certain charges are recognized when debt is issued in the governmental
funds. These items, however, must be capitalized and amortized in the
government wide statements:

Bond issuance costs, premiums, discounts, and deferred amounts on refundings, net of amortization	2,400,013
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Prepayment of Unfunded Police and Fire Pension Liability	35,613,328
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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.

Bonds and Notes payable	(303,865,000)	
Unearned revenue and other	(4,647,272)	
Interest payable	(3,645,321)	
Compensated absences	(22,382,594)	
Unfunded pension liability and other post retirement benefits	<u>(46,222,096)</u>	(380,762,283)

Internal Balances due to non-governmental activities funds related to items listed above	<u>(87,883)</u>
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Net assets of governmental activities	<u><u>\$843,854,356</u></u>
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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, 2011

	General	Urban Services	Federal and State Grants	Other Governmental Funds	Total Governmental Funds
REVENUES					
License Fees and Permits	\$227,486,734	\$1,329,718	\$ -	\$ -	\$228,816,452
Taxes	20,992,845	31,555,264			52,548,109
Charges for Services	24,084,059	8,840		65,325	24,158,224
Fines and Forfeitures	215,493	4,956			220,449
Intergovernmental	2,441,417		23,103,815	8,077,434	33,622,666
Exactions				96,613	96,613
Property Sales	1,985,318	662,554		33,591	2,681,463
Income on Investments	(2,381)	(47,363)	78,208	101,375	129,839
Other	4,159,715	2,361,656	1,464,998	1,012,144	8,998,513
Total Revenues	281,363,200	35,875,625	24,647,021	9,386,482	351,272,328
EXPENDITURES					
Current:					
General Government	3,799,796	3,410,634	149,656	22,464	7,382,550
Administrative Services	1,209,504				1,209,504
Chief Information Officer	7,820,811	606,707		23,110	8,450,628
Finance	7,936,589	15,993	1,319,012	260	9,271,854
Public Works	15,358,655	6,300,558	(344,810)	544,593	21,858,996
Public Safety	10,073,947		751,152	35,450	10,860,549
Police	58,208,753		2,986,962	540,830	61,736,545
Fire and Emergency Services	56,571,128		1,968,805		58,539,933
Community Corrections	29,144,338		270,851		29,415,189
Social Services	6,796,943		1,605,111		8,402,054
Environmental Quality	6,407	22,270,780	267,133	(106)	22,544,214
General Services	8,388,656	34,505			8,423,161
Parks and Recreation	16,904,498	440,592	(5,141)		17,339,949
Law and Risk Management	9,607,308	629,899			10,237,207
Outside Agencies	16,935,373		2,308,942		19,244,315
Debt Service:					
Principal	20,035,000				20,035,000
Interest	13,601,644			20,798	13,622,442
Other Debt Service	64,625			16,176	80,801
Capital:					
Equipment	38,271	6,949,053	1,908,565	7,795,207	16,691,096
Acquisitions and Construction	1,448,662	645,729	10,354,682	19,869,869	32,318,942
Total Expenditures	283,950,908	41,304,450	23,540,920	28,868,651	377,664,929
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,587,708)	(5,428,825)	1,106,101	(19,482,169)	(26,392,601)
OTHER FINANCING SOURCES (USES)					
Issuance of Debt				15,255,000	15,255,000
Issuance of Refunding Debt				4,465,000	4,465,000
Discount on Bonds				(189,476)	(189,476)
Payment to Refunded Debt Escrow Agent				(4,390,779)	(4,390,779)
Transfers In	3,531,504			312,153	3,843,657
Transfers Out	(323,850)	(130,230)	(676,125)	(2,642,918)	(3,773,123)
Total Other Financing Sources (Uses)	3,207,654	(130,230)	(676,125)	12,808,980	15,210,279
Net Change in Fund Balances	619,946	(5,559,055)	429,976	(6,673,189)	(11,182,322)
Fund Balances July 1, as previously presented	31,520,114	25,983,827	116,485	62,717,592	120,338,018
Adjustment to Opening Fund Balance (Note 2.D.)	(7,952,225)			(11,039,139)	(18,991,364)
Fund Balances - Restated July 1	23,567,889	25,983,827	116,485	51,678,453	101,346,654
Fund Balances, June 30	\$24,187,835	\$20,424,772	\$546,461	\$45,005,264	\$90,164,332

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, 2011**

Net change in fund balances - total governmental funds (\$11,182,322)

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	49,269,767	
Less current year depreciation	<u>(46,770,276)</u>	2,499,491

The net effect of various miscellaneous transactions involving capital assets
(i.e. sales, trade-ins, and donations) is to decrease net assets. (12,201,944)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds:

Exaction fees		2,122,913
---------------	--	-----------

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.

Issuance of debt	(19,720,000)	
Bond issuance costs	69,745	
Discount on bonds	189,476	
Loss on refunding	290,000	
Principal payment to refunded bond escrow agent	4,175,000	
Principal payments	<u>20,035,000</u>	5,039,221

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

Change in net pension asset	(13,514,414)	
Amortization of current year bond (discounts) premiums	(154,516)	
Change in unfunded pension liability and other post retirement benefits	65,345	
Change in unfunded other post retirement benefit liability	(12,818,332)	
Unearned revenue	(4,331,000)	
Change in accrued interest payable	490,825	
Change in compensated absences	<u>(1,118,896)</u>	(31,380,988)

Internal service funds are used by management to charge
self-insurance to individual funds.

The net expense of the internal service funds is
reported within governmental activities.

(711,922)

Change in net assets of governmental activities

(\$45,815,551)

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
BUDGETARY COMPARISON
GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget-Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and Permits:				
Employee Withholdings	\$149,240,000	\$149,240,000	\$153,648,216	\$4,408,216
Business Returns	28,448,000	28,448,000	30,209,107	1,761,107
Individual Returns	0	0	613	613
Insurance Premiums	20,500,000	20,500,000	21,536,475	1,036,475
Bond Deposits	2,000	2,000	(16,368)	(18,368)
Regulated License Fee	806,180	806,180	886,433	80,253
Franchise Fee	17,600,000	17,600,000	18,135,391	535,391
Bank Franchise Fee	1,200,000	1,200,000	1,329,715	129,715
Vehicle License	160,000	160,000	186,835	26,835
Deed Tax Fee	1,300,000	1,300,000	981,398	(318,602)
Contractor Registration Fee	325,000	325,000	351,735	26,735
Filing Fee - Planning & Zoning	120,000	120,000	118,450	(1,550)
Animal License	45,000	45,000	46,950	1,950
Certificates of Occupancy	2,500	2,500	16,845	14,345
Hotel - Motel License Fee	125,600	125,600	54,939	(70,661)
Total Licenses and Permits	219,874,280	219,874,280	227,486,734	7,612,454
Taxes:				
Realty Taxes	17,476,000	17,752,000	17,619,943	(132,057)
Personal Taxes	1,588,000	1,517,000	1,558,538	41,538
PSC Taxes	710,000	686,000	866,560	180,560
Property Tax Discount	(324,000)	(328,000)	(351,357)	(23,357)
Property Tax Commission	(811,000)	(819,000)	(841,909)	(22,909)
Delinquent - Realty & Personal	53,000	53,000	168,369	115,369
Motor Vehicle Ad Valorem Tax	1,528,000	1,475,000	1,697,174	222,174
County Clerk Com - Motor Vehicle	(61,000)	(59,000)	(57,414)	1,586
Supplementary Tax Bills	8,000	8,000	21,429	13,429
Omitted Tax	77,000	77,000	311,512	234,512
Total Taxes	20,244,000	20,362,000	20,992,845	630,845
Charges for Services:				
Accident Report Sales	5,500	5,500	4,697	(803)
Administrative Collection Fees	17,500	17,500	13,520	(3,980)
Adult Probation Fees	152,000	152,000	142,032	(9,968)
Animal Shelter Collections	30,000	30,000	20,575	(9,425)
Building Permits	800,000	800,000	898,171	98,171
Computer Services Fees	30,000	30,000	10,958	(19,042)
Detention Center	5,347,850	5,347,850	6,575,254	1,227,404
Developer Landscape Fees	5,000	5,000	9,780	4,780
District Court Jail Fees	140,000	140,000	712,066	572,066
Domestic Relations Collection	8,000	8,000	5,911	(2,089)
EMS	5,922,864	5,922,864	6,457,087	534,223
Excess Fees And Collections	2,500,000	2,500,000	4,619,239	2,119,239
Golf Course Collections	3,813,160	3,813,160	2,705,046	(1,108,114)
Lexington Store			24	24
Park Land Acquisition	300,000	300,000	204,296	(95,704)
Parking	38,100	38,100	37,351	(749)
Parks & Recreation Programs	1,460,460	1,460,460	1,088,113	(372,347)
Rent Or Lease Income	259,640	259,640	579,939	320,299
Total Charges for Services	20,830,074	20,830,074	24,084,059	3,253,985
Fines and Forfeitures	203,000	203,000	215,493	12,493
Intergovernmental	2,211,739	2,304,964	2,441,417	136,453
Property Sales	4,236,300	4,236,300	1,985,318	(2,250,982)
Investments	27,000	27,000	(2,381)	(29,381)
Other Income:				
Assistance Repayment			50,395	50,395
Contributions		680,409	1,912,192	1,231,783
Penalties and Interest	1,884,776	1,884,776	1,236,536	(648,240)
School Board Tax Fee	12,000	12,000	10,000	(2,000)
Tourist Commission Fee			2,735	2,735
Payment in Lieu of Taxes	45,000	45,000	(50)	(45,050)
Miscellaneous	296,200	869,077	947,907	78,830
Total Other Income	2,237,976	3,491,262	4,159,715	668,453
Total Revenues	269,864,369	271,328,880	281,363,200	10,034,320
				continue

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
BUDGETARY COMPARISON
GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)
	Original	Final		
EXPENDITURES				
General Government:				
Council Office	2,323,125	2,361,260	2,351,714	(9,546)
Office of the Mayor	1,544,544	1,741,243	1,789,272	48,029
Special Programs	831,033	1,908,007	1,689,204	(218,803)
Board of Elections	1,075,950	1,075,950	1,042,124	(33,826)
Clerk of the Urban County Council	565,405	565,405	559,893	(5,512)
County Attorney	789,622	789,622	789,622	0
Coroner	738,330	710,961	599,443	(111,518)
Property Valuation Administrator	335,400	335,400	335,400	0
Contingency	86,800	36,641		(36,641)
Circuit Judges	324,800	324,800	338,927	14,127
County Court Clerk	119,290	119,290	79,778	(39,512)
Citizens' Advocate	132,730	132,730	96,281	(36,449)
Commonwealth Attorney	72,610	68,110	69,198	1,088
County Judge Executive	18,090	18,090	31,926	13,836
Indirect Cost Allocation	(6,905,890)	(6,905,890)	(5,900,511)	1,005,379
Total General Government	2,051,839	3,281,619	3,872,271	590,652
Administrative Services:				
Senior Advisor	154,016	45,892	166,735	120,843
Office of Policy and Budget	513,700	513,800	497,032	(16,768)
Internal Audit Office	712,743	712,743	545,737	(167,006)
Total Administrative Services	1,380,459	1,272,435	1,209,504	(62,931)
Chief Information Officer				
Government Communications	1,474,140	1,411,264	1,532,734	121,470
Computer Services	6,337,470	6,527,298	5,828,461	(698,837)
Chief Information Officer	590,014	592,988	459,616	(133,372)
Total Chief Information Officer	8,401,624	8,531,550	7,820,811	(710,739)
Department of Finance:				
Community Development	735,290	842,723	635,298	(207,425)
Accounting	1,284,230	1,136,130	1,262,321	126,191
Central Purchasing	578,540	578,540	637,515	58,975
Human Resources	2,535,180	2,533,545	2,280,075	(253,470)
Revenue	2,561,702	2,645,150	2,451,645	(193,505)
Finance Administration	444,840	906,650	669,735	(236,915)
Total Finance	8,139,782	8,642,738	7,936,589	(706,149)
Department of Public Works:				
Building Inspection	2,545,100	2,543,820	2,593,519	49,699
Historic Preservation	362,790	360,790	379,682	18,892
Engineering	1,818,020	2,577,991	2,357,478	(220,513)
Planning	1,690,910	1,734,213	1,745,795	11,582
Streets, Roads, and Forestry	4,295,670	4,459,684	4,773,410	313,726
Traffic Engineering	3,402,895	3,274,390	3,432,558	158,168
Public Works Administration	305,175	346,709	295,019	(51,690)
Purchase of Development Rights	139,065	146,850	1,050,984	904,134
Total Public Works	14,559,625	15,444,447	16,628,445	1,183,998
Department of Public Safety:				
Police	59,566,470	59,613,332	58,228,313	(1,385,019)
Fire & Emergency Services	54,961,985	55,603,492	56,571,128	967,636
Community Corrections	31,496,918	31,420,444	29,144,338	(2,276,106)
Public Safety Administration	1,546,110	4,326,910	4,507,300	180,390
Code Enforcement	1,670,750	1,668,325	1,700,123	31,798
DEEM/Enhanced 911	3,541,330	3,520,455	3,866,524	346,069
Total Public Safety	152,783,563	156,152,958	154,017,726	(2,135,232)
Department of Social Services:				
Youth Services	2,455,722	2,371,375	2,094,256	(277,119)
Family Services	2,786,000	2,886,156	2,386,027	(500,129)
Adult Services	1,389,030	1,388,643	1,362,972	(25,671)
Social Services Administration	1,239,080	1,222,105	957,795	(264,310)
Total Social Services	7,869,832	7,868,279	6,801,050	(1,067,229)

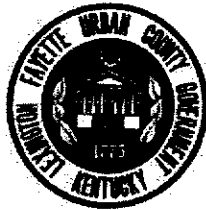
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The accompanying notes are an integral part of the financial statements.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget-Positive (Negative)
	Original	Final	Actual	
EXPENDITURES, continued				
Dept of Environmental Quality:				
Division of Water & Air Quality			316	316
Environmental Quality		1,700	1,817	117
Office of Compliance			4,274	4,274
Total Environmental Quality	0	1,700	6,407	4,707
 Department of General Services:				
Parks and Recreation	16,953,766	17,048,634	17,025,498	(23,136)
Fleet and Facilities Management	10,818,016	10,078,537	6,893,097	(3,185,440)
General Services Administration	1,841,361	1,779,653	1,495,560	(284,093)
Total General Services	29,613,143	28,906,824	25,414,155	(3,492,669)
 Department of Law:				
Law	2,085,050	2,083,207	2,070,839	(12,368)
Risk Management	5,173,210	5,252,808	7,536,469	2,283,661
Total Law	7,258,260	7,336,015	9,607,308	2,271,293
 Outside Agencies:				
Commerce Lexington	508,010	508,010	483,010	(25,000)
Downtown Arts Center	101,450	101,450	101,450	0
Downtown Lexington Corporation	47,450	47,450	47,450	0
World Trade Center	101,050	125,613	125,613	0
Community Development Agencies	329,410	308,859	313,984	5,125
Social Service Agencies	1,969,680	1,970,536	1,970,535	(1)
Public Works Agencies	2,120	2,120		(2,120)
Lexington Public Library	13,074,810	13,218,100	13,287,501	69,401
Explorium of Lexington	187,830	187,830	187,830	0
Carnegie Literacy Center	33,300	33,300	33,300	0
Downtown Development Authority	234,700	234,700	234,700	0
Lyric Theatre	150,000	150,000	150,000	0
Total Outside Agencies	16,739,810	16,887,968	16,935,373	47,405
 Debt Service:				
Principal	21,761,210	19,820,431	20,035,000	214,569
Interest	11,941,053	13,812,087	13,601,644	(210,443)
Other Debt Service	736,721	974,130	64,625	(909,505)
Total Debt Service	34,438,984	34,606,648	33,701,269	(905,379)
Total Expenditures	283,236,921	288,933,181	283,950,908	(4,982,273)
 Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(13,372,552)	(17,604,301)	(2,587,708)	15,016,593
 OTHER FINANCING SOURCES (USES)				
Transfers In	8,638,891		3,531,504	3,531,504
Transfer to State		8,968,559		(8,968,559)
Transfers Out			(323,850)	(323,850)
Total Other Financing Sources	8,638,891	8,968,559	3,207,654	(5,760,905)
 Net Change in Fund Balances	(4,733,661)	(8,635,742)	619,946	9,255,688
 Fund Balance, July 1	4,775,400	4,775,400	31,520,114	26,744,714
Adjustment to Opening Fund Balance (Note 2.D.)			(7,952,225)	(7,952,225)
Fund Balances - Restated July 1	4,775,400	4,775,400	23,567,889	18,792,489
 Fund Balance, June 30	\$41,739	(\$3,860,342)	\$24,187,835	\$28,048,177

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



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LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FULL URBAN SERVICES DISTRICT FUND
For the Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget-Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and Permits:				
Bank Franchise Fee	\$1,200,000	\$1,200,000	\$1,329,718	\$129,718
Total Licenses and Permits	1,200,000	1,200,000	1,329,718	129,718
Taxes:				
Realty Taxes	31,238,000	31,896,000	31,811,888	(84,112)
PSC Taxes	224,000	216,000	381,918	165,918
Property Tax Discount	(531,000)	(542,000)	(541,979)	21
Property Tax Commission	(350,000)	(350,000)	(350,000)	0
Delinquent - Realty & Personal	6,000	6,000	198,912	192,912
Supplementary Tax Bills	10,000	10,000	54,525	44,525
Total Taxes	30,597,000	31,236,000	31,555,264	319,264
Charges for Services:				
Rent Or Lease Income			2,500	2,500
Dumpster Permit Fees			6,340	6,340
Total Charges for Services	0	0	8,840	8,840
Property Sales	1,087,400	1,087,400	662,554	(424,846)
Fines and Forfeitures	25,000	25,000	4,956	(20,044)
Investments	27,000	27,000	(47,363)	(74,363)
Other Income:				
Penalties And Interest	20,000	20,000	(21,713)	(41,713)
Commodities	2,600,000	2,600,000	2,364,102	(235,898)
Miscellaneous		9,461	19,267	9,806
Total Other Income	2,620,000	2,629,461	2,361,656	(267,805)
Total Revenues	35,556,400	36,204,861	35,875,625	(329,236)
EXPENDITURES				
General Government:				
Contingency	(186,190)	(186,190)		186,190
Indirect Cost Allocation	3,930,000	3,933,390	3,410,634	(522,756)
Total General Government	3,743,810	3,747,200	3,410,634	(336,566)
Chief Information Officer:				
Computer Services	83,440	129,970	96,374	(33,596)
Government Communication:	542,450	543,400	510,333	(33,067)
Total Chief Information Officer	625,890	673,370	606,707	(66,663)
Department of Finance:				
Human Resources	14,000	14,000	5,800	(8,200)
Finance Administrator	9,000	9,000	10,193	1,193
Total Finance	23,000	23,000	15,993	(7,007)
Department of Public Works:				
Streets, Roads, and Forestry	1,412,830	1,412,830	1,408,896	(3,934)
Traffic Engineering	5,030,645	6,525,782	5,031,739	(1,494,043)
Public Works Administration	72,100	72,100	64,952	(7,148)
Total Public Works	6,515,575	8,010,712	6,505,587	(1,505,125)
Dept of Environmental Quality				
Waste Management	23,954,530	27,459,344	23,591,216	(3,868,128)
Office of Compliance	767,040	779,444	777,897	(1,547)
Environmental Quality	500,170	591,096	353,308	(237,788)
Total Environmental Quality	25,221,740	28,829,884	24,722,421	(4,107,463)
Department of General Services:				
Parks and Recreation	526,960	526,960	440,592	(86,368)
Fleet and Facilities Management	73,550	5,011,662	4,972,617	(39,045)
Total General Services	600,510	5,538,622	5,413,209	(125,413)

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
BUDGETARY COMPARISON
FULL URBAN SERVICES DISTRICT FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)
	Original	Final		
EXPENDITURES, continued				
Department of Law:				
Law	381,210	381,210	43,655	(337,555)
Risk Management	27,280	27,280	586,244	558,964
Total Law	<u>408,490</u>	<u>408,490</u>	<u>629,899</u>	<u>221,409</u>
Debt Service:				
Principal	167,664	167,664		(167,664)
Total Debt Service	<u>167,664</u>	<u>167,664</u>	<u>0</u>	<u>(167,664)</u>
Total Expenditures	<u>37,306,679</u>	<u>47,398,942</u>	<u>41,304,450</u>	<u>(6,094,492)</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>(1,750,279)</u>	<u>(11,194,081)</u>	<u>(5,428,825)</u>	<u>5,765,256</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(450,594)	(538,517)	(130,230)	408,287
Total Other Financing Sources (Uses)	<u>(450,594)</u>	<u>(538,517)</u>	<u>(130,230)</u>	<u>408,287</u>
Net Change in Fund Balances	<u>(2,200,873)</u>	<u>(11,732,598)</u>	<u>(5,559,055)</u>	<u>6,173,543</u>
Fund Balance, July 1	<u>9,621,100</u>	<u>9,621,100</u>	<u>25,983,827</u>	<u>16,362,727</u>
Fund Balance, June 30	<u><u>\$7,420,227</u></u>	<u><u>(\$2,111,498)</u></u>	<u><u>\$20,424,772</u></u>	<u><u>\$22,536,270</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, 2011

	Business-type Activities					Governmental Activities Internal Service Funds
	Enterprise Funds					
	Sanitary Sewer System	Public Facilities Corporation	Public Parking Corporation	Landfill	Other Enterprise Funds	Total
ASSETS						
Current Assets:						
Cash	\$3,329,716	\$1,598,938	\$1,022,907	\$4,888,322	\$7,213,497	\$18,053,380
Investments	36,917,243	290,633		23,990,841	2,420,662	63,619,379
Receivables:						
User Fees Receivable	2,680,522			670,124	798,265	4,148,911
Other Receivables	280,003		1,705	91,548	158,646	617,852
Less Allowance for Uncollectible Accounts	(161,360)	85,950		(299,788)	(121,406)	(582,554)
Inventories and Prepaid Expenses	5,739				23,880	29,619
Internal Balances	2,903,087		276,940	583	862,444	4,043,054
Restricted Investments:						
Reserved for Maintenance and Operation	5,854,664					5,854,664
Reserved for Sinking Fund	5,235,067					5,235,067
Total Current Assets	57,044,681	1,975,521	1,301,552	29,341,630	11,355,988	101,019,372
Non-Current Assets:						
Restricted Investments:						
Reserved for Construction & Capital Acquisitions	3,626,461					3,626,461
Reserved for Depreciation	3,432,225					3,432,225
Reserved for Debt Service	8,612,473					8,612,473
Capital Assets:						
Land	1,825,294	32,578,646	7,985,094	5,194,637	358,185	47,941,856
Land Improvements	254,476	26,067,064	3,110,639	16,468,938	10,000	45,911,117
Buildings	2,148,289	117,880,057	10,342,967	219,445		130,590,758
Sewer Plants	163,269,363					163,269,363
Sewer Lines	173,559,402			366,314	1,368,773	175,294,489
Leasehold Improvements		2,137,090				2,137,090
Vehicles, Equipment, and Furniture	6,958,811	3,436,944	289,793	53,735	1,975,566	12,714,849
Intangibles	432,421	69,281			1,534,910	2,036,612
Less Accumulated Depreciation	(140,513,274)	(91,728,260)	(6,774,266)	(7,262,950)	(3,392,192)	(249,670,942)
Construction in Progress	2,996,103				70,332	3,066,435
Developments in Progress	4,066,143					4,066,143
Unamortized Bond Costs	1,223,986	4,218,377				5,442,363
Total Non-Current Assets	231,892,173	94,659,199	14,954,227	15,040,119	1,925,574	358,471,292
Total Assets	288,936,854	96,634,720	16,255,779	44,381,749	13,281,562	459,490,664
						0
						24,413,057

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities					Governmental Activities Internal Service Funds
	Enterprise Funds					
	Sanitary Sewer System	Public Facilities Corporation	Public Parking Corporation	Landfill	Other Enterprise Funds	Total
LIABILITIES						
Current Liabilities:						
Accounts, Contracts and Retainage Payable	1,886,667	240,795	57,962	455,932	928,302	3,569,658
Accrued Payroll	313,333			17,571	220,757	551,661
Internal Balances		14,959			407,123	422,082
Claims Payable						
Bonds Payable		1,970,000			56,898	2,026,898
Interest Payable		634,507			2,194	636,701
Unearned revenue and other	550,001					550,001
Compensated Absences	350,392			818	142,979	494,189
Landfill Closure and Postclosure Care Costs				5,952,949		5,952,949
Payable from Restricted Investments:						
Accounts, Contracts and Retainage Payable	269,096					269,096
Bonds and Notes Payable	5,990,000					5,990,000
Interest Payable	1,329,282					1,329,282
Total Current Liabilities	10,688,771	2,860,261	57,962	6,427,270	1,758,253	21,792,517
Non-Current Liabilities:						
Unearned Revenues and Other	458,935			800,000		1,258,935
Bonds and Notes Payable	67,831,388	60,020,000			1,281,741	129,133,129
Compensated Absences	808,307			7,363	176,645	992,315
Landfill Closure and Postclosure Care Costs				13,464,060		13,464,060
Total Non-Current Liabilities	69,098,630	60,020,000	0	14,271,423	1,458,386	144,848,439
Total Liabilities	79,787,401	62,880,261	57,962	20,698,693	3,216,639	166,640,956
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	146,026,087	32,669,199	14,954,227	15,040,119	586,936	209,276,568
Restricted for:						
Capital Projects	32,336,782	26,417				32,363,199
Capital Projects - Park Acquisition		1,412,697				1,412,697
Debt Service	7,938,633					7,938,633
Depreciation	3,003,250	18,230				3,021,480
Maintenance and Operations	5,901,351					5,901,351
Unrestricted (Deficit)	13,943,350	(372,084)	1,243,590	8,642,937	9,477,987	32,935,780
Total Net Assets	\$209,149,453	\$33,754,459	\$16,197,817	\$23,683,056	\$10,064,923	\$292,849,708
						\$ -
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds						
Net Assets of Business-type Activities						87,883
						\$292,937,591

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, 2011

	Business-type Activities					Governmental
	Enterprise Funds					Activities
	Sanitary Sewer System	Public Facilities Corporation	Public Parking Corporation	Landfill	Other Enterprise Funds	Internal Service Funds
OPERATING REVENUES						
User Charges	\$45,663,797	\$ -	\$ -	\$6,807,470	\$11,596,442	\$44,195,473
Fees	1,523,169			179,060	5,928,419	7,630,648
Exactions	885,730					885,730
License Fees and Permits					483,196	483,196
Rental Income		5,891,171	66,998			5,958,169
Parking Revenues		425,570	791,771			1,217,341
Theater Revenues		808,727				808,727
Gross Profit - Commissary					1,089,129	1,089,129
Other	776,339	31,620	1,105	217,080	40,877	1,067,021
Total Operating Revenues	48,849,035	7,157,088	859,874	7,203,610	19,138,063	83,207,670
						44,195,473
OPERATING EXPENSES						
Treatment Plant	8,411,093					8,411,093
Collection System	5,544,184					5,544,184
Property Management		2,050,883				2,050,883
Theater Management		737,822				737,822
Landfill				4,712,844		4,712,844
Right of Way					305,688	305,688
Extended School Program					493,984	493,984
Prisoners' Account					446,874	446,874
Inmate Trust Account					836,131	836,131
Enhanced 911					2,903,594	2,903,594
LexVan Program					84,242	84,242
Administration	18,243,183		600,201	966,689	7,945,245	27,755,318
Depreciation	7,214,960	5,173,635	306,725	902,092	225,497	13,822,909
Claims and Benefit Payments						44,967,993
Total Operating Expenses	39,413,420	7,962,340	906,926	6,581,625	13,241,255	68,105,566
						44,967,993
Operating Income (Loss)	9,435,615	(805,252)	(47,052)	621,985	5,896,808	(772,520)

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Business-type Activities					Governmental Activities Internal Service Funds
	Enterprise Funds					
	Sanitary Sewer System	Public Facilities Corporation	Public Parking Corporation	Landfill	Other Enterprise Funds	Total
NON-OPERATING REVENUES (EXPENSES)						
Income on Investments	533,814	1,538	992	13,593	(9,245)	540,692
Interest Expense and Fiscal Agent Fees	(2,469,940)	(2,570,488)			(14,093)	(5,054,521)
Amortization of Bond Costs	(125,313)	(208,397)				(333,710)
Loss on Sale of Capital Assets	(424,758)					(424,758)
Total Non-Operating Revenues (Expenses)	(2,486,197)	(2,777,347)	992	13,593	(23,338)	(5,272,297)
						15,156
Income (Loss) Before Contributions and Transfers	6,949,418	(3,582,599)	(46,060)	635,578	5,873,470	9,829,807
Transfers In	3,010,299	228,825				3,239,124
Transfers Out	(4,283,344)			(204,928)	(740)	(4,489,012)
Change in Net Assets	5,676,373	(3,353,774)	(46,060)	430,650	5,872,730	8,579,919
						(757,364)
Net Assets July 1, as previously presented	204,355,378	37,108,233	16,243,877	27,584,561	4,192,193	757,364
Adjustment to Opening Net Assets (Note 2.D.)	(882,298)			(4,332,155)		
Net Assets - Restated July 1	203,473,080	37,108,233	16,243,877	23,252,406	4,192,193	757,364
Net Assets - June 30	\$209,149,453	\$33,754,459	\$16,197,817	\$23,683,056	\$10,064,923	\$0
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds						
(45,442)						
<u>\$8,534,477</u>						

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, 2011

	Business-type Activities					Governmental Activities Internal Service Funds
	Enterprise Funds					
	Sanitary Sewer System	Public Facilities Corporation	Public Parking Corporation	Landfill	Other Enterprise Funds	Total
Cash Flows from Operating Activities:						
Receipts from Customers	\$44,978,975	\$3,162,703	\$859,140	\$8,300,786	\$18,918,043	\$76,219,647
Receipts from Interfund Services Provided		3,997,225				3,997,225
Payments to Suppliers	(21,651,474)	(2,955,550)	(864,280)	(3,192,332)	(6,679,577)	(35,343,213)
Payments to Employees	(10,864,678)			(402,072)	(6,114,640)	(17,381,390)
Payments for Interfund Services Used	(1,988,562)			(105,835)	(291,924)	(2,386,321)
Payments for Claims						(41,893,380)
Net Cash Provided by (Used in) Operating Activities	10,474,261	4,204,378	(5,140)	4,600,547	5,831,902	25,105,948
Cash Flows from Noncapital Financing Activities:						
Transfers In	3,010,299	228,825				3,239,124
Transfers Out	(4,283,344)			(204,928)	(740)	(4,489,012)
Net Cash Flows from Noncapital Financing Activities	(1,273,045)	228,825	0	(204,928)	(740)	(1,249,888)
Cash Flows from Capital and Related Activities:						
Purchases of Property, Plant and Equipment	(2,991,386)	(60,000)		(15,998)	(1,817,018)	(4,884,402)
Proceeds from Note Payable	13,766,388				1,338,639	15,105,027
Principal Paid on Bonds	(4,510,000)	(1,900,000)				(6,410,000)
Interest and Fiscal Agent Fees Paid on Bonds	(2,607,597)	(2,570,488)			(14,093)	(5,192,178)
Proceeds on Sale of Capital Assets	39,149					39,149
Net Cash Flows from Capital and Related Activities	3,696,554	(4,530,488)	0	(15,998)	(492,472)	(1,342,404)
Cash Flows from Investing Activities:						
Purchases of Investments	(17,447,460)	(111)		(2,804,321)	(986,352)	(21,238,244)
Income on Investments	533,814	1,538	992	13,593	(9,245)	540,692
Net Cash Flows from Investing Activities	(16,913,646)	1,427	992	(2,790,728)	(995,597)	(20,697,552)
Net Increase (Decrease) in Cash and Cash Equivalents						
	(4,015,876)	(95,858)	(4,148)	1,588,893	4,343,094	1,816,104
Cash and Cash Equivalents at Beginning of Year	7,345,592	1,694,796	1,027,055	3,299,429	2,870,403	16,237,275
Cash and Cash Equivalents at End of Year	\$3,329,716	\$1,598,938	\$1,022,907	\$4,888,322	\$7,213,497	\$18,053,380
						\$2,892,491

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Business-type Activities					Governmental Activities Internal Service Funds
	Enterprise Funds					
	Sanitary Sewer System	Public Facilities Corporation	Public Parking Corporation	Landfill	Other Enterprise Funds	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:						
Operating Income (Loss)	\$9,435,615	(\$805,252)	(\$47,052)	\$621,985	\$5,896,808	\$15,102,104
Adjustments Not Affecting Cash:						
Depreciation	7,214,960	5,173,635	306,725	902,092	225,497	13,822,909
Allowance for Bad Debts	78,019			(317,052)	52,461	(186,572)
(Increase) Decrease in Assets:						
Accounts Receivable	(227,850)			(90,841)	(243,630)	(562,321)
Other Receivables	3,157,150	2,840	(734)	388,017	23,610	3,570,883
Inventories and Prepaid Expenses	(964)				(23,880)	(24,844)
Transfer Assets to Other Funds	1,222,483					1,222,483
Due from Other Funds	(2,903,087)		(276,940)	1,020,017	(862,444)	(3,022,454)
Developments in Progress	(4,066,144)					(4,066,144)
Increase (Decrease) in Liabilities:						
Accounts Payable	(531,738)	(12,420)	12,861	98,609	322,545	(110,143)
Accrued Payroll	107,796			13,709	81,198	202,703
Claims Payable					335,708	
Due to Other Funds	(2,825,674)	(94,865)		800,000		(2,584,831)
Unearned Revenue	169,872			1,160,449	2,194	969,872
Other Liabilities	(496,152)	(59,560)		3,562	21,835	606,931
Compensated Absences	139,975					165,372
Total Adjustments	1,038,646	5,009,630	41,912	3,978,562	(64,906)	10,003,844
Net Cash Provided by (Used In) Operating Activities	\$10,474,261	\$4,204,378	(\$5,140)	\$4,600,547	\$5,831,902	\$25,105,948
						\$2,741,935

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, 2011

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$10,597,733	\$646,817
Receivables:		
Accounts Receivable	1,678,325	
Due from Other Funds	2,086,596	
Total Receivables	<u>3,764,921</u>	<u>0</u>
Investments, at Fair Value:		
Debt Securities:		
US Agencies	49,036,345	
US Government Obligations	18,844,535	
Municipal Obligations	6,078,886	
International Bonds	9,750,028	
Corporate Debt	70,528,466	
Repurchase Agreements	16,266,296	
Other Investments:		
Equity Mutual Funds	88,468,594	
Equity Real Estate	41,996,320	
Equity Securities - Domestic	113,226,819	
Equity Securities - International	106,443,951	
Total Investments	<u>520,640,240</u>	<u>0</u>
Total Assets	<u><u>535,002,894</u></u>	<u><u>646,817</u></u>
LIABILITIES		
Accounts Payable	2,354	
Securities Lending Transactions	16,266,296	
Compensated Absenses - Current	2,494	
Compensated Absenses - Non Current	2,494	
Due to Other Funds	306,193	
Payable to Property Owners		646,817
Total Liabilities	<u>16,579,831</u>	<u>646,817</u>
NET ASSETS		
Net Assets Held in Trust for Pension Benefits	<u><u>\$518,423,063</u></u>	<u><u>\$ -</u></u>

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, 2011

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$11,465,988
Employer - Administration	2,950,487
Plan Members	7,896,777
Other	54,292
Total Contributions	<u>22,367,544</u>
Income on Investments:	
Net Change in Fair Value of Investments	81,412,404
Interest	8,098,509
Dividends	4,117,231
Total Gain on Investments	<u>93,628,144</u>
Less Investment Expense	2,562,182
Net Gain on Investments	<u>91,065,962</u>
Income from Securities Lending Activities:	
Securities Lending Income	<u>30,850</u>
Securities Lending Expenses:	
Borrower Rebates	(22,250)
Management Fees	21,200
Total Securities Lending Expenses	<u>(1,050)</u>
Net Income on Securities Lending Activities	<u>31,900</u>
Total Additions	<u>113,465,406</u>
DEDUCTIONS	
Benefit Payments	42,022,938
Administrative Expense	179,232
Total Deductions	<u>42,202,170</u>
Net Increase	71,263,236
Net Assets, July 1	<u>447,159,827</u>
Net Assets, June 30	<u><u>\$518,423,063</u></u>

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2011

	Lexington Center Corporation	Lexington Airport Board	Fayette County Department of Health	Nonmajor Component Units	Total
ASSETS					
Cash	\$815,042	\$3,752,687	\$2,709,277	\$13,611,624	\$20,888,630
Investments				4,567,941	4,567,941
Receivables:					
Accounts Receivable	825,072	1,689,951	849,488	1,193,387	4,557,898
Other		375,040		156,320	531,360
Less Allowance for Uncollectible Account	(14,902)				(14,902)
Due from Component Units	172,157				172,157
Due from Primary Government	272,139				272,139
Due from Other Governments				6,532,003	6,532,003
Inventories			117,292	973,929	1,091,221
Prepaid Items			82,057	1,355,630	1,437,687
Pension Assets				680,559	680,559
Restricted Current Assets:					
Cash		7,103,918		993	7,104,911
Investments	1,691,629	13,420,176		600,000	15,711,805
Grants Receivable		444,217			444,217
Other	276,445	11,674			288,119
Restricted Non-Current Investments	5,245,999				5,245,999
Bond Issuance Costs-Net of Accumulated Amortization		2,834,294			2,834,294
Other		142,554			142,554
Capital Assets:					
Non-depreciable	11,791,982	8,239,905		8,261,494	28,293,381
Depreciable (Net)	47,351,641	139,926,854	5,812,493	33,992,310	227,083,298
Total Assets	68,758,818	177,941,270	9,570,607	72,061,487	328,332,182
LIABILITIES					
Accounts, Contracts Payable and Accrued Liabilities	629,098	1,052,589	1,525,490	4,593,406	7,800,583
Due to Primary Government				576,231	576,231
Due to Component Units				172,157	172,157
Unearned Revenues and Other	165,482			993	166,475
Liabilities Payable from Restricted Assets:					
Accounts Payable		699,329			699,329
Interest Payable		741,000			741,000
Non-Current Liabilities:					
Due Within One Year					
Compensated Absences				534,736	534,736
Bonds and Notes Payable	2,600,000	65,000	105,000	323,013	3,093,013
Due in More Than One Year					
Compensated Absences			984,913	270,269	1,255,182
Bonds and Notes Payable	22,475,162	61,552,750	625,000	7,452,097	92,105,009
Other		2,008,357			2,008,357
Total Liabilities	25,869,742	66,119,025	3,240,403	13,922,902	109,152,072
NET ASSETS					
Investment in Capital Assets, Net of Related Debt	34,068,461	89,165,917	5,082,493	34,478,694	162,795,565
Restricted for:					
Governmental and Program Funds			54,051	171,408	225,459
Capital Projects		436,377			436,377
Debt Service	5,245,999	16,412,450			21,658,449
Pension				533,938	533,938
Unrestricted	3,574,616	5,807,501	1,193,660	22,954,545	33,530,322
Total Net Assets	\$42,889,076	\$111,822,245	\$6,330,204	\$58,138,585	\$219,180,110

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, 2011

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets					
	Expenses	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	\$12,257,773	\$12,322,259	\$948,000	\$57,085	\$1,069,571				\$1,069,571
Depreciation	4,342,343				(4,342,343)				(4,342,343)
Interest on Long-Term Debt	1,152,196				(1,152,196)				(1,152,196)
Total Lexington Center Corporation	17,752,312	12,322,259	948,000	57,085					(4,424,968)
Lexington Airport Board									
Airport Operations	10,811,301	15,734,941		3,156,111		\$8,079,751			8,079,751
Depreciation	8,716,163					(8,716,163)			(8,716,163)
Interest on Long-Term Debt	1,985,237					(1,985,237)			(1,985,237)
Total Lexington Airport Board	21,512,701	15,734,941	0	3,156,111					(2,621,649)
Fayette County Department of Health									
Department of Health Operations	28,265,989	9,852,882	10,962,242				(\$7,450,865)		(7,450,865)
Depreciation	607,020						(607,020)		(607,020)
Interest on Long-Term Debt	42,676						(42,676)		(42,676)
Total Fayette County Department of Health	28,915,685	9,852,882	10,962,242	0					(8,100,561)
Nonmajor Component Units									
Total Component Units	43,521,723	5,092,089	5,862,867	4,708,772	(4,424,968)	(2,621,649)	(8,100,561)	(\$27,857,995)	(27,857,995)
	\$111,702,421	\$43,002,171	\$17,773,109	\$7,921,968					
General Revenues:									
Taxes									
Payment from Lexington-Fayette Urban County Government									
Income on Investments									
Net Change in Fair Value of Investments									
Gain on Sale of Capital Assets									
Miscellaneous									
Total General Revenues									
Change in Net Assets									
Net Assets, July 1									
Adjustment to Opening Net Assets (Note 2.D.)									
Net Assets - Restated, July 1									
Net Assets, June 30									

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
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LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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.

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 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.

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 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 and Commissioner of Finance serve ex officio on the board.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

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. Fund information for the component units, if applicable, may be found in their separately issued financial statements. Requests for separately issued financial statements should be directed to the attention of those respective entities.

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. This entity provides critical services to the citizens of Fayette County on behalf of the Government. The Government appoints the nine members of the Board of Health.

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 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 in-kind and financial support to the DDA by providing accounting and payroll services and annual appropriations to help meet operating expenses.

Proprietary Fund Type

The Lexington Transit Authority (LexTran) was organized to provide unification and coordination of a mass transportation system for Fayette County. This entity provides critical services to the citizens of Fayette County on behalf of the Government. The business activities and affairs of LexTran are directed by an eight-member board appointed by the Government. In addition, the Lexington-Fayette Urban County Council approves the annual budget for LexTran.

The Lexington Convention and Visitors Bureau (Visitors Bureau) was established by the 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 Visitors Bureau 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 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 a 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.C., 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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

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.D., which requires an annual rental to be paid by the Government if net revenues are not sufficient to pay all debt service costs.

Parking Authority of Lexington (Parking Authority) was established to centralize all public parking functions into one entity, to improve parking operations and ultimately to improve the availability of parking in downtown Lexington. The Parking Authority has a five-member board of commissioners appointed by the Mayor. The Parking Authority is financially dependent on the Government for both accounting and administrative services.

The Parking Authority and the DDA are included in the comprehensive audit of the Government and do not issue separate financial statements. The Parking Authority and the DDA each have one fund for financial reporting. Complete audited financial statements for the other component units may be obtained from the Commissioner of Finance of the Government or from the respective agencies.

B. Related Organization – A related organization is an entity for which the Lexington-Fayette Urban County Government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if Lexington-Fayette Urban County Government appoints a voting majority of the related organization's governing board.

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.

Explorium of Lexington was established to provide a unique educational opportunity for Fayette County and Central Kentucky children. 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 Explorium 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 Fiscal Court. The Government is not legally responsible for the Valley View Ferry Authority's finances. The Government contributed \$14,000 to support the Ferry's operations in fiscal year 2011.

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

D. Basic Financial Statements

Government-wide and Fund Financial Statements

The basic financial statements include both the government-wide and the fund financial statements. The reporting model focus is either on the Government as a whole or on major individual funds. The government-wide financial statements report information on all of the non-fiduciary 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 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, proprietary, and fiduciary fund (with the exception of the agency fund, which has no measurement focus) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. 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. For this purpose, the Government considers revenues to be available if they are collected within 60 days of the end of the period. Revenues susceptible to accrual are intergovernmental revenues, investment earnings, emergency medical services (EMS), insurance revenues and license fees. Major revenue sources not susceptible to accrual include charges for services (other than EMS), fines and forfeitures 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 unearned 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 in the period used.

Agency fund financial statements report only assets and liabilities and accordingly have no measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables.

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

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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.

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 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.

The *Public Facilities Corporation Fund* accounts for the acquisition, construction and operation of government-owned facilities.

The *Public Parking Corporation Fund* accounts for the construction and operation of government-owned parking facilities.

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 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.

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Government. Trust funds account for assets held by the Government under the terms of a formal trust agreement. Agency funds generally are used to account for assets that the

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Government holds on behalf of others as their agent, are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds are as follows:

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 non-operating 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 non-operating revenues and expenses.

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

E. Budgetary Control and Encumbrances

Budget Policy – The Urban County Council annually approves the budget ordinance for all operating funds of the Government, which includes governmental, proprietary, fiduciary, and agency funds. Federal and State Grant funds and capital projects funds adopt project-length budgets. Additional special revenue funds which are not budgeted include the debt service fund, the Industrial Revenue Bond Fund, Police Confiscated Funds and the Public Safety Fund. Budgets are adopted on a basis consistent with generally accepted accounting principles except that budgetary basis expenditures include purchase orders and contracts (encumbrances). 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 re-appropriated at the beginning of each fiscal year. The Council made several supplemental budgetary appropriations throughout fiscal year 2011. The net effect of these supplemental appropriations was an increase of \$2,751,617 in the General Fund and an increase of \$9,906,072 in the Urban Services Fund, which included re-appropriations of encumbrances from prior years and various waste management and street light reappropriations, respectively.

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.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
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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 represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriations, is utilized in the governmental funds. Encumbrances are not treated as expenditures or liabilities because the commitments will be honored during the subsequent year. Outstanding encumbrances for the governmental funds at June 30, 2011 were as follows:

General Fund	\$914,922
Urban Service Fund	1,791,376
Nonmajor Governmental Funds	6,398,638

Encumbrances are not recorded in the financial statements for proprietary fund types and Pension Trust Funds. However, the purchase orders outstanding at June 30, 2011 for these funds are as follows:

Sanitary Sewer System	\$11,761,105
Public Parking Corporation	9,260
Landfill	401,490
Nonmajor Enterprise Funds	3,359,758

F. 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 allocated 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. Allowances for uncollectible loans in the Federal and State Grants Fund fully reserve loan balances due to 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 that are collected 30 days after year end. Franchise fee revenues are recognized if collected within 60 days after year end.

Property taxes for fiscal year 2011 were levied on September 14, 2010 on the assessed valuation of property located in Fayette County as of the preceding January 1, the lien date.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

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 1
Face value amount payment dates	November 2 to December 31
Delinquent date, 5% penalty	January 1 to January 31
10% penalty plus 10% add on fee date	April 15 th

Per Kentucky statute, the county sheriffs are responsible for collection of property taxes. Vehicle taxes, collected by the County Clerk of Fayette County, are due and collected in the birth month of the vehicle's licensee. 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.

Allowance for Uncollectable Amounts – An allowance for Uncollectable Amounts relates to the projected uncollectable balance of the revenues earned or accrued that have been included in Accounts Receivable at year end. An allowance is taken on receivable balances based on historical bad debt experience related to the nature of each receivable balance.

Interfund Receivables/Payables – 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, 2011, balances of interfund amounts receivable or payable have been recorded as “internal balances”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Inventories and Prepaid Items – 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.

Payments made to vendors for goods and services that will benefit periods beyond June 30, 2011 are recorded in assets as prepaid items.

In the governmental fund type financial statements, reported inventories and prepaid items are equally offset in the fund balance as nonspendable, which indicates that they do not constitute “available spendable resources” even though they are a component of total assets.

Restricted Assets – Restricted assets are liquid assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet and statement of net assets since their use is limited by applicable bond indentures. The other restricted assets are required to be maintained until the related bonds mature. 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 Government uses the Construction and Capital Acquisitions assets for their intended purpose before using unrestricted assets. The Maintenance and Operations account represents the resources set aside to operate, maintain and insure the Sanitary Sewer System for three full months. The Depreciation account represents 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 represents the resources accumulated for debt service payments over the next twelve months.

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

The balances of the restricted asset's accounts in the governmental funds are as follows:

Various Purpose general obligation notes account	\$26,760,218
Equipment general obligation notes account	790,205
Federal Grants and Contracts	27,148
Total restricted assets	<u><u>\$27,577,571</u></u>

The balances of the restricted asset's accounts in the enterprise funds are as follows:

Sanitary sewer system maintenance and operations account	\$5,854,664
Sanitary sewer revenue bond sinking fund account	5,235,067
Sanitary sewer revenue bonds construction account	3,626,461
Sanitary sewer depreciation account	3,432,225
Sanitary sewer debt service reserve account	8,612,473
Total restricted assets	<u><u>\$26,760,890</u></u>

Unrestricted Assets – 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.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, traffic signals and similar items) and intangible assets, 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.

Capital assets of the Government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10-40 years
Land improvements	10-50 years
Public domain infrastructure	10-50 years
Sanitary Sewer System infrastructure	50 years
Vehicles and equipment	5-25 years
Office equipment	5 years
Computer equipment	5-7 years
Intangibles	3-5 years

Construction in progress (CIP) represents construction projects for capital assets that have not yet been placed in service. Developments in progress (DIP) represent fees accrued on urban development projects currently underway that have not yet been completed, where settlement of the fees by the respective developer is expected to be made through contributing infrastructure type assets (e.g. roads, sewer systems, etc.) to the Government. CIP and DIP are not depreciated until the projects are complete and placed in service.

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

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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.

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, is 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, general obligation notes and revenue bonds.
- Unfunded Post-Retirement Health Benefits, which is the net retirement health benefit obligation for the Policemen's and Firefighters' Retirement Fund and the City Employees' Pension Fund.
- Landfill closure and postclosure care liability, which 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.

G. Net Assets/Fund Balances

The government-wide and proprietary financial statements utilize a net asset presentation. Net assets are categorized as follows:

Invested in Capital Assets, Net of Related Debt – is intended to reflect the portion of net assets associated with capital assets (net of accumulated depreciation), less outstanding capital assets related debt, net of unspent bond proceeds.

Restricted Net Assets – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws/regulations of other governments or constitutional provisions, or (b) resources resulting from enabling legislation.

Unrestricted Net Assets – This category represents net assets not appropriated for expenditures or legally segregated for a specific future use.

In the balance sheet of governmental funds the difference between the assets and liabilities of governmental funds is reported as fund balance. During the year ended June 30, 2011, the Government adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Under this new pronouncement the Government's fund balance is divided into the following classifications, as applicable:

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Nonspendable – These resources include amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Government's nonspendable funds consisted of prepaid expenses and inventories as of June 30, 2011.

Restricted – Restricted amounts represent resources that are constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The Government had restricted funds for various projects: public works, public safety, capital projects, grants, and urban services as of June 30, 2011.

Committed – Committed amounts are constrained for a specific purpose by the Government using its highest level of decision-making authority. For resources to be considered committed, the Urban County Council issues an ordinance that can only be changed with another corresponding ordinance. The Government had no committed funds as of June 30, 2011.

Assigned – Assigned amounts represent resources that the Government intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the Urban County Council or by a Government official given authority to assign amounts. The Government has assigned funds for general government and economic stabilization as of June 30, 2011.

The Government developed and adopted an Unrestricted General Fund Balance ("Economic Stabilization Fund" or "Economic Contingency Fund") Policy on December 5, 1996. It is the Government's policy to:

- Maintain an Economic Contingency Fund balance of not less than \$4,000,000,
- Generate additional revenues for the Economic Contingency Fund by adding a minimum of 5% of actual General Fund revenues for the previous fiscal year and accruing interest earned from monies in the fund,
- Utilize the Economic Contingency Fund for unanticipated emergencies consistent with the policy.

The Economic Contingency Fund balance may only be used if all of the following conditions exist:

- An unanticipated emergency of an extreme nature that cannot be remedied by reasonable budget changes and/or the use of budgeted ending fund balance.
- The Government has made a complete and rational analysis, with justifying evidence that the Economic Contingency Fund can be maintained in the future.

Unassigned – Unassigned amounts represent resources that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The Government reports all amounts that meet the unrestricted General Fund Policy described below as unassigned.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

I. 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 through the end of the fiscal year by SDI.

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 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 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, 2011:

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

	Excess Expenditures
General Fund:	
Accounting	\$126,191
Building Inspection	49,699
Central Purchasing	58,975
Circuit Judges	14,127
Code Enforcement	31,798
Commonwealth Attorney	1,088
County Judge Executive	13,836
DEEM/Enhanced 911	346,069
Division of Water & Air Quality	316
Environmental Quality	117
Fire & Emergency Services	967,636
Government Communications	121,470
Historic Preservation	18,892
Office of Compliance	4,274
Office of the Mayor	48,029
Planning	11,582
Principal	214,569
Public Safety Administration	180,390
Purchase of Development Rights	904,134
Risk Management	2,283,661
Senior Advisor	120,843
Streets, Roads, and Forestry	313,726
Traffic Engineering	158,168
Urban Services Fund:	
Finance Administration	\$1,193
Risk Management	558,964

Excess expenditures over appropriations were funded by available fund balances.

C. Fund Deficits

Capital Projects Funds – The Storm Water Bond Projects, Purchase of Development Rights Fund, and the Roads, Parks, Open Spaces, Storm Water Exactions Fund had a deficit fund balance of \$116,562, \$357,604 and \$500,318 respectfully. The deficit is a result of incurring costs before the collection of fees and the issuance of bonds that will fund this project.

D. Prior Period Adjustments

Primary Government

Government wide net assets were increased by \$225,143 as a result of adjustments to compensated absences, capital assets, investments, and bonds payable. Business-type net assets were decreased by \$5.2 million as a result of adjustments to capital assets.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

The compensated absences liability was increased by \$171,425 for police accrued sick time exceeding 600 hours at June 30, 2010. In prior years, this estimate was calculated based on accrued sick time exceeding 840 hours. This error affects fiscal years 2010 and prior. The adjustment is reflected in the Governmental Statement of Activities. Capital assets for Governmental Activities were increased by \$348,793 in fiscal year 2011 for amounts incorrectly recorded as expenditures in the prior year.

The costs associated with the Eastern State Bond, Series 2009C, were incorrectly recorded as obligations of the Government in fiscal year 2009. A prior period adjustment of \$47,775 has been recorded in the Government-wide Statement of Activities resulting from the decrease of bonds payable of \$8,000,000 and associated investment balances for unspent proceeds of \$7,952,225. A prior period adjustment of \$7,952,225 has been made to the General fund financial statements to restate the beginning fund balance and net assets to derecognize the investment balance as of June 30, 2010.

Revenue was incorrectly recognized in prior years related to the Exactions program. A prior period adjustment has been made to the Roads, Parks, Open Space, Storm Water Exactions Fund statement of \$11,039,139 to derecognize receivable amounts representing credits for developments currently in progress, where settlement of the fees by the respective developer is expected to be made through contributing infrastructure type assets.

Capital assets for Business-type Activities were decreased by \$882,298. This amount was incorrectly capitalized as construction in progress in prior years in the Sanitary Sewer System Fund but should have been expensed. Of this amount, \$826,557 was expensed in fiscal year 2010.

Capital assets for Business-type Activities were decreased by \$4,332,155. This amount was incorrectly capitalized as construction in progress in prior years in the Landfill Fund but should have been expensed. All of the expenses were incurred prior to fiscal year 2010.

Component Units

An error resulting in an overstatement of previously reported state grants receivable was discovered during the current year on the Lexington Transit Authority statement of net assets. This adjustment resulted in a decrease of \$306,669 to unrestricted equity and state grants receivable as of July 1, 2009. There were no effects on changes in net assets for fiscal years 2010 or 2011.

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. Cash, Investments, and Securities Lending

Primary Government

The Government's bank balances at June 30, 2011 are entirely insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with a letter of credit or securities held by the Government's agent in the Government's name. 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 Depositary Receipts (ADR).

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Investments of the Government as of June 30, 2011 are summarized and categorized in the following table:

Investment Type	Investment Maturities (in years)				
	Fair Value	Less Than 1 Year	1 to 5	6 to 10	More Than 10
Money Market Mutual Funds	\$142,764,808	\$142,764,808	\$ -	\$ -	\$ -
Certificates of Deposit	24,271,814	12,238,814	7,317,000	2,736,000	1,980,000
U.S. Government Agency Obligations	3,000,584	584	3,000,000		
Repurchase Agreements	5,687,720	5,687,720			
Total Investments	<u>\$175,724,926</u>	<u>\$160,691,926</u>	<u>\$10,317,000</u>	<u>\$2,736,000</u>	<u>\$1,980,000</u>

Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment. While the Government has adopted an investment policy that recommends controlling interest rate risk through maturity diversification, the policy does not place any formal limits of investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the “prudent person rule” outlined in the Government’s investment policy. This rule is defined to mean “investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.” The prudent investor standard shall be applied in the context of managing the overall portfolio.

In accordance with its investment policy, the Government is permitted to invest in the following:

1. 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.
2. 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.
3. Obligations of any corporation of the United States government.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the FDIC or similar entity or which are collateralized, to the extent uninsured.
5. Bankers’ acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
6. Commercial paper rated in the highest category by a nationally recognized rating agency.
7. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
8. 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.
9. Shares of mutual funds, each of which shall have the following characteristics:
 - a. The Mutual Fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended
 - b. The management company of the investment company shall have been in operation for at least five (5) years; and
 - c. All of the securities in the mutual fund shall be eligible investments under this section.

Concentration of Credit Risk – the risk of loss attributed to the magnitude of the Government’s investment in a single issuer. Government securities and investments in mutual funds are excluded from this risk. In order to reduce the Credit risk, the investments held by a financial institution in the Government’s name should be limited to no more than 35% of the total investments, excluding that held in a Money Market Mutual fund.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Pension Trust Funds

The Government's Pension Trust Funds are made up of the Policemen's and Firefighters' Retirement Fund (PFRF) and the City Employee's Pension Fund (CEPF). The disclosures below are separate as the pension funds have different investment policies and different objectives. The PFRF is an active growing fund, while the City Employee's Pension Fund has been closed since 1983.

Investments of the PFRF as of June 30, 2011 are summarized and categorized in the following table:

Policemen's and Firefighters' Retirement Fund

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt Securities					
US Agencies	\$41,089,501	\$ -	\$ -	\$25,747,423	\$15,342,078
US Government Obligations	15,706,490	449,486	5,379,252		9,877,753
Municipal Obligations	6,078,886		2,554,290	2,861,115	663,481
International Bonds	9,160,166		4,257,830	3,802,374	1,099,962
Corporate Debt	67,665,397	4,598,415	26,220,625	25,745,895	11,100,461
Repurchase Agreements	16,266,296	16,266,296			
	<u>\$155,966,736</u>	<u>\$21,314,197</u>	<u>\$38,411,997</u>	<u>\$58,156,807</u>	<u>\$38,083,735</u>
Other Investments					
Equity Mutual Funds	\$88,468,594				
Equity Real Estate	41,996,320				
Equity Securities - Domestic	101,799,344				
Equity Securities - International	105,628,400				
	<u>\$493,859,394</u>				

The PFRF has contracted with external investment managers to manage all of the funds. The board has adopted an investment policy that recommends the following target allocations based on asset class:

Asset Class	Target Allocation
US Large Cap Value Equities	12.5%
US Large Cap Growth Equities	12.5%
US Small Cap Value Equities	15.0%
International Growth Equities	10.0%
International Value Equities	10.0%
Real Estate	10.0%
Total Equities	<u>70.0%</u>
US Broad Market Fixed Income	20.0%
US High Yield Fixed Income	10.0%
Total Fixed Income	<u>30.0%</u>
Total Plan	<u>100.0%</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Interest Rate Risk – the PFRF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair market losses arising from increasing interest rates.

Credit Risk – the PFRF investment policy manages credit risk by the limitation of certain investments within the above asset classes. For US Equity asset classes up to 10% of each US Small Cap Value, 15% of US Large Cap Growth, and 20% of US Large Cap Value portfolio's current market value may be invested in ADR's. The US Broad Market Fixed Income manager's debt securities must have a minimum quality rating of Baa/BBB or above, while the overall portfolio rating must be A+ or above. The US High Yield Fixed Income manager's portfolio may have, on average, no more than 20% of the portfolio in debt securities with a quality rating of CCC/Caa and below, while the overall portfolio rating should be B or above.

	Debt Securities by Investment Type						
	US						
	US Agencies	Government Obligations	Municipal Obligations	International Bonds	Corporate Debt	Total	
Quality Ratings							
AAA	\$13,005,888	\$10,033,871	\$2,212,057	\$2,505,641	\$2,154,538	\$29,911,995	21%
AA	930,888		2,549,918	682,459	1,268,655	5,431,920	4%
A			653,430	614,196	11,861,503	13,129,129	9%
BBB				899,306	12,967,238	13,866,544	10%
BB				2,343,738	16,661,166	19,004,904	14%
B				1,766,176	18,414,632	20,180,808	14%
CCC					2,455,655	2,455,655	2%
NR	27,152,725	5,672,619	663,481	348,650	1,882,010	35,719,485	26%
Fair Value	\$ 41,089,501	\$ 15,706,490	\$ 6,078,886	\$ 9,160,166	\$ 67,665,397	\$139,700,440	100%

Concentration of Credit Risk – Government securities and investments in mutual funds are excluded from this risk. The PFRF places a restriction on equity managers that at the time of purchase they may not invest in more than 5% of the outstanding securities of one issuer nor invest more than 5% of their portfolios' assets in the outstanding securities with one issuer. The US Broad Market Fixed Income manager may not invest more than 5% of the outstanding securities with one issuer nor invest more than 5% of the portfolio's assets in the outstanding securities of one issuer, except for Treasury and Agency securities. The US High Yield Fixed Income manager may not invest more than the greater of 1.5 times the index weight or 20% of the portfolio in any one industry. The US High Yield Fixed Income manager may not invest more than 5% of the Plan's assets in the outstanding securities of any one issuer.

Securities Lending – the PFRF has a securities lending agreement with J.P. Morgan, a national banking association (the agent). J.P. Morgan, 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. The Government does not have the ability to pledge or sell collateral securities without a borrower default.

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 investments of the collateral do not

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

generally match the maturities of the securities lending arrangements themselves; they are typically very short-term in nature and mostly invested in overnight repurchase agreements.

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, 2011, the securities loaned in the portfolio did not have credit risk, and the fair value of securities on loan is \$16,266,296.

Investments of the CEPF as of June 30, 2011 are summarized and categorized in the following table:

City Employees Pension Fund					
<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More Than 10</u>
Debt Securities					
US Agencies	\$7,946,844	\$ -	\$409,101	\$2,591,852	\$4,945,891
US Government Obligations	3,138,046		1,709,885	524,468	903,693
International Bonds	589,862	15,768	255,220	157,680	161,194
Corporate Debt	2,863,068	271,417	1,061,296	1,123,725	406,630
	<u>14,537,820</u>	<u>\$287,185</u>	<u>\$3,435,502</u>	<u>\$4,397,725</u>	<u>\$6,417,408</u>
Other Investments					
Equity Securities - Domestic	11,427,475				
Equity Securities - International	815,551				
	<u>\$26,780,846</u>				

The CEPF has contracted with external investment managers to manage all of the funds. The board has adopted an investment policy that recommends the following target allocations based on asset class:

<u>Asset Class</u>	<u>Target Allocation</u>
US Equities	40%
US Broad Market Fixed Income	60%
Total Plan	<u>100%</u>

Interest Rate Risk – the CEPF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair market losses arising from increasing interest rates.

Credit Risk – the CEPF investment policy limits its equity manager to investments in ADR's to 10% of the equity portfolio's current market value. The fixed income manager's debt securities must have a minimum quality rating of Baa/BBB or above, while the overall fixed income portfolio rating must be A+ or above. No more than 10% of the equity portfolio can be of quality rating Baa/BBB.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Debt Securities by Investment Type						
	US			Corporate Debt	Total	%
	US Agencies	Government Obligations	International Bonds			
Quality Ratings						
AAA	\$7,946,844	\$3,138,046	\$ -	\$285,817	\$11,370,707	78%
AA			91,575	245,755	337,330	2%
A			281,642	1,407,699	1,689,341	12%
BBB			216,645	908,870	1,125,515	8%
NR				14,927	14,927	0%
	<u>\$7,946,844</u>	<u>\$3,138,046</u>	<u>\$589,862</u>	<u>\$2,863,068</u>	<u>\$14,537,820</u>	<u>100%</u>

Concentration of Credit Risk – the CEPF investment policy places a restriction on equity managers that at the time of purchase, managers may not invest in more than 5% of the outstanding securities of one issuer nor invest more than 5% of their portfolios' assets in the outstanding securities with one issuer. The fixed income manager may not invest in more than 5% of the outstanding securities of one issuer nor invest more than 5% of the fixed income portfolio assets in the outstanding securities of one issuer, except for Treasury and Agency securities.

For complete information on custodial credit risk, interest rate risk, credit risk, and concentration of credit risk, refer to the individual reports on each component unit. Summarized investment information for the component units is included in the table below:

	Reported Amount/ Fair Value
U.S. Government and Government Agency Obligations	\$3,068,169
Investments not subject to categorization:	
Certificates of Deposit	18,588,117
Money Market Funds	3,869,459
Total Investments	<u>\$25,525,745</u>

As of June 30, 2011, LCC had \$451,190 and \$1,430,364 in deposits and investments, respectively that were uninsured and uncollateralized.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

B. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Primary Government			
	Beginning Balance, Restated *	Increases	Decreases	Ending Balance
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$53,356,164	\$3,100,299	(\$139,680)	\$56,316,783
Purchase of Development Rights	62,877,498	5,060,540		67,938,038
Intangibles	1,771,000	1,136,361		2,907,361
Construction in Progress	55,119,802	13,295,191	(38,947,248)	29,467,745
Developments in Progress *	11,039,139	2,122,913		13,162,052
Depreciable Assets:				
Buildings *	132,601,531	8,947,183		141,548,714
Intangibles	5,879,459	2,184,144		8,063,603
Vehicles, Equipment and Furniture	95,228,361	14,812,840	(6,294,364)	103,746,837
Land and Leasehold Improvements	16,193,582	6,055,899		22,249,481
Infrastructure	973,766,947	18,319,152		992,086,099
Sewer Lines	2,136,673	3,466,851		5,603,524
Totals at historical cost	1,409,970,156	78,501,373	(45,381,292)	1,443,090,237
Less accumulated depreciation for:				
Buildings	(36,848,108)	(4,076,857)		(40,924,965)
Vehicles, Equipment and Furniture	(67,007,771)	(7,985,637)	6,070,655	(68,922,753)
Land and Leasehold Improvements	(9,954,474)	(1,653,861)		(11,608,335)
Infrastructure	(188,456,797)	(32,104,880)		(220,561,677)
Sewer Lines	(74,043)	(80,394)		(154,437)
Intangibles	(3,522,574)	(868,647)		(4,391,221)
Total accumulated depreciation	(305,863,767)	(46,770,276)	6,070,655	(346,563,388)
Governmental activities capital assets, net	1,104,106,389	31,731,097	(39,310,637)	1,096,526,849
Business-type Activities:				
Non-Depreciable Assets:				
Land	47,206,488	735,368		47,941,856
Construction in Progress *	18,109,529	2,169,468	(17,212,562)	3,066,435
Developments in Progress	3,203,570	862,573		4,066,143
Depreciable Assets:				
Buildings	130,357,743	233,015		130,590,758
Vehicles, Equipment and Furniture	12,627,176	98,965	(11,292)	12,714,849
Land and Leasehold Improvements *	48,048,207			48,048,207
Infrastructure	5,114,639	1,514,929		6,629,568
Sewer Lines	153,021,195	16,866,209	(1,222,483)	168,664,921
Sewer Plants	163,269,363			163,269,363
Intangibles	2,021,508	15,104		2,036,612
Totals at historical cost	582,979,418	22,495,631	(18,446,337)	587,028,712
Less accumulated depreciation for:				
Buildings	(64,506,448)	(4,559,251)		(69,065,699)
Vehicles, Equipment and Furniture	(9,674,809)	(693,729)	11,290	(10,357,248)
Land and Leasehold Improvements	(32,017,428)	(1,903,792)		(33,921,220)
Infrastructure	(158,294)	(106,463)		(264,757)
Sewer Lines	(49,981,439)	(3,163,026)		(53,144,465)
Sewer Plants	(77,712,338)	(3,199,082)		(80,911,420)
Intangibles	(1,808,567)	(197,566)		(2,006,133)
Total accumulated depreciation	(235,859,323)	(13,822,909)	11,290	(249,670,942)
Business-type activities capital assets, net	\$347,120,095	\$8,672,722	(\$18,435,047)	\$337,357,770

*Restated beginning balance due to prior period adjustment and reclassification.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

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

Governmental activities:

General Government	\$618,637
Administrative Services	138,507
Chief Information Office	1,088,057
Finance	479,904
Public Works	32,915,520
Public Safety	248,901
Environmental Quality	1,941,223
Police	1,394,544
Fire and Emergency Services	1,684,730
Law	1,965
Community Corrections	1,622,159
Social Services	279,329
General Services	2,962,629
Parks and Recreation	1,394,172
Total depreciation expense - governmental activities	<u><u>46,770,276</u></u>

Business-type activities:

Sanitary Sewers	7,214,960
Public Facilities	5,173,635
Public Parking	306,725
Landfill	902,092
Right of Way	7,082
Extended School Program	10,849
Prisoners' Account System	4,134
Enhanced 911	180,212
Stormwater	23,220
Total depreciation expense - business-type activities	<u><u>\$13,822,909</u></u>

	Discretely Presented Component Units			
	Beginning Balance, Restated *	Increases	Decreases	Ending Balance
Non-Depreciable Assets:				
Land	\$ 22,774,538	\$ 131,533	\$ -	\$ 22,906,071
Construction in Progress	31,558,051	10,151,393	(36,812,828)	4,896,616
Other	473,229	17,465		490,694
Depreciable Assets:				
Buildings and Improvements *	292,308,915	10,698,368		303,007,283
Vehicles, Equipment and Furniture *	51,062,044	5,970,745	(1,068,612)	55,964,177
Land and Leasehold Improvements *	33,416,914	28,435,661		61,852,575
Intangibles *	63,916			63,916
Totals at historical cost	<u>431,657,607</u>	<u>55,405,165</u>	<u>(37,881,440)</u>	<u>449,181,332</u>
Less accumulated depreciation	<u>(178,078,922)</u>	<u>(16,892,324)</u>	<u>1,166,593</u>	<u>(193,804,653)</u>
Component unit activities capital assets, net	<u><u>\$ 253,578,685</u></u>	<u><u>\$ 38,512,841</u></u>	<u><u>\$ (36,714,847)</u></u>	<u><u>\$ 255,376,679</u></u>

* Beginning balances for depreciable assets were reclassified between categories in fiscal year 2011.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Construction Commitments

The Government has active construction projects as of June 30, 2011. The projects include improvements to major roadways, government buildings, sanitary sewer and stormwater systems. At year end, the Government had the following commitments on construction contracts:

Project	Commitment
Buildings	\$1,333,656
Capital Repairs and Maintenance	406,316
Land Improvements	819,468
Sanitary Sewer Collection System	5,208,063
Sanitary Sewer Treatment System	1,972,339
Storm Drainage	980,386
Street Resurfacing Maintenance	525,324
Streets and Roadways	7,866,268
Traffic Control and Markings	148,226
	<u>\$19,260,046</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. General obligation bonds finance the commitments for stormwater system improvements. 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, 2011. In addition, Federal and State Grants revenues are based on reimbursable expenditures. The composition of interfund balances as of June 30, 2011, is as follows:

Fund Description	Due from (to) General Fund
Sanitary Sewer System	\$2,903,087
Public Facilities Corporation	(14,959)
Public Parking Corp	276,940
Landfill	583
Other Enterprise Funds	455,321
Total due from Proprietary Funds	<u>3,620,972</u>
Urban Service	(1,166,303)
Federal and State Grants	(4,115,267)
Other Governmental Funds	5,304,219
Internal Service Funds	21,345,883
Total due from General Fund	<u>\$24,989,504</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Receivable Entity	Payable Entity	Amount
Primary government - General fund	Component unit - Explorium of Lexington	\$291,485
Primary government - General fund	Component unit - Lexington Transit Authority	305,239
Primary government - General fund	Component unit - Downtown Development Authority	4,039
Primary government - General fund	Component unit - Parking Authority	268,390
Total		<u>869,153</u>
Component unit - Explorium of Lexington	Primary government - General fund	97,501
Total		<u>\$97,501</u>

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:

	General	Urban Services	Fed St Grants	Non Major Governmental	Total Governmental	Major Proprietary	Non Major Proprietary	Total Proprietary
General		(\$130,230)	(\$676,125)	(\$2,330,765)	(\$3,137,120)	(\$69,794)	(\$740)	(\$70,534)
Urban Services	130,230				130,230			
Fed St Grants	676,125				676,125	(1,222,483)		(1,222,483)
Non-Major Governmental	2,330,765				2,330,765	43,129		43,129
Major Proprietary	69,794		1,222,483	(43,129)	1,249,148			
Non-Major Proprietary	740				740			
Grand Total	\$3,207,654	(\$130,230)	\$546,358	(\$2,373,894)	\$1,249,888	(\$1,249,148)	(\$740)	(\$1,249,888)

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 is 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, 2011

Primary Government

Bonds payable, notes payable, compensated absences, landfill closure and postclosure care costs, and unfunded pension liabilities at June 30, 2011 are as follows:

	Purpose of Issue	Original Issue	Interest Rates	Final Maturity	Amount Outstanding	Due Within One Year
Governmental Activities						
Bonds, notes, loans, and leases:						
General Obligation, Series 2001B	Purchase of Development Rights	\$7,635,000	3.80% - 3.90%	Dec-2012	\$735,000	\$360,000
General Obligation, Series 2002B	Building Renovation	2,330,000	3.00% - 4.00%	May-2012	270,000	270,000
General Obligation, Series 2002C	Storm Water & Road Construction	4,570,000	3.00% - 4.93%	Dec-2022	2,220,000	340,000
General Obligation, Series 2004C	Multi-Purpose Project	9,640,000	2.50% - 4.75%	Jul-2024	7,470,000	405,000
General Obligation, Series 2005B	Purchase of Fire Equipment	2,830,000	3.00% - 3.38%	Apr-2012	440,000	440,000
General Obligation, Series 2005C	PDR /Building Renovation	4,490,000	3.00% - 4.20%	Jun-2025	2,985,000	280,000
General Obligation, Series 2006B	Blvd/Stormwater/Fire Station/Cars	10,310,000	4.00% - 4.50%	Jun-2026	6,620,000	670,000
General Obligation, KLC Series 2000	Economic Development Project	360,000	3.97%	May-2012	50,000	50,000
General Obligation, Series 2006C	Purchase of Development Rights	2,055,000	3.50% - 4.20%	Nov-2026	1,755,000	80,000
General Obligation, Series 2006D	Refunding	56,850,000	4.00% - 4.25%	May-2024	49,925,000	3,195,000
General Obligation, Series 2008A	Equipment/HVAC/Vehicles	13,520,000	3.50%	Feb-2014	7,175,000	3,370,000
General Obligation, Series 2009A	PDR /Building Renovation/CIP	24,830,000	2.25% - 5.00%	Feb-2029	22,070,000	1,430,000
Pension Obligation, Series 2009B	Police/Fire Pension Fund	70,610,000	3.50% - 6.00%	Apr-2029	65,465,000	2,395,000
General Obligation, Series 2010A	CIP projects	69,320,000	1.00% - 5.600%	Sep-2030	69,320,000	2,500,000
General Obligation, Series 2010B	Refunding of 1999B and 2000A	7,735,000	1.00% - 3.00%	Sep-2019	7,020,000	740,000
General Obligation, Series 2010C	Refunding of 2000E	6,635,000	1.00% - 3.00%	Dec-2020	6,025,000	555,000
Pension Obligation, Series 2010D	Police/Fire Pension Fund	35,825,000	.95% - 5.45%	Jun-2030	34,630,000	1,285,000
General Obligation, Series 2010F	CIP projects	6,305,000	1.00% - 2.9%	Dec-2016	6,305,000	45,000
General Obligation, Series 2010G	CIP projects	8,950,000	3.2% - 5.4%	Dec-2025	8,950,000	-
General Obligation, Series 2010H	Refunding of 2001B	4,465,000	1.00% - 3.8%	Dec-2021	4,435,000	55,000
Total bonds, notes and loans		<u>349,265,000</u>			<u>303,865,000</u>	<u>18,465,000</u>
Other Liabilities:						
Compensated Absences					22,382,594	3,133,563
Unfunded Other Post Employment Benefit Liability					44,645,362	
Unfunded Pension Liability					1,576,734	
Total other liabilities					<u>68,604,690</u>	<u>3,133,563</u>
Total governmental activities					<u>372,469,690</u>	<u>21,598,563</u>
Business-type Activities						
Bonds, notes and loans:						
Sanitary Sewer, Series 2001A	Sewer Rehabilitation	25,150,000	4.00% - 5.00%	Jul-2013	4,330,000	1,490,000
Sanitary Sewer, Series 2001B	Refunding	16,860,000	4.00% - 5.50%	Jul-2012	6,160,000	2,990,000
Sanitary Sewer, Series 2009A	Sewer Rehabilitation	35,960,000	1.75% - 5.875%	Jul-2024	35,960,000	1,385,000
Sanitary Sewer, Series 2010A	Refunding	13,860,000	2.25% - 3.75%	Jun-2021	13,605,000	125,000
Public Facilities, Series 2006	Refunding	66,725,000	3.88% - 4.25%	Oct-2031	61,990,000	1,970,000
Radcliff road A209-09	SRF Loan	113,523	2%	Jun-2030	109,330	4,782
KIA Streetscape A209-8	SRF Loan	1,254,980	2%	Dec-2030	1,229,309	52,115
So. Elkhorn A09-01	SRF Loan	13,766,388	2%		13,766,388	
Total bonds, notes and loans		<u>\$173,689,891</u>			<u>137,150,027</u>	<u>8,016,897</u>
Other Liabilities:						
Compensated Absences					1,486,504	494,189
Landfill Closure & Postclosure Care Costs					19,417,009	5,952,949
Total other liabilities					<u>20,903,513</u>	<u>6,447,138</u>
Total business-type activities					<u>\$158,053,540</u>	<u>\$14,464,035</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

Long-Term Liabilities					
For the Year Ended June 30, 2011					
	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds, Notes, Loans, and Leases					
General Obligation Bonds, Notes and Leases	\$308,355,000 *	\$19,720,000	\$24,210,000	\$303,865,000	\$18,465,000
Total bonds, notes and loans	<u>308,355,000</u>	<u>19,720,000</u>	<u>24,210,000</u>	<u>303,865,000</u>	<u>18,465,000</u>
Other Liabilities					
Compensated Absences	21,263,698 *	2,186,200	1,067,304	22,382,594	3,133,563
Unfunded Other Post Employment Benefit Liability	31,827,030	12,818,332		44,645,362	
Unfunded Pension Liability	1,642,079		65,345	1,576,734	
Governmental activities long-term liabilities	<u><u>363,087,807</u></u>	<u><u>34,724,532</u></u>	<u><u>25,342,649</u></u>	<u><u>372,469,690</u></u>	<u><u>21,598,563</u></u>
Business-type Activities					
Bonds, Notes and Loans					
Revenue Bonds	64,565,000		4,510,000	60,055,000	5,990,000
Mortgage Revenue Bonds	63,890,000		1,900,000	61,990,000	1,970,000
Notes and Loans		15,134,891	29,864	15,105,027	56,897
Total bonds, notes and loans	<u>128,455,000</u>	<u>15,134,891</u>	<u>6,439,864</u>	<u>137,150,027</u>	<u>8,016,897</u>
Other Liabilities					
Compensated Absences	1,321,136	277,635	112,267	1,486,504	494,189
Landfill Closure and Postclosure Care Costs	18,256,560	1,160,449		19,417,009	5,952,949
Business-type activities long-term liabilities	<u><u>\$148,032,696</u></u>	<u><u>\$16,572,975</u></u>	<u><u>\$6,552,131</u></u>	<u><u>\$158,053,540</u></u>	<u><u>\$14,464,035</u></u>

*Prior period adjustment

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. 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, 2011

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

	Governmental Activities		Business-type Activities					
	General Obligation Bonds, Notes and Leases		Revenue Bonds, Notes and Leases		Mortgage Revenue Bonds		Total Primary Government	
Fiscal Year	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2012	\$12,888,024	\$18,465,000	\$2,554,848	\$6,046,898	\$2,513,813	\$1,970,000	\$17,956,685	\$26,481,898
2013	12,343,865	17,855,000	2,280,430	7,356,201	2,435,925	2,050,000	17,060,220	27,261,201
2014	11,812,390	19,275,000	2,081,802	3,962,368	2,354,937	2,130,000	16,249,129	25,367,368
2015	11,221,636	17,820,000	1,983,099	4,048,558	2,269,369	2,215,000	15,474,104	24,083,558
2016	10,628,468	18,375,000	1,890,916	4,114,772	2,178,869	2,310,000	14,698,253	24,799,772
2017 - 2021	43,057,921	86,645,000	7,635,825	22,042,941	9,401,243	13,035,000	60,094,989	121,722,941
2022 - 2026	24,247,252	75,935,000	4,453,989	15,999,315	6,461,828	15,965,000	35,163,069	107,899,315
2027 - 2032	6,538,681	49,495,000	1,670,287	11,588,974	2,850,580	22,315,000	11,059,548	83,398,974
Total	<u>132,738,237</u>	303,865,000	<u>24,551,196</u>	75,160,027	<u>30,466,564</u>	61,990,000	<u>187,755,997</u>	441,015,027
Less principal payable								
within one year		<u>18,465,000</u>		<u>6,046,898</u>		<u>1,970,000</u>		<u>26,481,898</u>
Long term principal								
due after one year		<u>\$285,400,000</u>		<u>\$69,113,129</u>		<u>\$60,020,000</u>		<u>\$414,533,129</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Component Units

The Government is contingently liable for the Lexington Center Corporation and Airport Board's debt. Principal and interest requirements for component units' debt are as follows:

Fiscal Year	Lexington Center Corporation	Lexington Airport Board	Fayette County Board of Health	Nonmajor Component Units	Total
2012	\$3,541,722	\$1,900,137	\$134,377	\$688,562	\$6,264,798
2013	3,207,753	1,924,832	134,330	689,089	5,956,004
2014	2,683,948	1,912,360	134,118	632,130	5,362,556
2015	2,684,387	3,020,963	138,480	627,394	6,471,224
2016	2,678,484	3,574,364	137,599	631,742	7,022,189
2017 - 2021	13,382,219	19,040,594	145,600	3,130,850	35,699,263
2022 - 2026	2,669,742	18,102,584		3,147,361	23,919,687
2027 - 2031		16,920,307		1,714,882	18,635,189
2032 - 2036		15,086,872		572,346	15,659,218
2037 - 2041		3,212,374			3,212,374
Total	30,848,255	84,695,387	824,504	11,834,356	128,202,502
Less payable within one year	3,541,722	1,900,137	134,377	688,562	6,264,798
Less refinancing loss/premium-discount	229,054	(1,452,750)			(1,223,696)
Long term principal and interest due after one year	<u>\$27,077,479</u>	<u>\$84,248,000</u>	<u>\$690,127</u>	<u>\$11,145,794</u>	<u>\$123,161,400</u>

General Description of the Government's Bonds and Notes Payable

Revenue and Mortgage Revenue Bonds

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. \$25,150,000 of Revenue Bonds, Series 2001A, to pay for the rehabilitation of gravity sewer pipe and appurtenances at various locations throughout the Urban Services area. Of the original issue Series 2001A, approximately \$13,860,000 was partially refunded through the issuance of Series 2010A leaving a remaining balance of \$5,760,000.
2. \$16,860,000 of Refunding Bonds, Series 2001B, 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.
3. \$35,960,000 of Sewer System Revenue Bonds, Series 2009A, (Taxable Build America Bonds) to be utilized along with other available funds of financing for the construction of major additions, betterment and extensions to the sanitary sewer system. The 2009A Bonds were issued under the guidelines provided under the American Recovery and Reinvestment Act (ARRA). Under the Guidelines set forth in the ARRA the Government is eligible to apply for an interest subsidy payment from the United States Treasury of 35% for Build America Bonds (BABs). The Government received a subsidy for the year ended June 30, 2011 of \$583,967.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

4. \$13,860,000 of Sewer System Refunding Revenue Bonds, Series 2010A, to which proceeds were applied to the advance refunding defeasance and legal discharge of the outstanding Series 2001A Bonds maturing on July 2014 through July 2021 for an annual savings of approximately \$91,799.

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

- 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 125% of the average annual debt service on the 2001 Series A and B Bonds, 2009 Series A, and 2010 Series A 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 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 Facilities Corporation issued the \$66,725,000 Mortgage Revenue Refunding Bonds, Series 2006, to refund the \$62,825,000 total principal remaining on the Series 1998 bonds. The refunded bonds were issued 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.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Kentucky Infrastructure Authority (KIA) State Revolving Fund (SRF) Loans

SRF Loans are loans that are issued by the Commonwealth of Kentucky for infrastructure improvements. These loans are 20 year loans with a 2% interest rate. The Government has qualified and received the following KIA SRF Loans.

1. Radcliffe Road A209-09 issued in the amount of \$113,523 for improvements to the storm water system along Radcliffe Road in Fayette County.
2. KIA Streetscape A209-08 issued in the amount of \$1,254,980 for improvements to the storm water system in the city center of Lexington. These funds were used in conjunction with the Streetscape project that included upgrades to the sidewalks, sewer and storm water systems. This capital project included South Limestone, East and West Main Street and Vine Street.
3. South Elkhorn Pumpstation KIA A09-01 issued in the amount of \$17,208,000 for the upgrade of the South Elkhorn pump station and construction of a new 36 inch force main. As of June 30, 2011 the government had received only a partial draw of \$13,766,388 with the remaining balance of \$3,441,612 to be requested in fiscal year 2012. Until the remaining balance is requested the Kentucky Infrastructure Authority does not issue an amortization schedule for the loan nor does the Government initiate payment of principle toward the loan. Amortization estimation has been used based on information outlined in the Assistance Agreement between KIA and the Government.

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. \$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.
2. \$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.
3. \$4,570,000, Series 2002C, to finance the construction of various stormwater improvements and two lanes of a four-lane boulevard.
4. \$9,640,000, Series 2004C, to finance the costs associated with the acquisition, construction, and equipping of a day treatment facility; the acquisition, renovation and equipping of a multi-use facility; and the acquisition of rights of way and construction of road improvements.
5. \$2,830,000, Series 2005B, to finance the acquisition and installation of certain fire equipment including fire engines, EMS units, fire aerial units and other equipment.
6. \$4,490,000, Series 2005C, to finance the costs of the Purchase of Development Rights Program, renovating and upgrading space in two government office buildings, and making structural repairs to two parking garages owned and operated by the Government.
7. \$10,310,000, Series 2006B, to finance stormwater improvements, neighborhood redevelopment projects, Bluegrass Aspendale Parkway, Veterans Park fire station and police cars.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

8. \$2,055,000, Series 2006C, to finance the costs of the Purchase of Development Rights Program.
9. \$56,850,000, Refunding Series 2006D, to refund the Public Facilities Corporation Series 1995 bonds for \$2,500,000 in principal amount and to partially refund the 1999 General Obligation Bonds, Series 1999A, aggregating \$52,885,000 in principal. The refunding resulted in annual debt service savings of approximately \$139,000 per year.
10. \$13,520,000, Series 2008A, to finance acquisition of certain equipment and vehicles in addition to various parks projects.
11. \$24,830,000, Series 2009A, to finance the cost of the Purchase of Development Rights Program, Street Resurfacing, Bluegrass Aspendale improvements and other various construction projects.
12. \$70,610,000, Series 2009B, Taxable General Obligation Pension Funding Bonds to finance additional contributions to the Policemen's and Firefighters' Retirement Plan.
13. \$69,320,000, Series 2010A, (Build America Bonds) Taxable General Obligation Public Project Bonds, to finance various projects for departments within the Government, including acquisition of equipment, infrastructure projects and purchase of development rights. The 2010A Bonds were issued under the guidelines provided under the ARRA. Under the Guidelines set forth in the ARRA the Government is eligible to apply for an interest subsidy payment from the United States Treasury of 35% for BABs. The Government received a subsidy for the year ending June 30, 2011 of \$1,140,619.
14. \$7,735,000, Series 2010B, General Obligation Refunding Bonds, for refunding the Series 1999B and 2000A General Obligation Bonds with an annual savings of approximately \$126,752.
15. \$6,635,000, Series 2010C, General Obligation Refunding Bonds, for refunding the Series 2000E General Obligation Bonds with an annual savings of approximately \$56,322.
16. \$35,825,000, Series 2010D, Taxable General Obligation Pension Funding Bonds, to finance additional contributions to the Policemen's and Firefighters' Retirement Plan.
17. \$6,305,000, Series 2010F, Various Purpose General Obligation Public Projects Build America Bonds, to finance the acquisition of various equipment for Departments within the Government including but not limited to Computer Services, Public Safety, Parks and Recreation and Solid Waste. The 2010F Bonds were issued under the guidelines provided under the ARRA. Under the Guidelines set forth in the ARRA the Government is eligible to apply for an interest subsidy payment from the United States Treasury of 35% for BABs. The Government received a subsidy for the year ending June 30, 2011 of \$18,828.
18. \$8,950,000, Series 2010G, Various Purpose General Obligation Public Projects Recovery Zone Economic Development Bonds (RZEDB), to finance the acquisition of various equipment for Departments within the Government including but not limited to Public Safety, Purchase Development Rights, Recycling Center and Public Works utility design. The 2010G Bonds were issued under the guidelines provided under the ARRA. Under the Guidelines set forth in the ARRA the Government is eligible to apply for an interest subsidy payment from the United States Treasury of 45% for RZEDB. The Government received a subsidy for the year ending June 30, 2011 of \$74,398.
19. \$4,465,000, Series 2010H, General Obligation Refunding Bonds, for refunding a portion of the \$7,635,000 General Obligation Bond Series 2001B resulting in an annual savings of approximately \$8,133.

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

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 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 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 liability of \$19,417,009 at June 30, 2011 is based on the use of 99.57% of the estimated capacity of the Haley Pike landfill and 100% of the Old Frankfort Pike landfill. 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 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The Government expects to close the landfill in the year 2013.

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. The self insured medical and pharmacy health plan is provided by Humana and CVS Caremark. The fully insured dental and vision plans are provided by Delta Dental and Eye Med respectively. 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:

Claims and changes in estimates - FY 2010	\$32,574,990
Claims paid FY 2010	(32,574,990)
Surplus at June 30, 2010	<u><u>0</u></u>
Claims and changes in estimates - FY 2011	36,973,848
Claims paid FY 2011	(36,973,848)
Surplus at June 30, 2011	<u><u>\$ -</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 Property and Casualty Claims Fund (the Fund), a self-insured program established in 1982. There are five types of coverage provided by the self-insured program: auto liability, auto physical damage, general liability, property (including boiler and machinery), 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 Fund 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 (IBNR). The result of the process to estimate the claims liability is not exact 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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

recoveries, from subrogation and excess insurance policies, for example, are another component of the claims liability estimate.

Annually, as of June 30, the Fund has a third party actuary review the claim histories for all claim years for which open claims are outstanding. The actuary projects the ultimate claim payment obligation (including the IBNR 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, 2011 the undiscounted estimated liability was \$26,468,754. The discounted estimated liability as of June 30, 2011 was \$22,045,593. 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, 2009	\$1,247,862	\$5,826,050	\$253,496	\$14,971,691	\$22,299,099
Claims and changes in estimates FY 2010	1,559,255	3,618,443	471,353	(202,843)	5,446,208
Claims Incurred FY 2010	<u>(1,368,970)</u>	<u>(3,394,634)</u>	<u>(582,066)</u>	<u>(1,230,957)</u>	<u>(6,576,627)</u>
Liability at June 30, 2010	1,438,147	6,049,859	142,783	13,537,891	21,168,680
Claims and changes in estimates FY 2011	1,445,698	1,936,364	719,261	4,749,288	8,850,611
Claims Incurred FY 2011	<u>(1,477,517)</u>	<u>(1,490,787)</u>	<u>(573,062)</u>	<u>(4,432,332)</u>	<u>(7,973,698)</u>
Liability at June 30, 2011	<u>\$1,406,328</u>	<u>\$6,495,436</u>	<u>\$288,982</u>	<u>\$13,854,847</u>	<u>\$22,045,593</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 losses above the self-insured retention limits from the insurance carriers, although it does not discharge the primary liability of the Self-Insured Retention Fund as the direct source for payment of claims made against the Government. Workers' compensation self-insured retention was \$750,000 and property self-insured retention was \$250,000. The following schedule indicates the types of excess insurance purchased, the SIR (self-insured retention level) maintained by the Fund, limits and some of the sub-limits of the excess insurance coverage:

Self-insured Retention		
Line of coverage	Per Occurrence	Excess Reinsurance Annual Limit
Property	\$250,000	\$500,000,000 Per Occurrence
Flood Loss	250,000	100,000,000 Per Occurrence
Flood Loss (Zones A,V, and all other 100-year floodplains)	250,000	2,000,000 Per Occurrence
Earthquake Loss	250,000	100,000,000 Per Occurrence
Electronic Data Processing	250,000	Included in Property Limits
Traffic Control Equipment	250,000	Included in Property Limits
Cyber Coverage –Third Party	100,000	20,000,000 Aggregate
Cyber Coverage – First Party	100,000	2,000,000 Aggregate
Boiler and Machinery	100,000	100,000,000 Per Occurrence
Electronic Data Processing	100,000	10,000,000 Per Occurrence
Auto Physical Damage	100,000	Included in Property Limits
Auto Liability	2,000,000	5,000,000 Per Occurrence
General Liability	2,000,000	5,000,000 Per Occurrence
Public Officials Liability	2,000,000	5,000,000 Per Occurrence
Workers' Compensation	750,000	Statutory Per Occurrence
Employers' Liability	750,000	1,000,000 Per Occurrence

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

NOTE 5. CONTINGENT LIABILITIES

A. Litigation – The Government is party to numerous legal proceedings where the ultimate outcome cannot be determined with certainty or cannot be reasonably estimated, many of which normally occur in government operations. Management does not anticipate such actions will have a material impact on the financial position of the Government. The Government's Department of Law estimates that there are pending cases in which there is a reasonably possible likelihood that the Government will incur some liability. As of June 30, 2011 the Government has accrued approximately \$5,600,000 for potential liabilities for the cases covered by self-insurance (See Note 4.B.) and approximately \$4,300,000 in the General Fund in the government-wide financial statements for matters not covered by the self-insurance program.

In 2005, a case was filed by multiple firefighters alleging that their overtime wages, pension contributions, and benefits were not calculated accurately. They seek compensatory damages and attorneys fees. The Government filed a Motion for Judgment on the Pleadings on state wage and hour claims, and the Motion was granted by the Fayette Circuit Court. The Court granted the Government's motion to make the judgment final and appealable, and the Plaintiffs appealed to the Court of Appeals. The Court of Appeals upheld the Circuit Court's decision in favor of the Government. The Plaintiffs have filed a Motion for Discretionary Review with the Kentucky Supreme Court and the Government's Response has been submitted. The Kentucky Supreme Court issued an Order holding in abeyance the Motion for Discretionary Review until another firefighter wage and hour case is decided. The Plaintiffs claim could be in excess of \$1,000,000, depending on the form of calculation of back overtime wages. The Government intends to vigorously defend the claims asserted in the lawsuit, but at the same time, and at the Plaintiffs' counsels' request, has indicated a willingness to attempt to mediate the parties' differences while continuing to litigate the Government's defenses.

B. United States Environmental Protection Agency Consent Decree – The United States Environmental Protection Agency (EPA) and the Kentucky Environmental and Public Protection Cabinet (KYEPPC) filed suit in federal court against the Government in 2006 alleging various violations of the Clean Water Act. The Government completed negotiations with EPA and KYEPPC to resolve the alleged violations. The resulting Consent Decree agreement was entered in the United States District Court – Eastern District of Kentucky on January 3, 2011. The settlement agreement requires the Government to undertake extensive studies, sewer improvement projects, and management plans to correct the problems that were alleged. The settlement affords the Government up to 13 years to correct the problems. The Government has estimated that the cost of remedial measures would approach \$300 million over the life of the Consent Decree. The Government increased sanitary sewer rates to fund obligations under the Consent Decree and also adopted a storm water management fee.

C. Federal and State Grants – The Government receives grant funds from various federal and state government agencies to be used for specific designated purposes and are governed by various rules and regulations of the grantor agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions surrounding the granting of funds. If a grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Government for its expenditures. In management's opinion, any liability for any refunds or reimbursements which may arise as a result of audits of grant funds would not have a material impact on the financial position of the Government. Continuation of the Government's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

D. Lexington Center Corporation – LCC is a non-profit, non-stock corporate agency and instrumentality of the Government. The Government entered into a Lease Agreement that provides for leasing the Lexington Center from LCC 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 LCC 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 LCC 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, 2022, but the Government may elect not

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

to renew the lease with written notice to LCC. The Government may acquire title to the facilities on any interest payment date by notifying LCC 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 July 13, 2001, LCC and the University of Kentucky Athletic Association entered into a lease agreement for a term through the 2017-18 basketball season for the use of Rupp Arena.

An agreement between LCC and the Lexington Convention and Visitors Bureau, dated March 20, 2001, provides for annual contributions of \$948,000 to LCC for the period beginning 2001 and ending 2012. Contributions shall decrease in the amount of \$100,000 each successive fiscal year beginning in 2013, with a final contribution of \$48,000 in 2021.

On April 15, 2011, LCC and the Triangle Foundation entered into a lease agreement of the Triangle Park property through August 15, 2011 for the purpose of renovation of the property. On May 16, 2011, LCC and Triangle Foundation entered into a grant agreement in which the Triangle Foundation shall renovate Triangle Park in accordance with the lease agreement for an approximate value of \$1,300,000.

E. 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 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 that provides for leasing 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.

As of June 30, 2011, several uncompleted construction projects funded in-part by Federal grants remain open. Upon completion and final approval by the Inspector General, these projects will be closed out and a final account will be rendered. Outstanding construction contract commitments are approximately \$3,126,000.

The Airport Corporation is subject to federal, state, and local regulations in regards to the discharge of various materials into the environment. Costs are routinely incurred to remove, contain, and neutralize existing environmental contaminants and these costs are generally expensed as incurred. Future costs for existing conditions are not readily determinable and are not reflected in the financial statements.

The Airport Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; general liability claims; and natural disasters. The Airport Corporation manages these risks through the purchase of commercial insurance.

F. Lexington Public Library – The Library is a non-profit, non-stock corporate agency and instrumentality of the Government. The former executive director of the Library has filed a suit against them seeking in excess of \$5,000,000 for damages. Due to the fact that the case is still in a preliminary stage, no evaluation of outcome or estimate of loss could be reasonably established.

G. Lexington Downtown Housing Fund, LLC – On December 9, 2004 the Government passed ordinance 319-2004 approving a lease and sublease for the purpose of creating, enhancing and extending market-rate housing in downtown Lexington (the Project). The Ordinance authorized entering into one or more leases with the Kentucky League of Cities Funding Trust to enable the Government to finance the Project for an aggregate principal amount of

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

\$2,000,000 outstanding at any one time. The lease is a general obligation pledge of the Government. The sublease agreement between the Government and the Lexington Downtown Housing Fund, LLC (DHL LLC) assigns administrative management and support of the loan programs to DHL LLC. Under the loan program, DHL LLC makes loans to developers of approved projects. The loans made by DHL LLC are funded in part by the sublease and in part from funds contributed or loaned from local participating banks. The interest on the loans are paid by the developers and the principal of the loans are subsequently repaid by the revenues from the projects. In the event of default by the developer on the loan payment, the portion of the loan funded by the sublease would become an obligation of the Government. As of June 30, 2011 the total principal outstanding was \$1,005,000.

H. 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 unrelated to bond issues. Only a complete accurate title search of all properties would disclose such liens and encumbrances.

I. 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. As of June 30, 2011, there were 27 series of Industrial Revenue Bonds outstanding with an aggregate amount payable of approximately \$238,500,000.

To provide for the construction of a hospital facility, the Public Facilities Corporation (PFC) issued Lease Revenue Bonds, Series 2011A (Eastern State Hospital Project). The bonds are a special limited obligation of the PFC, payable solely from and secured by a pledge of rentals to be received from a lease agreement between the PFC and the Commonwealth of Kentucky. The bonds do not constitute a debt or pledge of the faith and credit of the PFC or the Government, and accordingly have not been reported in the accompanying financial statements. At June 30, 2011, the Lease Revenue Bonds outstanding total approximately \$138,600,000.

NOTE 6. 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 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 7. SUBSEQUENT EVENTS

Lexington Health Department – Effective July 1, 2011, the Primary Care Division of Public Health incorporated as a separate 501(c)(3) entity under the name of HealthFirst Bluegrass, Inc. HealthFirst Bluegrass, Inc (HFB) continues to operate out of the existing facilities under a cooperative agreement where HFB reimburses Public Health for space and administrative costs. HFB continues to receive an allocation of Public Health tax funds.

NOTE 8. 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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
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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. The costs of administering the PFRF are financed by a combination of additional contributions as well as investment income.

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. The costs of administering the CEPF are financed by a combination of additional contributions as well as investment income.

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, 2011:

	<u>Number</u>
Inactive Plan Participants:	
Retirees and beneficiaries currently receiving benefits	1,033
Active Plan Participants:	
Active members	<u>1,051</u>
Total	<u><u>2,084</u></u>

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 GASB Statement No. 25. Benefits and refunds of both plans are recognized when due and payable in accordance with the terms of each plan. 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 2011, the Government contributed 17.0% to the PFRF and 17.5% to the CEPF. Administrative costs were financed by a combination of additional contributions as well as investment income.

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

The required contribution rates are shown in the following table:

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

D. Supplemental Information

Schedule of Funding Progress

		Actuarial Accrued				
Actuarial	Actuarial Value	Liability (AAL)	Unfunded AAL	Funded	Covered	UAAL as a % of
Valuation	of Assets	- Entry Age	(UAAL)	Ratio	Payroll	Covered Payroll
Date	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
<i>Policemen's and Firefighters' Pension Fund (3% COLA)</i>						
7/1/06	\$373,314,278	\$594,804,448	\$221,490,170	62.8%	\$57,192,876	387.3%
7/1/07	397,712,302	627,939,926	230,227,624	63.3%	57,717,156	398.9%
7/1/08	418,311,038	664,935,356	246,624,318	62.9%	61,368,960	401.9%
7/1/09	441,772,820	699,851,128	258,078,308	63.1%	65,765,448	392.4%
7/1/10	502,259,967	724,140,738	221,880,771	69.4%	60,512,412	366.7%
7/1/11	501,069,884	758,851,546	257,781,662	66.0%	64,258,162	401.2%
<i>City Employees' Pension Fund</i>						
7/1/06	\$27,003,663	\$27,598,776	\$595,113	97.8%	\$40,920	1,454.3%
7/1/07	28,801,253	26,081,614	(2,719,639)	110.4%	40,944	(6,642.3)%
7/1/08	27,299,997	22,917,270	(4,382,727)	119.1%	42,972	(10,199.0)%
7/1/09	24,865,567	20,179,074	(4,686,493)	123.2%	43,416	(10,794.4)%
7/1/10	25,529,868	16,080,311	(9,449,557)	158.8%	0*	NA
7/1/11	27,052,395	15,068,768	(11,983,627)	179.5%	0*	NA

*All city employees are currently retired, therefore covered payroll is \$0.

Annual Pension Cost and Net Pension Obligation

	Policemen's and Firefighters' Pension Fund	City Employees' Pension Fund
Annual Required Contribution	\$28,216,938	\$0
Interest on net pension obligation	(3,930,219)	114,946
Adjustment to annual required contribution	(3,636,504)	180,291
Annual pension cost	27,923,223	(65,345)
Contributions made	14,408,809	0
Increase (decrease) in net pension obligation	13,514,414	(65,345)
Net pension obligation beginning of year	(49,127,742)	1,642,079
Net pension obligation end of year	\$(35,613,328)	\$1,576,734

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NOTES TO FINANCIAL STATEMENTS (Continued)
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Six-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<i>Policemen's and Firefighters' Pension Fund</i>				
2006	\$12,625,784	\$14,114,178	111.8%	\$15,624,795
2007	17,633,647	16,504,722	93.6%	16,751,720
2008	27,080,947	18,791,796	69.4%	25,040,871
2009	28,839,699	84,023,573	291.3%	(30,143,003)
2010	30,485,067	49,469,806	162.3%	(49,127,742)
2011	27,923,223	14,408,809	51.6%	(35,613,328)
<i>City Employees' Pension Fund</i>				
2006	\$(53,056)	\$6,984	N/A	\$1,958,202
2007	(2,593)	6,729	N/A	1,948,880
2008	(71,777)	7,116	N/A	1,869,987
2009	(74,415)	7,864	N/A	1,787,708
2010	(71,141)	74,488	N/A	1,642,079
2011	(65,345)	0	N/A	1,576,734

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.

	<u>Policemen's and Firefighters' Pension Fund</u>	<u>City Employees' Pension Fund</u>
Valuation date	July 1, 2011	July 1, 2011
Actuarial cost method	Entry Age Normal Funding	Entry Age Normal Funding
Amortization method	Level Percent of Payroll	Level Dollar - Open
Remaining amortization period	23 years open	15 years open
Asset valuation method	Market Related Value	Market
Actuarial assumptions:		
Investment rate of return	8.0%	7.0%
Projected salary increases	5.0%	N/A
Cost-of-living adjustments	3.0%	3.0%
Inflation	3.0%	N/A

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

The Government's annual required contribution (ARC), amount contributed, and percentage of required contribution to actual contribution for the last six years are as follows:

Fiscal Year Ending	ARC	Contribution	Percentage of ARC Contributed
<i>Policemen's and Firefighters' Retirement</i>			
2006	\$12,691,844	\$14,114,178	111.2%
2007	17,541,055	16,504,722	94.1%
2008	26,980,795	18,791,796	69.6%
2009	28,689,989	84,023,573	292.9%
2010	30,665,280	49,469,806	161.3%
2011	28,216,938	14,408,809	51.1%
<i>City Employees' Pension*</i>			
2006	\$21,275	\$6,984	32.8%
2007	69,527	6,729	9.7%
2008	0	7,116	
2009	0	7,864	
2010	0	74,488	
2011	0	0	

*Closed plan

E. Other Post Employment Benefit

Plan Description – 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.

Funding Policy – The Government pays the premiums for single coverage on a pay-as-you-go basis. In fiscal year 2011, 699 retirees of the PFRF received this benefit for a total cost of \$2,888,026; and 17 retirees of the CEPF received this benefit for a total cost to the Government of \$61,958.

Annual OPEB Cost and Net OPEB Obligation – The Government's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

The following table shows the components of the Government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Government's net OPEB obligation to the Retiree Medical Plan:

	Retiree Medical Plan
Annual Required Contribution	\$16,524,963
Interest on net OPEB obligation	1,432,216
Adjustment to annual required contribution	1,298,151
Annual OPEB cost (expense)	16,659,028
Contributions made	(3,840,696)
Increase in net OPEB obligation	12,818,332
Net OPEB obligation beginning of year	31,827,030
Net OPEB obligation end of year	<u>\$44,645,362</u>

The Government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$13,901,103	23.1%	\$21,510,674
2010	13,946,155	26.0%	31,827,030
2011	16,659,028	23.1%	44,645,362

Funded Status and Funding Progress – The Government completed an actuarial valuation of the future unfunded actuarial accrued liability of these benefits and it was determined that as of July 1, 2010 the liability was \$211,706,877. The annual required contribution to fund this liability over a period of 30 years is \$16,524,963. These figures represent the amount needed to provide benefits for 1,033 current retirees and beneficiaries and 1,051 active members. To date there has not been any funding of this liability.

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

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

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

The actuarial assumptions used for the calculations are listed below.

Valuation date	July 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level Percent of Pay, Open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.5%
Medical cost trend rate*	
Pre-Medicare trend rate	10.5% - 5.0%
Post-Medicare trend rate	9.0% - 5.0%
Year of ultimate trend rate	2017
* Includes inflation at	3.0%

Supplementary Information

Schedule of Funding Progress

Actuarial	Actuarial Value	Actuarial Accrued	Unfunded AAL	Funded	Covered	UAAL as a % of
Valuation	of Assets	Liability (AAL)	(UAAL)	Ratio	Payroll	Covered Payroll
		- Projected Unit				
		Credit				
Date	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
7/1/08	\$0	\$181,181,934	\$181,181,934	0.00%	\$61,409,904	295.0%
7/1/10	0	211,706,877	211,706,877	0.00%	60,512,412	349.9%

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

F. Pension Plan Financial Statements

STATEMENT OF NET ASSETS

June 30, 2011

	Policemen's and Firefighters' Retirement Fund	City Employees' Pension Fund	Total Pension Trust Funds
ASSETS			
Cash	\$10,131,317	\$466,416	\$10,597,733
Receivables:			
Accounts Receivable	1,566,999	111,326	1,678,325
Due from Other Funds	2,086,596		2,086,596
Total Receivables	3,653,595	111,326	3,764,921
Investments, at Fair Value:			
Debt Securities			
US Agencies	41,089,501	7,946,844	49,036,345
US Government Obligations	15,706,489	3,138,046	18,844,535
Municipal Obligations	6,078,886		6,078,886
International Bonds	9,160,166	589,862	9,750,028
Corporate Debt	67,665,398	2,863,068	70,528,466
Repurchase Agreements	16,266,296		16,266,296
Other Investments			
Equity Mutual Funds	88,468,594		88,468,594
Equity Real Estate	41,996,320		41,996,320
Equity Securities - Domestic	101,799,344	11,427,475	113,226,819
Equity Securities - International	105,628,400	815,551	106,443,951
Total Investments	493,859,394	26,780,846	520,640,240
Total Assets	507,644,306	27,358,588	535,002,894
LIABILITIES			
Accounts Payable	2,354		2,354
Securities Lending Transactions	16,266,296		16,266,296
Compensated Absences - Current	2,494		2,494
Compensated Absences - Non Current	2,494		2,494
Due to Other Funds		306,193	306,193
Total Liabilities	16,273,638	306,193	16,579,831
NET ASSETS			
Net Assets Held in Trust for Pension Benefits	\$491,370,668	\$27,052,395	\$518,423,063

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

STATEMENT OF CHANGES IN NET ASSETS
June 30, 2011

	Policemen's and Firefighters' Retirement Fund	City Employees' Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	\$11,465,988	\$ -	\$11,465,988
Employer - Administration	2,888,529	61,958	2,950,487
Plan Members	7,896,777		7,896,777
Other	54,292		54,292
Total Contributions	<u>22,305,586</u>	<u>61,958</u>	<u>22,367,544</u>
Income on Investments:			
Net Change in Fair Value of Investments	78,966,529	2,445,875	81,412,404
Interest	7,428,214	670,295	8,098,509
Dividends	3,903,520	213,711	4,117,231
Total Loss on Investments	<u>90,298,263</u>	<u>3,329,881</u>	<u>93,628,144</u>
Less Investment Expense	2,502,932	59,250	2,562,182
Net Loss on Investments	<u>87,795,331</u>	<u>3,270,631</u>	<u>91,065,962</u>
Income from Securities Lending Activities:			
Securities Lending Income	30,850		30,850
Securities Lending Expenses			
Borrower Rebates	(22,250)		(22,250)
Management Fees	21,200		21,200
Total Securities Lending Expenses	<u>(1,050)</u>	<u>0</u>	<u>(1,050)</u>
Net Income on Securities Lending Activities	<u>31,900</u>	<u>0</u>	<u>31,900</u>
Total Additions	<u>110,132,817</u>	<u>3,332,589</u>	<u>113,465,406</u>
DEDUCTIONS			
Benefit Payments	40,238,589	1,784,349	42,022,938
Administrative Expense	153,519	25,713	179,232
Total Deductions	<u>40,392,108</u>	<u>1,810,062</u>	<u>42,202,170</u>
Net Increase	69,740,709	1,522,527	71,263,236
Net Assets, July 1	<u>421,629,959</u>	<u>25,529,868</u>	<u>447,159,827</u>
Net Assets, June 30	<u><u>\$491,370,668</u></u>	<u><u>\$27,052,395</u></u>	<u><u>\$518,423,063</u></u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

G. The County Employees' Retirement System

The Government contributes to the Commonwealth of Kentucky's County Employees' Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. 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, 2011, there were over 1,400 local government agencies 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, or by telephone at (502) 696-8800.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The Government's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The Government's contribution rate for hazardous employees was 33.25 percent.

The contribution requirements and the amounts contributed to CERS were \$15,277,032, \$18,580,548, and \$13,512,097, respectively for the years ended June 30, 2011, 2010, and 2009.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2011

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The **County Aid Program Fund** accounts for the allocation of county road funds from the Commonwealth of Kentucky as provided by HB 973 and adopted by the 1980 General Assembly based upon the motor fuels taxes collected.

The **Municipal Aid Program Fund** accounts for the allocation from the Commonwealth of Kentucky as provided by KRS 174 for design, right-of-way acquisitions, utilities, construction and other municipal road expenditures.

The **Industrial Revenue Bond Fund** accounts for receipts and disbursements of IRB issuance fees.

The **Mineral Severance Fund** and **Coal Severance Fund** account for receipts and disbursements of the Coal and Mineral Severance Tax received from the Commonwealth of Kentucky.

The **Police Confiscated Fund** accounts for recoveries from federal criminal case settlements awarded to the LFUCG Division of Police. Expenditures are restricted to police law enforcement programs.

The **Police Confiscated State Fund** accounts for recoveries from state criminal case settlements awarded to the Government's Division of Police. Expenditures are restricted to police law enforcement programs.

The **Public Safety Fund** accounts for revenues and disbursements of the House Bill 413 fees received from the Commonwealth of Kentucky.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities and equipment other than those financed by proprietary funds.

The **Lexington Cultural Center** is a project to construct performing arts and exhibit facility in downtown Lexington.

The **Storm Water Bond Projects** is a storm water management project funded by general obligation bonds.

The **Public Safety Capital Projects** include the construction and equipping of a new detention center and a new fire station.

The **Reynolds Road Project** is the widening and renovations of Reynolds Road, funded by the Commonwealth of Kentucky.

The **2001 Bond Projects** are for the acquisition and renovations of a building to house Government offices and the renovations of the Douglass and Tates Creek swimming pools funded by general obligation bonds.

The **2003 Bond Projects** are for acquisition of vehicles, equipment, the next phase of replacement of the Government Center HVAC system and fire trucks.

The **Golf Course Bond Projects** are for the acquisition of and improvements to the Picadome Golf Course and improvements to other golf courses funded by general obligation bonds.

The **Purchase of Development Rights** is a program to purchase conservation easements, funded by general obligation bonds, grant funds from the Commonwealth of Kentucky, and General Fund revenues.

The **Equipment Lease Notes** are general obligation notes used for the acquisition of vehicles and capital equipment for the various departments of the Government.

The **2004 Bond Projects** are for the purchase of property and the renovation of a multi-purpose building, roadway construction, and construction of a day treatment facility.

The **2005 Bond Projects** are for the Purchase of Development Rights program, garage and building renovation projects, and Neighborhood Development projects.

The **2006 Bond Projects** are for storm water improvement projects, Police vehicles, and park improvement projects.

The **2007, 2008, & 2009 Bond Projects** are for park projects, computer equipment, and building renovations and improvements.

The **2010 Bond Projects** are to finance various projects for departments within the Government, including acquisition of equipment, infrastructure projects and the Purchase of Development Rights program.

The **2011 Bond Projects** to finance the acquisition of various equipment for departments within the Government including but not limited to Computer Services, Public Safety, Parks and Recreation, Solid Waste, Purchase Development Rights, Recycling Center and Public Works utility design.

The **Public Works Bond Projects** are for storm water and road improvement projects.

The **Public Library Corporation** is for the acquisition, construction, equipping and financing of public projects to be used for public library purposes.

The **Roads, Parks, Open Space, Storm Water Exactions** are for improvements necessary to provide roads, parks, open space and storm water management in the Expansion Area funded by developer and property owner exaction fees.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Funds										Capital Projects Funds				
	Local Economic Assistance														
	County Aid Program	Municipal Aid Program	Industrial Revenue Bond	Mineral Severance	Coal Severance	Police Confiscated Funds	Police State Funds	Public Safety Fund	Total	Lexington Cultural Center	Storm Water Bond Projects	Public Safety Capital Projects	Reynolds Road Project	2001 Bond Projects	2003 Bond Projects
ASSETS															
Current Cash	\$1,695,111	\$1,331,037	\$154,662	\$116,089	\$182,451	\$16,028	\$938,141	\$ -	\$4,433,489	\$4,297	\$ -	\$ -	\$ -	\$ -	\$ -
Current Investments	189,587	6,560,793		63,196		1,062,319			7,875,895	348,131		30,453			
Receivables :															
Other	90,375	0				1,050		103,473	194,898						
Internal Balances	179,447	61,688	157	232,427	148,606	286,631	265,116	521,524	1,695,596			548,783	\$493,075	\$61,850	\$287,773
Restricted Investments									0					19,725	345,708
Total Assets	2,154,520	7,953,518	154,819	411,682	331,057	1,366,028	1,203,257	624,997	14,199,878	352,428	0	579,236	493,075	81,575	633,481
LIABILITIES AND FUND BALANCES															
Liabilities:															
Accounts and Contracts Payable	167,030	67,599		1,138		40,651	26,454	9,775	312,647						
Accrued Payroll & Related Liabilities		2,109							2,109						
Due to Pension Trust Fund									0						
Due to Component Units									0	302,270	\$116,562				
Internal Balances									0						
Unearned Revenue and Other	0	0							0						
Total Liabilities	167,030	69,708	0	1,138	0	40,651	26,454	9,775	314,756	302,270	116,562	0	0	0	0
Fund Balances:															
Restricted for:															
Public Works	1,987,490	7,883,810	154,819		331,057	1,325,377	1,176,803	615,222	10,357,176						
Public Safety									3,117,402						
Capital Projects									0	50,158		579,236	493,075	81,575	633,481
Assigned				410,544					410,544						
Unassigned									0		(116,562)				
Total Fund Balances (Deficits)	1,987,490	7,883,810	154,819	410,544	331,057	1,325,377	1,176,803	615,222	13,885,122	50,158	(116,562)	579,236	493,075	81,575	633,481
Total Liabilities and Fund Balances	\$2,154,520	\$7,953,518	\$154,819	\$411,682	\$331,057	\$1,366,028	\$1,203,257	\$624,997	\$14,199,878	\$352,428	\$0	\$579,236	\$493,075	\$81,575	\$633,481

Continued

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING BALANCE SHEET, Continued
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

Capital Projects Funds														
	Golf Course Bond Projects	Purchase of Development Rights	Equipment Lease Notes	2004 Bond Projects	2005 Bond Projects	2006 Bond Projects	2007, 2008, & 2009 Bond Projects	2010 Bond Projects	2011 Bond Projects	Public Works & Bond Projects	Public Library Corporation	Roads, Parks, Open Space, Storm Water Exactions	Total	Total Nonmajor Governmental Funds
ASSETS														
Current Cash	\$	-	\$	-	\$	-	\$	-	\$	-	\$	\$383,877	\$839,769	\$5,273,258
Current Investments												68,047	757,921	8,633,816
Receivables :														
Other												33,614	55,395	250,293
Inventories and Prepaid Expenses										369			369	369
Internal Balances	28,214		872,519	667,889	522,347	545,775	3,963,855	466,135	1,277,462	394,820	22,511		10,153,008	11,848,604
Restricted Investments	20,655		258,917				4,991,741	13,018,181	8,895,496				27,550,423	27,550,423
	48,869	0	1,131,436	667,889	522,347	545,775	8,955,596	13,484,316	10,172,958	395,189	807,177	485,538	39,356,885	53,556,763
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts and Contracts Payable						1,080	46,728	622,638	954,349	67,558	5		1,692,358	2,005,005
Accrued Payroll & Related Liabilities							4,782,093						6,544,385	2,109
Internal Balances		357,604					4,828,821	622,638	954,349	67,558			8,236,743	6,544,385
	0	357,604	0	0	0	1,080								8,551,499
Total Liabilities														
Fund Balances:														
Nonspendable										369			369	369
Restricted for:													0	10,357,176
Public Works													0	3,117,402
Public Safety													32,094,257	32,094,257
Capital Projects													0	410,544
Assigned														(974,484)
Unassigned		(357,604)											(500,318)	45,005,264
Total Fund Balances (Deficits)	48,869	(357,604)	1,131,436	667,889	522,347	544,695	4,126,775	12,861,678	9,218,609	327,262	807,172	(500,318)	31,120,142	45,005,264
	\$48,869	\$0	\$1,131,436	\$667,889	\$522,347	\$545,775	\$8,955,596	\$13,484,316	\$10,172,958	\$395,189	\$807,177	\$485,538	\$39,356,885	\$53,556,763
Total Liabilities and Fund Balances														

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Funds										Capital Projects Funds			
	Local Economic Assistance					Police Confiscated Funds					Police Confiscated Funds			
	County Aid Program	Municipal Program	Industrial Revenue Bond	Mineral Severance	Coal Severance	Police Confiscated Funds	Police Confiscated State Funds	Public Safety Fund	Total	Lexington Cultural Center	Storm Water Bond	Public Safety Capital Projects	Reynolds Road Project	2003 Bond Projects
REVENUES														
Charges for Services	\$ -	\$ -	\$29,875	\$ -	\$ -	\$ -	\$ -	\$35,450	\$65,325	\$ -	\$ -	\$ -	\$ -	\$ -
Inergovernmental	870,438	5,393,177	-	231,043	148,371	747,712	292,809	393,884	8,077,434	-	-	-	-	-
Property Sales	1,504	6,335	153	265	235	33,591	832	221	33,591	\$193	0	0	0	1,066
Income on Investments	871,942	5,399,512	30,028	231,308	148,606	782,265	293,641	429,353	8,186,837	193	0	0	0	1,066
Total Revenues														
EXPENDITURES														
Current:														
General Government														
Public Works		462,926	335						335	383	77,700			
Public Safety								35,450	462,926					
Police						520,934	19,896		535,480					
Environmental Quality									540,330					(106)
Capital:									0					
Equipment						303,197			303,197					
Acquisitions and Construction						7,587			4,789,609	105,441	22,489			60,759
Total Expenditures	657,694	4,124,328		0	0	831,718	19,896	35,450	6,132,437	105,824	100,189	0	0	60,653
Excess (Deficiency) of Revenues over (under) Expenditures	214,248	812,258	29,693	231,308	148,606	(49,453)	273,745	394,105	2,054,510	(105,631)	(100,189)	0	0	(59,587)
OTHER FINANCING SOURCES (USES)														
Transfers In									312,153					
Transfers Out	(2,214,330)	(29,635)	(29,535)	0	0	(312,153)	0		(86,900)					
Total Other Financing Sources (Uses)	0	(2,214,330)	(29,535)	0	0	(312,153)	0		(2,530,482)	0	0	0	0	0
Net Change in Fund Balances	214,248	(1,402,072)	158	231,308	148,606	(361,606)	273,745	619,388	(276,255)	(105,631)	(100,189)	0	0	(59,587)
Fund Balances July 1, as previously presented	1,773,242	9,285,882	154,661	179,236	182,451	1,686,983	903,058	(4,136)	14,161,377	155,789	(16,373)	579,236	493,075	81,575
Adjustment to Opening Fund Balance (Note 2.D)						1,686,983	903,058	(4,136)	14,161,377	155,789	(16,373)	579,236	493,075	81,575
Fund Balances - Restated July 1	1,773,242	9,285,882	154,661	179,236	182,451	1,686,983	903,058	(4,136)	14,161,377	155,789	(16,373)	579,236	493,075	81,575
Fund Balances (Deficits), June 30	\$1,987,490	\$7,883,810	\$154,819	\$410,544	\$331,057	\$1,325,377	\$1,176,803	\$615,222	\$13,885,122	\$50,158	(\$116,562)	\$579,236	\$493,075	\$81,575
														\$633,481

Continued

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

Capital Projects Funds													
Golf Course Bond Projects	Purchase of Development Rights	Equipment Lease Notes	2004 Bond Projects	2005 Bond Projects	2006 Bond Projects	2007, 2008, & 2009 Bond Projects	2010 Bond Projects	2011 Bond Projects	Public Works & Bond Projects	Public Library Corporation	Roads, Parks, Open Space, Storm Water Exactions	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$65,325
Charges for Services													8,077,434
Intergovernmental													96,613
Exactions											96,613		96,613
Property Sales													1,012,144
Other	0	798				772	750,000			261,372		1,012,144	1,012,144
Income on Investments						16,353	55,776	15,486		709	487	99,868	101,275
Total Revenues	0	0	798	0	0	17,125	805,776	15,486	0	262,081	97,100	1,199,625	9,386,482
EXPENDITURES													
Current:													
General Government													22,464
Chief Information Officer				12,901		10,209							23,110
Finance													260
Public Works						3,967				260			81,667
Public Safety													544,593
Police													0
Environmental Quality													35,450
Debt Service:													0
Interest													540,830
Other Debt Service									20,798				(106)
Capital:													20,798
Equipment								16,176					16,176
Acquisitions and Construction													
Total Expenditures	39,209	39,209	0	58,011	154,219	527,825	2,139,229	4,824,956	648,302	21,058		7,492,010	7,795,207
	0	39,209	0	70,912	154,219	4,844,142	10,755,174	5,936,622	648,302		0	22,736,304	19,869,869
	0	(39,209)	798	0	(70,912)	(154,219)	(4,827,017)	(9,949,398)	(5,921,136)	(648,302)	241,023	97,100	(19,482,169)
OTHER FINANCING SOURCES (USES)													
Transfers In													0
Transfers Out													0
Issuance of Debt								15,255,000				15,255,000	15,255,000
Issuance of Refunding Debt								4,465,000				4,465,000	4,465,000
Discount on Bonds								(189,476)				(189,476)	(189,476)
Payment to Refunded Debt Escrow Agent								(4,390,779)				(4,390,779)	(4,390,779)
Total Other Financing Sources (Uses)	0	0	0	0	0	0	0	15,139,745	0	0	0	15,139,745	12,808,980
Net Change in Fund Balances													
	0	(39,209)	798	0	(70,912)	(154,219)	(4,827,017)	(9,949,398)	9,218,609	(648,302)	241,023	97,100	(6,673,189)
Fund Balances July 1, as previously presented	48,869	(318,395)	1,130,638	667,889	593,259	698,914	8,953,792	22,811,076		975,933	566,149	10,441,721	48,556,215
Adjustment to Opening Fund Balance (Note 2.D.)												(11,039,139)	(11,039,139)
Fund Balances - Restated July 1	48,869	(318,395)	1,130,638	667,889	593,259	698,914	8,953,792	22,811,076	0	975,933	566,149	(397,418)	37,517,076
													51,678,453
Fund Balances (Deficits), June 30	\$48,869	(\$357,604)	\$1,131,436	\$667,889	\$522,347	\$544,695	\$4,126,775	\$12,861,678	\$9,218,609	\$327,631	\$807,172	(\$500,318)	\$31,120,142
													\$45,005,264

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

Grantor/Program Title	Federal CFDA Number	Direct/Pass-through Grantor's Number	Accrued (Deferred) Revenue at July 1, 2010	Revenue Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
US Department of Agriculture:						
Direct Programs:						
National School Lunch	10.555	034-038-999	\$1,292	\$1,292	\$ -	\$ -
Child Care Food Program	10.558	034-L95-999	4,565	23,236	18,671	0
Child Care Food Program	10.558	034-L95-999		53,298	57,944	4,646
Summer Lunch	10.559	034-X75-999SU		(2,436)	(2,436)	0
Summer Lunch	10.559	034-X75-999SU	88,570	124,586	36,016	0
Urban Forestry	10.664	07-DG-11083121-004	483	3,153	2,670	0
Purchase of Development Rights (PDR)	10.913	68-5C16-9-152	325,687	306,487	(19,200)	0
Purchase of Development Rights (PDR)	10.913	68-5C16-9-152		1,701,666	1,962,176	260,510
Passed through Commonwealth of Kentucky:						
Total US Department of Agriculture			420,597	2,211,282	2,055,841	265,156
US Department of Housing and Urban Development:						
Direct Programs:						
Community Dev Block Grant	14.218	B08MC210004	32,859	32,859		0
Community Dev Block Grant	14.218	B09MC210004	193,942	2,078,116	1,884,174	0
Community Dev Block Grant	14.218	B10MC210004		67,338	160,973	93,635
Emergency Shelter	14.231	S09MC210003	12,688	12,688		0
Emergency Shelter	14.231	S10MC210003		62,250	66,585	4,335
HOME	14.239	M08MC210201	80,313	205,647	125,334	0
HOME	14.239	M09MC210201		621,104	621,104	0
HOME	14.239	M10MC210201			66,052	66,052
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H08-0007	8,300	373,165	456,147	91,282
Community Dev Block Grant-R	14.253	B-08-MY-21-0004	4,075	128,861	130,418	5,632
HPRP_R_2010	14.257	S-09-MY-21-0003	6,589	290,177	293,841	10,253
Passed through Commonwealth of Kentucky:						
Neighborhood Stabilization Program-Land	14.228	09N-043	290,245	518,606	236,199	7,838
Neighborhood Stabilization Program-REACH	14.228	09N-042		28,680	28,681	1
Total US Department of Housing and Urban Development			629,011	4,419,491	4,069,508	279,028
US Department of Interior:						
Direct Programs:						
Passed through Commonwealth of Kentucky:						
Historic Preservation	15.904	21-09-21823	12,000	12,000		0
Total US Department of Interior			12,000	12,000	0	0
US Department of Justice:						
Direct Programs:						
Police Confiscated Funds	16.000	NA	(1,686,983)	782,265	1,143,872	(1,325,376)
Safe Havens	16.527	2010-CW-AX-K013		3,867	21,709	17,842
Arrest Policy	16.590	2006-WE-AX-0053	54,739	160,995	173,642	67,386
SCAAP	16.606	2008-AP-BX-0101	(18,000)		18,000	0
SCAAP	16.606	2008-AP-BX-0951	(67,379)		67,379	0
SCAAP	16.606	2009-AP-BX-0454	(6,024)		6,024	0
SCAAP	16.606	2010-H5414-KY-AP		143,243	143,243	0
Bulletproof Vests	16.607	06133999		287	287	0
Bulletproof Vests	16.607	07037695	3,774	7,914	4,355	215
Bulletproof Vests	16.607	2009 BOBX 080 41220	6,758	326	326	6,758
Bulletproof Vests	16.607	2009 BOBX 090 47311	2,665	2,665	2,019	2,019
Bulletproof Vests	16.607	2010-BOBX-10051351			1,815	1,815
Project Safe Neighborhoods	16.609	2007-GP-CX-0068	15,594	50,452	34,858	0
Project Safe Neighborhoods	16.609	2008-GP-CX-0060	25,756	52,231	37,843	11,368
Project Safe Neighborhoods	16.609	2010-GP-BX-0020			17,910	17,910
Justice Assistance Grant	16.738	2007-DJ-BX-0457		199	199	0
Justice Assistance Grant	16.738	2009-DJ-BX-0469	36,536	280,214	363,528	119,850
Anti Gang Initiative	16.744	2007-PG-BX-0094	3,807	81,737	77,930	0
Justice Assistance Grant (JAG) Recovery	16.804	2009-SB-BP-1627	572,832	1,304,746	291,462	(440,452)
Redeploy-ARRA	16.808	2009-SC-B9-0104	56,193	220,868	239,794	75,119
Passed through Commonwealth of Kentucky:						
Cold Case Squad	16.738	PON252510000025561	16,526	65,700	49,174	0
Enforcing Underage Drinking Laws	16.727	2009-AH-FX-0089	1,292	16,304	15,012	0
High Intensity Drug Trafficking Area (HIDTA)	N/A	G10AP0001A	1,702	1,702		0
Juv Accountability Block Grant	16.523	2007-JB-FX-0041 (101)	4,010	8,725	4,715	0
Juv Accountability Block Grant	16.523	ABG-2011-LFUCG-00011		4,677	9,224	4,547
PALYEP	16.541	2009-DD-BX-0249		5,639	5,639	0
Police Activity League-ARRA	16.541	2009-SC-B9-0162	4,704	19,129	14,425	0
Domestic Violence Prevention Board	16.588	WA-2010-LFUCG-ST-00166		4,979	4,979	0
Safe Havens Recovery-ARRA	16.588	VAWA-ARRA-2009	5,229	54,261	52,134	3,102
Safe Sun	16.588	VAWA-2010-LFUCG-ST-0			4,406	4,406
Sexual Assault Nurse Examiner (SANE)	16.588	VAWA-2008-00046	2,666		(2,666)	0
Sexual Assault Nurse Examiner (SANE)	16.588	WA-2009-LFUCG ST-0C	11,704	30,529	18,825	0
Sexual Assault Nurse Examiner (SANE)	16.588	WA-2010-LFUCG ST-00132			15,792	15,792
Sexual Assault Nurse Examiner (SANE2)	16.588	VAWA-2008-00012	1,357		(1,357)	0

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

Grantor/Program Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Accrued (Deferred) Revenue at July 1, 2010	Revenue Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Street Sales	16.579	0-JAG-LFUCG-STRE-00655		36,201	99,877	63,676
Street Sales (Confiscated Funds)	16.579	0-JAG-LFUCG-STRE-00655		21,472	21,472	0
Street Sales	16.579	JAG-LFUCG-STREET SALES	81,123	81,123		0
Street Sales (Confiscated Funds)	16.579	JAG-LFUCG-STREET SALES	(11,334)		11,334	0
PALYEP	16.726	2010-JU-FX-0025			3,066	3,066
Total US Department of Justice			(880,753)	3,442,450	2,972,246	(1,350,957)

US Department of Transportation:

Direct Programs:

Passed through Commonwealth of Kentucky:

Air Quality Planning	20.205	0800020840	19,124	19,124		0
Air Quality Planning	20.205	0800020840	947	42,248	53,053	11,752
Air Quality Planning	20.205	0800020840			8,000	8,000
Alexander Drive/Stone	20.205	P02-628-0600003013	6,640	11,006	4,366	0
Bike Projects	20.205	C-99006967	14,137	14,137		0
Brighton East	20.205	C-05031709	2,416	2,416		0
Brighton Rail Trail Bridge	20.205	P02-628-0900022378		15,869	15,869	0
Citation Boulevard	20.205	C-05396856	1,609,518	2,467,515	1,023,960	165,963
Clays Mill Road	20.205	C-03328686	4,740	502,332	820,894	323,302
Coldstream Trail	20.205	P02-628-0800015657		3,944	44,687	40,743
Federal Highway Planning	20.205	0900025284	168,171	168,171		0
Federal Highway Planning	20.205	1000005192		193,982	296,856	102,874
Fiber Optic Cable Installation	20.205	P02-628-0700013795	(31,502)	(24,407)	249,476	242,381
Fiber Optic Cable Installation	20.205	P02-628-0900022383		2,049	2,767	718
Grimes Mill Bridge	20.205	C-05354512		7,288	7,288	0
Hazard Elimination & Safety	20.205	0340027001003	1,577	6,758	5,181	0
Healthway	20.205	P02-628-0900024481	262,231	336,950	74,719	0
Intelligent Tranpor. System (ITS)	20.205	900024330	33,154	32,400	(754)	0
Intelligent Tranpor. System (ITS)	20.205	1000001289	7,615	312,223	339,935	35,327
Intelligent Tranpor. System (ITS)	20.205	1000002782			5,977	5,977
Liberty Road/Todds Road	20.205	C-00021586	200,336	205,661	3,732	(1,593)
Liberty Road/Todds Road	20.205	C-04073306	64,437	4,676		59,761
Loudon Avenue Project	20.205	C-02279716	400,993	335,931		65,062
Maine Chance	20.205	P02-628-0700013769		10,678	121,354	110,676
Maxwell Bike Ped	20.205	P02-628-0700008015		49,102	53,263	4,161
Newtown Landscape	20.205	P02-628-0800015658		1,800	7,800	6,000
Newtown Pike	20.205	C-00343167	433,803	459,032	62,205	36,976
Newtown Pike	20.205	C-01261650	962,357	1,148,463	1,093,499	907,393
Newtown Pike Supplement #2	20.205	076-2011			12,333	12,333
Reversible Lanes	20.205	P02-628-0600003022	137,795	137,795		0
Share The Road	20.205	P02-628-0900022380	12,872	14,228	1,356	0
South Elkhorn Bike	20.205	KYTC Item 7-229	1,280	3,520	2,608	368
South Limestone	20.205	800015399	9,360	23,760	14,400	0
Tates Creek Sidewalks	20.205	P02-628-0900022382		75,821	84,984	9,163
Town Branch	20.205	C-02182950	109	24,354	24,245	0
Traffic Control	20.205	P02-625-0700012692	97,426	97,426		0
Versailles Road Corridor	20.205	P02-628-0600003375	24,991	24,991		0
West Hickman	20.205	C-04482975	111,061		242,640	353,701
MCSAP	20.218	M-00800718583	20,406	73,572	53,166	0
MCSAP	20.218	No Number			13,604	13,604
Tact	20.218	No Number		24,574	24,574	0
Fed Transit Admin Section 5303	20.505	G03MP03Z	8,593	8,593		0
Fed Transit Admin Section 5303	20.505	KY-80-0003-02		35,835	43,975	8,140
Mobility Office	20.505	MA-0800020840	2,397	2,397		0
Mobility Office	20.505	MA-0800020840	71,761	71,775	14	0
Mobility Office	20.505	MA-8418201N		38,574	90,392	51,818
Traffic QC	20.600	K9-11-06		8,896	10,000	1,104
Traffic Safety	20.600	AL-10-20	10,287	22,550	12,263	0
Traffic Safety	20.600	AL-11-23		90,648	99,036	8,388
Traffic Safety Supplement	20.600	K2-10-31	25,000	25,000		0
Traffic Safety Supplement	20.600	K2-11-46			23,380	23,380
Traffic SP	20.600	PT-11-26		20,527	24,231	3,704
Total US Department of Transportation			4,694,032	7,154,184	5,071,328	2,611,176

US Environmental Protection Agency:

Direct Programs:

Environmental Justice	66.604	EQ-95416209-1	3,212	19,444	16,232	0
South Elkhorn Pump Station	66.604	XP-95438509-0	752,632	1,090,229	387,890	50,293
Brownfield Assessment Project	66.818	BF-95461610-0		950	17,219	16,269

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

Grantor/Program Title	Federal CFDA Number	Direct/Pass-through Grantor's Number	Accrued (Deferred) Revenue at July 1, 2010	Revenue Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
Passed through Commonwealth of Kentucky:						
Radcliffe Road Drainage	66.458	A2-09-09	237,000	237,000		0
StreetKia	66.458	A029-08	2,464,117	2,620,000	155,883	0
Wolf Run	66.460	C9994861-09	1,552	36,883	55,199	19,868
South Elkhorn Pump Station - KIA	66.458	A09-01		13,766,388	14,090,151	323,763
Total US Environmental Protection Agency			<u>3,458,513</u>	<u>17,770,894</u>	<u>14,722,574</u>	<u>410,193</u>
US Department of Health and Human Services:						
Direct Programs:						
Runaway Youth	93.623	04CY0792/03	(2,000)	(2,000)		0
Runaway Youth	93.623	90CY236401	(18,236)	14,379	32,615	0
Runaway Youth	93.623	90CY236402		77,309	118,468	41,159
Passed through Commonwealth of Kentucky:						
Senior Citizens	93.044	AS-2010-2011-2015		89,078	89,078	0
Local Governance-Cab for Families	93.558	PON2 736 0800008771	16,499	16,499		0
Mentoring-Cab for Families	93.558	PON2 736 0800008771	9,802	9,802		0
New Chance-Cab For Families	93.558	PON2 736 0800008771	82,705	82,705		0
New Chance-Cab For Families	93.558	PON2 736 1000001491		384,158	422,257	38,099
Home Network	93.597	2008-2009-PUBLIC-R	(163,588)		163,588	0
Home Network	93.597	2009-2010-PUBLIC-R	(129,649)	77,870	153,653	(53,866)
Home Network	93.597	2010-2011-PUBLIC-R		252,108		(252,108)
Total US Department of Health and Human Services			<u>(204,467)</u>	<u>1,001,908</u>	<u>979,659</u>	<u>(226,716)</u>
US Department of Homeland Security Office of Domestic Preparedness:						
Passed through Commonwealth of Kentucky:						
Flood Mitigation Assistance	97.029	PON209509000115091		73,849	73,849	0
Hazard Mitigation Grant Prog.(HMGP_Plan	97.039	PON209511000015691			607	607
Hazard Mitigation Grant Prog.(HMGP_Shan)	97.039	PON209511000007591		167,206	759,647	592,441
Hazard Mitigation Grant Prog.(HMGP_South)	97.039	PON209511000014261		1,935	745,219	743,284
Sugarmill	97.039	PON2-095-0600003029-	671,248	1,019,604	478,569	130,213
Chemical Stockpile Emergency (CSEPP)	97.040	PON2 0700005552	3,648	16,088	12,440	0
Chemical Stockpile Emergency (CSEPP)	97.040	PON209508000112861	88,344	105,668	105,521	88,197
Chemical Stockpile Emergency (CSEPP)	97.040	PON209510000009491	10,209	183,755	265,630	92,084
Chemical Stockpile Emergency (CSEPP)	97.040	PON209511000014051			547	547
Emergency Management Assistance	97.042	PON209510000004871	65,954	106,221	40,267	0
Emergency Management Assistance	97.042	PON209511000006691			80,794	80,794
Search and Rescue	97.042	9ON209511000020731		13,062	13,062	0
Assistance to Firefighters Grant	97.044	EMW-2009-FO-06135			7,890	7,890
Assistance to Firefighters Grant (AFG_IFE)	97.044	EMW-2009-FP-01190		3,200	3,200	0
Fire Prevention & Safety	97.044	EMW-2008-FP-00190	1,233	1,210	(23)	0
Bomb Squad	97.067	P0209409000231341	20,904	120,573	99,669	0
Bomb Squad	97.067	PO209411000022141		69,691	82,708	13,017
Critical Infrastructure	97.067	P0209408000212151	2,372	2,372		0
Hazard Devices	97.067	PO209410000025171	64,459	80,656	16,197	0
State Homeland (FIRE)	97.067	P02 094 1100002237 1			17,207	17,207
State Homeland Dive	97.067	P02 094 1100002216 1			1,539	1,539
State Homeland Police	97.067	P02 094 1100002230 1		18,818	18,818	0
State Homeland Security	97.067	PO2 094 0800020862 1	55,319	55,319		0
State Homeland Security (FIRE)	97.067	P02 094 1000002544 1	116,898	116,898		0
State Homeland Security (TRAINING)	97.067	P02 094 1000002541 1	79,306	79,187	(119)	0
State Homeland Security Communications	97.067	PO2 094 0800020544 1		107,484	107,484	0
Metro Medical Response System (MMRS)	97.071	PON2 094 0800020954 1	44,436	77,044	32,608	0
Metro Medical Response System (MMRS)	97.071	PON2 094 1000002389 1	137,852	249,732	111,982	102
Metro Medical Response System (MMRS)	97.071	PO2 094 1100002296 1		24,126	35,290	11,164
Total US Dept. of Homeland Security Office of Domestic Preparedness			<u>1,362,182</u>	<u>2,693,698</u>	<u>3,110,602</u>	<u>1,779,086</u>
US Department of Energy:						
Direct Programs:						
Energy Efficiency & Conservation Bl.Grt (EEBCG_R)	81.128	DE-EE0000728	18,572	785,673	826,067	58,966
Total US Department of Energy			<u>18,572</u>	<u>785,673</u>	<u>826,067</u>	<u>58,966</u>
Total Federal Financial Assistance			<u>\$9,509,687</u>	<u>\$39,491,580</u>	<u>\$33,807,825</u>	<u>\$3,825,932</u>

Note: Per generally accepted accounting principles, grant revenues received but not earned with purpose restrictions only are recognized as revenues and fund balance in the financial statements.

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2011**

Grantor/Program Title	Grantor's Number	Grantor	Accrued or (Deferred) Revenue at July 1, 2010	Revenue Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2011
Day Treatment	PON252309000120651	Kentucky Dept. of Juvenile Justice	\$20,154	\$20,154	\$ -	\$ -
Day Treatment	PON252310000028991	Kentucky Dept. of Juvenile Justice	(19)	221,691	241,845	20,154
Emergency Medical Services	N/A	Kentucky Bd. Emergency Medical Services	(19)	(19)		0
Emergency Medical Services Expansion	127N-2008	Kentucky Infrastructure Authority		10,084	\$9,726	(358)
Federal Highway Planning	0900025284	Kentucky Transportation Cabinet	10,511	10,511	14,250	14,250
Federal Highway Planning	1000005192	Kentucky Transportation Cabinet		12,124	18,553	0
Fire Training Incentive	155	Kentucky Commission on Fire Protection		1,887,277	1,887,277	6,429
Flight 5191	0124-2010	Kentucky Transportation Cabinet		100,000	100,000	0
Green Acres	276N-2007	Kentucky Transportation Cabinet	116,984	244,558	180,452	52,878
Hazard Elimination	0340027001003	Kentucky Transportation Cabinet	394	1,689	1,295	0
Hazard Mitigation Grant (HMGP_Plan)	PON209511000014261	Kentucky Emergency Management Agency		26,753	97	97
Hazard Mitigation Grant (HMGP_Shan)	PON209511000014261	Kentucky Emergency Management Agency		121,543	121,543	94,790
Hazard Mitigation Grant (HMGP_South)	PON209511000014261	Kentucky Emergency Management Agency		310	119,235	118,925
Home Network	2009-2010-PUBLIC-R	Lexington Fayette County Health Dept		46,492	46,492	0
Home Network	2010-2011-PUBLIC-R	Lexington Fayette County Health Dept		85,560	537	(85,023)
Illegal Open Dump Remediation	N/A	Kentucky Dept. Environmental Protection	(3,391)	(3,199)	192	0
Isaac Murphy Memorial Garden	N/A	Kentucky Transportation Cabinet	16,250	24,562	12,194	3,882
Kentucky Housing	N/A	Kentucky Housing Corporation	3,000	3,000	0	0
Kentucky Pride	N/A	Kentucky Dept. Natural Resources	(69)		69	0
Kentucky Pride	N/A	Kentucky Dept. Natural Resources	(126,435)		126,435	0
KY Household Hazardous Waste	N/A	Kentucky Dept. Natural Resources	(70,544)	138,921	78,512	(60,409)
KY Recycle	N/A	Kentucky Energy & Environmental cabinet	(1,148)			(70,544)
Law Enforcement Service Fee	LSF-2009-LFUCG-Street Sales-0005	Kentucky Justice Cabinet	141	141		(1,148)
Law Enforcement Service Fee	LSF-2010-LFUCG-STRELA-W-0012	Kentucky Justice Cabinet		62,386	69,932	7,546
Leesway	SX21067020	Governor's Office for Local Development		99,191	31,293	0
Newtown Pike Extension	C00343167	Kentucky Transportation Cabinet	67,898	153,651	15,551	9,244
Police Training Incentive	PT-105-03	Kentucky Law Enforcement Foundation	167,678	167,678		0
Police Training Incentive	N/A	Kentucky Law Enforcement Foundation		1,789,668	1,948,383	158,715
Purchase of Development Rights (PDR)	A2009-0197	Kentucky Dept. Agriculture	(28,087)		28,087	0
Raven Run Acquisition	N/A	Kentucky Heritage Land Conservation Fund	(18,001)		(2,823)	(20,824)
SANE3 (Sexual Assault Treatment Project)	VAWA-2009-LFUCG ST-00100	Kentucky Justice Cabinet	3,600	6,400	2,800	0
SANE3 (Sexual Assault Treatment Project)	VAWA-2010-LFUCG ST-00132	Kentucky Justice Cabinet		1,400	6,400	5,000
Search & Rescue	PON2 095 0600008101	Kentucky Emergency Management Agency	4,959		(4,959)	0
Search & Rescue	PON2 095 11000020731	Kentucky Emergency Management Agency		13,062	13,062	0
State Homeland Communications	PO2 094 0800019829 1	Governor's Office for Homeland Security		164,139	164,139	0
Sugarmill	PON2-095-0600003029-1	Kentucky Emergency Management Agency	109,280	160,475	71,723	20,528
Todd/Liberty Transportation Improvement Pgm.	C-0021586	Kentucky Transportation Cabinet	50,085	51,018	933	0
Todd/Liberty Transportation Improvement Pgm.	C-04073306	Kentucky Transportation Cabinet	16,110	1,168		14,942
Unsewered Areas 2	SX21067001 & SX21067008	Kentucky Infrastructure Authority	9,674	435,290	565,073	139,457
Waste Tire	N/A	Kentucky Energy & Environmental cabinet		3,000	3,000	0
Wine Fest	N/A	Kentucky Energy & Environmental cabinet		6,780	6,780	0
Total State Financial Assistance			<u>\$496,368</u>	<u>\$5,945,915</u>	<u>\$5,878,078</u>	<u>\$428,531</u>

Note: Per generally accepted accounting principles, grant revenues received but not earned with purpose restrictions only are recognized as revenues and fund balance in the financial statements.

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are established to account for the acquisition, operation and maintenance of the Government's facilities and services which are entirely or predominantly self-supported by user charges or where the Government has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

The **Right of Way** program was established in 2003 to account for fees levied to monitor and manage public facilities located in public rights-of-way.

The **Extended School Program** was established in 1994 to provide before and after school care for children in participating elementary and middle schools.

The **Prisoners' Account System** was transferred to the Government in 1994 and accounts for the operations of the commissary at the Fayette County Detention Center.

The **Enhanced 911 Fund** was established in fiscal year 1996 to account for the revenues and expenses of developing and operating an enhanced 911 system.

The **LexVan Program** was transferred effective July 1, 2003 from the Transit Authority to the Government to provide commuter van pool service to the Lexington metropolitan area.

The **Small Business Development Fund** was established in fiscal year 2000 to promote and assist the growth and development of business concerns. This program was previously administered by the Urban County Development Corporation, a component unit of the Government, which was dissolved in March 2000.

The **Stormwater Fund** was established in fiscal year 2009 to account for the revenues and expenses of developing and operating storm water related activities.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
June 30, 2011

	Right of Way	Extended School Program	Prisoners' Account System	Enhanced 911	LexVan Program	Small Business Development	Stormwater	Total
ASSETS								
Current Assets:								
Cash	\$476,200	\$71,253	\$252,064	\$183,774	\$171,226	\$131,761	\$5,927,219	\$7,213,497
Investments				1,400,743		34,509	985,410	2,420,662
Receivables:								
User Fees Receivable							798,265	798,265
Other Receivables	24,775	515		95,813	1,676	35,867		158,646
Less Allowance for Uncollectible Accounts						(35,867)	(85,539)	(121,406)
Internal Balances	157,133			650,359	54,952			862,444
Inventories and Prepaid Expenses							23,880	23,880
Total Current Assets	658,108	71,768	252,064	2,330,689	227,854	166,270	7,649,235	11,355,988
Non-Current Assets:								
Land							358,185	358,185
Land Improvements		10,000						10,000
Sewer Lines							1,368,773	1,368,773
Vehicles, Equipment, and Furniture	56,650	94,530	188,900	1,615,487			19,999	1,975,566
Intangibles			152,726	1,382,184				1,534,910
Less Accumulated Depreciation	(31,867)	(73,383)	(333,027)	(2,930,694)			(23,221)	(3,392,192)
Construction in Progress							70,332	70,332
Total Non-Current Assets	24,783	31,147	8,599	66,977	0	0	1,794,068	1,925,574
Total Assets	682,891	102,915	260,663	2,397,666	227,854	166,270	9,443,303	13,281,562
LIABILITIES								
Current Liabilities:								
Accounts, Contracts and Retainage Payable	1,079	17,999	298,115	37,037			574,072	928,302
Accrued Payroll	8,319	74,179		54,664			83,595	220,757
Internal Balances		5,666	119,644				281,813	407,123
Compensated Absences	5,912	1,078		36,432			99,557	142,979
Bond Payable Current							56,898	56,898
Interest Payable							2,194	2,194
Total Current Liabilities	15,310	98,922	417,759	128,133	0	0	1,098,129	1,758,253
Non-Current Liabilities								
Bond Payable Non Current							1,281,741	1,281,741
Compensated Absences	5,912	34,745		36,432			99,556	176,645
Total Non-Current Liabilities	5,912	34,745	0	36,432	0	0	1,381,297	1,458,386
Total Liabilities	21,222	133,667	417,759	164,565	0	0	2,479,426	3,216,639
NET ASSETS								
Invested in Capital Assets, net of related debt	24,783	31,147	8,600	66,977			455,429	586,936
Unrestricted	636,886	(61,899)	(165,696)	2,166,124	227,854	166,270	6,508,448	9,477,987
Total Net Assets	\$661,669	(\$30,752)	(\$157,096)	\$2,233,101	\$227,854	\$166,270	\$6,963,877	\$10,064,923

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2011

	Right of Way	Extended School Program	Prisoners' Account System	Enhanced 911	LexVan Program	Small Business Development	Stormwater	Total
Operating Revenues								
User Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$11,596,442	\$11,596,442
Fees		2,038,391		3,749,329	140,699			5,928,419
Licenses & Permits	483,196							483,196
Gross Profit-Commissary			1,089,129					1,089,129
Other			32,670	80			8,127	40,877
Total Operating Revenues	<u>483,196</u>	<u>2,038,391</u>	<u>1,121,799</u>	<u>3,749,409</u>	<u>140,699</u>	<u>0</u>	<u>11,604,569</u>	<u>19,138,063</u>
Operating Expenses								
Right of Way	305,688							305,688
Extended School Program		493,984						493,984
Prisoners' Account			446,874					446,874
Inmate Trust Account			836,131					836,131
Enhanced 911				2,903,594				2,903,594
LexVan Program					84,242			84,242
Administration		1,702,477					6,242,768	7,945,245
Depreciation	7,082	10,849	4,134	180,212			23,220	225,497
Total Operating Expenses	<u>312,770</u>	<u>2,207,310</u>	<u>1,287,139</u>	<u>3,083,806</u>	<u>84,242</u>	<u>0</u>	<u>6,265,988</u>	<u>13,241,255</u>
Operating Income (Loss)	<u>170,426</u>	<u>(168,919)</u>	<u>(165,340)</u>	<u>665,603</u>	<u>56,457</u>	<u>0</u>	<u>5,338,581</u>	<u>5,896,808</u>
Non-Operating Revenues (Expenses)								
Income on Investments	477	90	14	778	171	527	(11,302)	(9,245)
Interest Expense and Fiscal Agent Fees							(14,093)	(14,093)
Total Non-Operating Revenues	<u>477</u>	<u>90</u>	<u>14</u>	<u>778</u>	<u>171</u>	<u>527</u>	<u>(25,395)</u>	<u>(23,338)</u>
Income (Loss) Before Contributions and Transfers	<u>170,903</u>	<u>(168,829)</u>	<u>(165,326)</u>	<u>666,381</u>	<u>56,628</u>	<u>527</u>	<u>5,313,186</u>	<u>5,873,470</u>
Transfers Out							(740)	(740)
Change in Net Assets	<u>170,903</u>	<u>(168,829)</u>	<u>(165,326)</u>	<u>666,381</u>	<u>56,628</u>	<u>527</u>	<u>5,312,446</u>	<u>5,872,730</u>
Net Assets - July 1	<u>490,766</u>	<u>138,077</u>	<u>8,230</u>	<u>1,566,720</u>	<u>171,226</u>	<u>165,743</u>	<u>1,651,431</u>	<u>4,192,193</u>
Net Assets - June 30	<u>\$661,669</u>	<u>(\$30,752)</u>	<u>(\$157,096)</u>	<u>\$2,233,101</u>	<u>\$227,854</u>	<u>\$166,270</u>	<u>\$6,963,877</u>	<u>\$10,064,923</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2011

	Right of Way	Extended School Program	Prisoners' Account System	Enhanced 911	Lex Van Program	Small Business Development	Stormwater	Total
Increase (Decrease) in Cash and Cash Equivalents:								
Cash Flows from Operating Activities:								
Receipts from Customers	\$458,421	\$2,037,876	\$1,121,799	\$3,784,913	\$139,023	\$13,872	\$11,362,139	\$18,918,043
Payments to Suppliers	(162,702)	(327,488)	(1,225,415)	(1,855,760)	(100,335)	(13,872)	(2,994,005)	(6,679,577)
Payments to Employees	(296,197)	(1,608,294)		(1,743,885)			(2,466,264)	(6,114,640)
Payments for Interfund Services Used		(251,210)		(1,855)	(38,859)			(291,924)
Net Cash Provided by (Used in) Operating Activities	(478)	(149,116)	(103,616)	183,413	(171)	0	5,901,870	5,831,902
Cash Flows from Noncapital Financing Activities:								
Transfers Out							(740)	(740)
Net Cash Flows from Noncapital Financing Activities	0	0	0	0	0	0	(740)	(740)
Cash Flows from Capital and Related Activities:								
Purchases of Property, Plant and Equipment							(1,817,018)	(1,817,018)
Proceeds from Bond Issuance							1,338,639	1,338,639
Interest and Fiscal Agent Fees Paid on Bonds							(14,093)	(14,093)
Net Cash Flows from Capital and Related Activities	0	0	0	0	0	0	(492,472)	(492,472)
Cash Flows from Investing Activities:								
Purchases of Investments				(417)		(525)	(985,410)	(986,352)
Income on Investments	477	90	14	778	171	527	(11,302)	(9,245)
Net Cash Flows from Investing Activities	477	90	14	361	171	2	(996,712)	(995,597)
Net Increase (Decrease) in Cash and Cash Equivalents		(149,026)	(103,602)	183,774		2	4,411,946	4,343,094
Cash and Cash Equivalents at Beginning of Year	476,200	220,279	355,666		171,226	131,759	1,515,273	2,870,403
Cash and Cash Equivalents at End of Year	476,200	71,253	252,064	183,774	171,226	131,761	5,927,219	7,213,497
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:								
Operating Income (Loss)	170,426	(168,919)	(165,340)	665,603	56,457		5,338,581	5,896,808
Adjustments Not Affecting Cash:								
Depreciation							23,220	225,497
Allowance for Bad Debts	7,082	10,849	4,134	180,212		(13,872)	66,333	52,461
(Increase) Decrease in Assets:								
Accounts Receivable							(243,630)	(243,630)
Other Receivables	(24,775)	(515)		35,504	(1,676)	13,872	1,200	23,610
Inventories and Prepaid Expenses				(650,359)	(54,952)		(23,880)	(23,880)
Due from Other Funds	(157,133)						(862,444)	(862,444)
Increase (Decrease) in Liabilities:								
Accounts Payable	115	(12,862)	(35,750)	(26,411)			397,453	322,545
Accrued Payroll	2,624	15,747		17,123			45,704	81,198
Due to Other Funds	(2)	5,616	93,340	(45,059)			281,813	335,708
Other Liabilities							2,194	2,194
Compensated Absences	1,185	988		6,800			12,882	21,835
Total Adjustments	(170,904)	19,803	61,724	(482,190)	(56,628)	0	563,289	(64,906)
Net Cash Provided by (Used In) Operating Activities	(\$478)	(\$149,116)	(\$103,616)	\$183,413	(\$171)	\$	\$5,901,870	\$5,831,902

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing on a cost-reimbursement basis of services provided by one department to other departments within the Government and outside agencies associated with the Government. Individual funds included in this fund type are as follows:

The **Health, Dental and Vision Care Insurance Fund** accounts for the Government's self-insurance programs for employee medical, dental and vision care benefits.

The **Insurance and Risk Management Fund** accounts for the Government's self-insurance programs for workers' compensation, vehicle liability and physical, general liability and property damage coverage.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2011

	Health Dental and Vision Care	Insurance and Risk Management	Total
ASSETS			
Current Assets:			
Cash	\$140,400	\$2,752,091	\$2,892,491
Due from Other Funds	2,151,886	19,193,997	21,345,883
Receivables		174,683	174,683
Total Current Assets	<u>2,292,286</u>	<u>22,120,771</u>	<u>24,413,057</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	94,286	75,178	169,464
Claims Payable:			
Reported		9,591,099	9,591,099
Incurred But Not Reported	2,198,000	12,454,494	14,652,494
Total Current Liabilities	<u>2,292,286</u>	<u>22,120,771</u>	<u>24,413,057</u>
NET ASSETS			
Unrestricted (Deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2011

	Health, Dental and Vision Care Insurance				Insurance and Risk Management	
	Health	Dental	Vision Care	Total		Total
Operating Revenues						
Premiums	\$35,077,178	\$1,818,171	\$78,499	\$36,973,848	\$7,221,625	\$44,195,473
Total Operating Revenues	<u>35,077,178</u>	<u>1,818,171</u>	<u>78,499</u>	<u>36,973,848</u>	<u>7,221,625</u>	<u>44,195,473</u>
Operating Expenses						
Claims and Benefit Payments	35,019,760	1,877,736	76,352	36,973,848	7,994,145	44,967,993
Total Operating Expenses	<u>35,019,760</u>	<u>1,877,736</u>	<u>76,352</u>	<u>36,973,848</u>	<u>7,994,145</u>	<u>44,967,993</u>
Operating Income (Loss)	57,418	(59,565)	2,147	0	(772,520)	(772,520)
Non-Operating Revenues						
Income on Investments					15,156	15,156
Total Non-Operating Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,156</u>	<u>15,156</u>
Change in Net Assets	57,418	(59,565)	2,147	0	(757,364)	(757,364)
Net Assets - July 1	<u>314,871</u>	<u>(323,400)</u>	<u>8,529</u>	<u>0</u>	<u>757,364</u>	<u>757,364</u>
Net Assets - June 30	<u>\$372,289</u>	<u>(\$382,965)</u>	<u>\$10,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2011

	Health Dental and Vision Care	Insurance and Risk Management	Total
Increase (Decrease) in Cash and Cash Equivalents:			
Cash Flows from Operations:			
Receipts from Customers	\$36,973,848	\$ -	\$36,973,848
Receipts from Interfund Services Provided	(2,280,940)	10,079,589	7,798,649
Refunds from/(Payments) to Suppliers	87,940	(225,122)	(137,182)
Payments for Claims	(34,775,848)	(7,117,532)	(41,893,380)
Net Cash Provided by (Used in) Operating Activities	<u>5,000</u>	<u>2,736,935</u>	<u>2,741,935</u>
Cash Flows from Investing Activities:			
Income on Investments	<u>0</u>	15,156	15,156
Net Cash Flows from Investing Activities	<u>0</u>	<u>15,156</u>	<u>15,156</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,000	2,752,091	2,757,091
Cash and Cash Equivalents at Beginning of Year	<u>135,400</u>	<u>0</u>	<u>135,400</u>
Cash and Cash Equivalents at End of Year	<u><u>140,400</u></u>	<u><u>2,752,091</u></u>	<u><u>2,892,491</u></u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:			
Operating Income (Loss)	<u>0</u>	<u>(772,520)</u>	<u>(772,520)</u>
(Increase) Decrease in Assets:			
Due from Other Funds	(2,151,886)	2,923,865	771,979
Other Receivables	56,266	(65,901)	(9,635)
Increase (Decrease) in Liabilities:			
Accounts Payable	87,940	(225,122)	(137,182)
Due to Other Funds	(185,320)		(185,320)
Claims Payable	2,198,000	876,613	3,074,613
Total Adjustments	<u>5,000</u>	<u>3,509,455</u>	<u>3,514,455</u>
Net Cash Provided by (Used In) Operating Activities	<u><u>\$5,000</u></u>	<u><u>\$2,736,935</u></u>	<u><u>\$2,741,935</u></u>

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the Government in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include pension trust, expendable trust, and agency funds. Individual funds included in this fund type are as follows:

AGENCY FUNDS

The **Neighborhood Sewer Projects Fund** is an agency fund that accounts for the collection of special assessments and debt service payments on financing for neighborhood capital projects.

The **Juvenile and Adult Probation Fund** accounts for funds collected by the divisions of Youth Services and Detention Services from juvenile and adult offenders and disbursed to victims in accordance with court decrees and funds collected from and disbursed for inmates on work release.

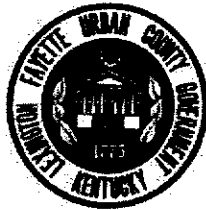
The **Domestic Relations Fund** accounts for the child support payments collected by the Government from non-custodial parents and disbursed to custodial parents.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF NET ASSETS
AGENCY FUNDS
For the Year Ended June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Balance June 30, 2011</u>
NEIGHBORHOOD SEWER PROJECTS FUND		
Cash and Short-Term Investments	\$43,252	\$714
Accounts Receivable	17,496	
Allowance for Uncollectible Accounts	(17,496)	
Total Assets	<u>43,252</u>	<u>714</u>
Payable to Property Owners	43,252	714
Total Liabilities	<u>43,252</u>	<u>714</u>
JUVENILE AND ADULT PROBATION FUND		
Cash	348,355	331,363
Total Assets	<u>348,355</u>	<u>331,363</u>
Accounts Payable	348,355	331,363
Total Liabilities	<u>348,355</u>	<u>331,363</u>
DOMESTIC RELATIONS FUND		
Cash	314,745	314,740
Total Assets	<u>314,745</u>	<u>314,740</u>
Accounts Payable	314,745	314,740
Total Liabilities	<u>314,745</u>	<u>314,740</u>
TOTALS - AGENCY FUNDS		
Cash and Short-Term Investments	706,352	646,817
Accounts Receivable	17,496	
Allowance for Uncollectible Accounts	(17,496)	
Total Assets	<u>706,352</u>	<u>646,817</u>
Liabilities	706,352	646,817
Total Liabilities	<u>\$706,352</u>	<u>\$646,817</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
NEIGHBORHOOD SEWER PROJECTS FUND				
Cash and Short-Term Investments	\$43,252	\$714	\$43,252	\$714
Accounts Receivable	17,496		17,496	0
Allowance for Uncollectible Accounts	(17,496)	17,496		0
Total Assets	<u>43,252</u>	<u>18,210</u>	<u>60,748</u>	<u>714</u>
Payable to Property Owners	43,252	719	43,257	714
Total Liabilities	<u>43,252</u>	<u>719</u>	<u>43,257</u>	<u>714</u>
JUVENILE AND ADULT PROBATION FUND				
Cash	348,355	39,820	56,812	331,363
Total Assets	<u>348,355</u>	<u>39,820</u>	<u>56,812</u>	<u>331,363</u>
Accounts Payable	348,355	39,820	56,812	331,363
Total Liabilities	<u>348,355</u>	<u>39,820</u>	<u>56,812</u>	<u>331,363</u>
DOMESTIC RELATIONS FUND				
Cash	314,745		5	314,740
Total Assets	<u>314,745</u>	<u>0</u>	<u>5</u>	<u>314,740</u>
Accounts Payable	314,745	5	10	314,740
Total Liabilities	<u>314,745</u>	<u>5</u>	<u>10</u>	<u>314,740</u>
TOTALS - AGENCY FUNDS				
Cash and Short-Term Investments	706,352	40,534	100,069	646,817
Accounts Receivable	17,496		17,496	0
Allowance for Uncollectible Accounts	(17,496)	17,496		0
Total Assets	<u>706,352</u>	<u>58,030</u>	<u>117,565</u>	<u>646,817</u>
Liabilities	706,352	40,544	100,079	646,817
Total Liabilities	<u>\$706,352</u>	<u>\$40,544</u>	<u>\$100,079</u>	<u>\$646,817</u>



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NONMAJOR COMPONENT UNITS

The **Lexington Transit Authority** is authorized to promote and develop mass transportation, including acquisition, operation and extension of the existing mass transit system.

The **Lexington Public Library** provides educational, informational and recreational service needs to Lexington and Fayette County through circulating and reference materials.

The **Lexington Convention and Visitors Bureau** promotes recreational, convention and tourist activity in Fayette County.

The **Downtown Development Authority** acts as an agency of the Government in various economic development, redevelopment, and physical improvement activities associated with downtown.

The **Parking Authority of Lexington** acts as an agency of the Government in the provision, maintenance and operation of parking facilities, structures, and meters along with the enforcement of non-moving traffic violations.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF NET ASSETS
NONMAJOR COMPONENT UNITS
June 30, 2011

	Lexington Transit Authority	Lexington Public Library	Lexington Convention and Visitors Bureau
ASSETS			
Cash	\$9,125,046	\$2,468,427	\$1,090,887
Investments		4,567,941	
Receivables:			
Accounts Receivable	23,776	67,668	1,101,943
Other	147,441		
Due from Other Governments	6,532,003		
Inventories	957,270		16,659
Prepaid Items	1,212,860	78,684	54,802
Pension Assets	533,940	146,619	
Restricted Current Assets:			
Cash			993
Investments			600,000
Capital Assets:			
Non-depreciable	4,230,957	4,017,023	13,514
Depreciable (Net)	16,929,468	16,601,129	44,618
Other Assets		135,297	
Total Assets	39,692,761	28,082,788	2,923,416
LIABILITIES			
Accounts, Contracts Payable and			
Accrued Liabilities	3,749,130	639,140	84,388
Due to Primary Government	305,239		
Due to Component Units			172,157
Unearned Revenues and Other			993
Non-Current Liabilities:			
Due Within One Year			
Compensated Absences	144,172	318,287	68,000
Bonds and Notes Payable		323,013	
Due in More Than One Year			
Compensated Absences	268,343		
Bonds and Notes Payable		7,452,097	
Total Liabilities	4,466,884	8,732,537	325,538
NET ASSETS			
Investment in Capital Assets, net of related debt	21,160,425	12,843,042	58,132
Restricted for:			
Pension	533,938		
Governmental and Program Funds		171,408	
Unrestricted	13,531,514	6,335,801	2,539,746
Total Net Assets	\$35,225,877	\$19,350,251	\$2,597,878

Downtown Development Authority	Parking Authority of Lexington	Total Nonmajor Component Units
\$9,586	\$917,678	\$13,611,624 4,567,941
		1,193,387
	8,879	156,320
		6,532,003
		973,929
762	8,522	1,355,630
		680,559
		993
		600,000
		8,261,494
	417,095	33,992,310
		135,297
<u>10,348</u>	<u>1,352,174</u>	<u>72,061,487</u>
3,727	117,021	4,593,406
2,602	268,390	576,231
		172,157
		993
3,000	1,277	534,736
		323,013
649	1,277	270,269
		7,452,097
<u>9,978</u>	<u>387,965</u>	<u>13,922,902</u>
	417,095	34,478,694
		533,938
		171,408
370	547,114	22,954,545
<u>\$370</u>	<u>\$964,209</u>	<u>\$58,138,585</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS
For the Year Ended June 30, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Lexington Transit Authority				
Transit Operations	\$21,047,573	\$2,877,165	\$5,011,837	\$4,603,772
Depreciation	1,947,802			
Total Lexington Transit Authority	22,995,375	2,877,165	5,011,837	4,603,772
Lexington Public Library				
Library Operations	12,180,347	770,180	851,030	105,000
Depreciation	1,223,164			
Total Lexington Public Library	13,403,511	770,180	851,030	105,000
Lexington Convention and Visitors Bureau				
Convention and Tourism Operations	5,904,875			
Depreciation	22,895			
Total Lexington Convention and Visitors Bureau	5,927,770	0	0	0
Downtown Development Authority				
Downtown Design Center	209,833			
Total Downtown Development Authority	209,833	0	0	0
Parking Authority of Lexington				
Parking Operations	907,298	1,444,744		
Depreciation	77,936			
Total Parking Authority of Lexington	985,234	1,444,744	0	0
Total nonmajor component units	\$43,521,723	\$5,092,089	\$5,862,867	\$4,708,772
General Revenues:				
Taxes				
Payment from/to Lexington-Fayette Urban County Government				
Income on Investments				
Gain (Loss) on Sale of Capital Assets				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets, July 1				
Adjustment to Opening Net Assets (Note 2D)				
Net Assets - Restated, July 1				
Net Assets, June 30				

**Net (Expenses) Revenue and
Changes in Net Assets**

Lexington Transit Authority	Lexington Public Library	Lexington Convention and Visitors Bureau	Downtown Development Authority	Parking Authority of Lexington	Total Nonmajor Component Units
(\$8,554,799)					(\$8,554,799)
(1,947,802)					(1,947,802)
					<u>(10,502,601)</u>
	(\$10,454,137)				(10,454,137)
	(1,223,164)				(1,223,164)
					<u>(11,677,301)</u>
		(\$5,904,875)			(5,904,875)
		(22,895)			(22,895)
					<u>(5,927,770)</u>
			(\$209,833)		(209,833)
					<u>(209,833)</u>
				\$537,446	537,446
				(77,936)	(77,936)
					<u>459,510</u>
<u>(10,502,601)</u>	<u>(11,677,301)</u>	<u>(5,927,770)</u>	<u>(209,833)</u>	<u>459,510</u>	<u>(27,857,995)</u>
15,500,288	13,287,501	5,680,598			34,468,387
			234,700	(57,564)	177,136
7,600	99,683	12,182	9	1,443	120,917
	7,702		(1,099)		6,603
		749,868	9,641	7,676	767,185
<u>15,507,888</u>	<u>13,394,886</u>	<u>6,442,648</u>	<u>243,251</u>	<u>(48,445)</u>	<u>35,540,228</u>
5,005,287	1,717,585	514,878	33,418	411,065	7,682,233
30,527,259	17,632,666	2,083,000	(33,048)	553,144	50,763,021
(306,669)					(306,669)
<u>30,220,590</u>					<u>50,456,352</u>
<u>\$35,225,877</u>	<u>\$19,350,251</u>	<u>\$2,597,878</u>	<u>\$370</u>	<u>\$964,209</u>	<u>\$58,138,585</u>



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STATISTICAL SECTION

The Lexington-Fayette Urban County Government's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the Government's overall financial health.

Financial Trends: Tables 1 – 6

These schedules contain trend information to help the reader understand how the Government's financial performance and well-being have changed over time.

Revenue Capacity: Tables 7 – 12

These schedules contain information to help the reader assess the Government's most significant local revenue sources.

Debt Capacity: Tables 13 – 17

These schedules present information to help the reader assess the affordability of the Government's current level of outstanding debt and ability to issue additional debt in the future.

Demographic & Economic Indicators: Tables 18 – 20

These schedules contain service and infrastructure data to help the reader understand how the information in the Government's financial report relates to the services the Government provides and the activities it performs.

Operating Information: Tables 21 – 24

These schedules contain service and infrastructure data to help the reader understand how the information in the Government's financial report relates to the services the government provides and the activities it performs.

TABLE 1

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities										
Investment in Capital Assets, net of related debt	\$96,437,482	\$106,003,137	\$108,187,766	\$128,533,898	\$964,032,556	\$965,683,982	\$963,823,728	\$934,789,342	\$920,938,945	\$921,236,876
Restricted	3,295,838	2,238,907	1,253,571	1,316,495	10,509,131	19,918,500	2,241,711	6,255,432	(31,494,181)	32,640,718
Unrestricted	17,913,410	15,083,835	15,892,881	29,526,571	50,390,084	30,807,379	5,930,420	(6,454,734)		(110,023,238)
Total governmental activities net assets	117,646,730	123,325,879	125,334,218	159,376,964	1,024,931,771	1,016,409,861	971,995,859	934,590,040	889,444,764	843,854,356
Business-type Activities										
Investment in Capital Assets, net of related debt	223,391,310	224,820,344	245,267,827	243,680,021	245,818,433	244,593,588	239,407,215	254,269,159	239,666,463	209,276,568
Restricted	24,443,625	31,352,044	31,575,194	33,688,305	34,565,941	39,914,276	24,129,422	24,680,839	35,249,098	50,663,760
Unrestricted (deficit)	(5,543,560)	(6,993,925)	(204,318)	5,634,802	11,084,804	14,020,822	24,615,573	7,399,034	14,702,006	32,997,263
Total business-type activities net assets	242,291,375	249,178,463	276,638,703	283,003,128	291,469,178	298,528,686	288,152,210	286,349,032	289,617,567	292,937,591
Primary Government										
Investment in Capital Assets, net of related debt	319,828,792	330,823,481	353,455,593	372,213,919	1,209,850,989	1,210,277,570	1,203,230,943	1,189,058,501	1,160,605,408	1,130,513,444
Restricted	27,739,463	33,590,951	32,828,765	35,004,800	45,075,072	59,832,776	26,371,133	30,936,271	3,754,917	83,304,478
Unrestricted	12,369,850	8,089,910	15,688,563	35,161,373	61,474,888	44,828,201	30,545,993	944,300	14,702,006	(77,025,975)
Total primary government net assets	\$359,938,105	\$372,504,342	\$401,972,921	\$442,380,092	\$1,316,400,949	\$1,314,938,547	\$1,260,148,069	\$1,220,939,072	\$1,179,062,331	\$1,136,791,947

2006 was the first year LFUCG reported all capital assets, including infrastructure, pursuant to GASB 34.

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

TABLE 2

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental Activities:										
General Government	\$3,713,179	\$9,744,039	\$21,293,008	\$22,840,721	\$21,977,521	\$23,927,771	\$30,660,951	\$22,706,306	\$22,726,537	\$24,197,239
Administrative Services	24,084,195	24,993,317	18,938,746	23,522,220	27,674,322	34,445,260	3,833,639	3,315,306	1,299,382	1,386,040
Health, Dental and Vision Insurance	6,904,830	10,480,431	10,592,090	14,011,082	14,740,182	13,301,058	14,564,306	25,824,211	26,711,492	34,735,417
Chief Information Officer							11,216,315	14,522,324	9,161,677	9,713,226
Finance	6,118,259	6,280,716	6,876,648	6,670,050	6,629,421	10,464,204	12,376,624	13,378,819	24,047,223	28,515,655
Public Works	29,947,045	37,484,504	33,960,939	35,320,695	93,199,722	68,896,198	71,695,702	62,507,588	61,841,096	63,671,436
Public Safety	3,524,226	7,078,379	7,232,363	9,001,079	8,363,244	11,937,598	26,717,271	13,145,251	11,259,687	11,162,765
Police	40,089,633	43,399,766	42,794,170	47,320,658	56,588,057	56,980,657	63,533,856	69,507,685	70,694,372	71,714,415
Fire and Emergency Services	34,632,768	36,207,002	36,841,543	39,390,542	47,469,043	53,242,082	58,497,360	66,077,180	63,116,000	67,106,441
Community Corrections	22,459,847	24,505,670	24,478,660	27,326,172	28,539,978	29,028,326	30,686,297	30,670,339	30,894,261	31,104,781
Building Inspection	1,824,812									
Environmental Quality										
Social Services	8,519,665	8,931,694	9,070,442	10,579,394	13,379,478	15,493,804	16,392,173	14,719,158	11,836,703	10,672,881
General Services	12,733,803	12,854,362	16,242,299	16,998,086	18,493,537	10,855,412	11,531,344	13,944,835	14,629,238	14,242,698
Parks and Recreation	13,917,342	14,012,815	13,380,436	14,840,330	16,739,980	19,428,046	21,961,714	19,955,406	18,320,596	19,064,298
Law and Risk Management	1,622,237	1,824,518	1,642,220	2,041,719	1,946,786	2,113,341	12,593,109	10,803,413	9,301,249	10,227,268
Outside Agencies	32,291,743	32,704,465	27,718,643	26,797,6	178,667					
Special Projects	2,044,329									
Interest on Long-Term Debt	5,642,956	5,840,627	5,739,105	6,236,280	6,291,512	6,378,169	5,727,995	6,357,236	10,692,416	13,131,617
Debt Service - Other	8,604,257	5,957,246	6,444,538	1,261,204	1,040,970	1,056,289	1,056,179			
Total governmental activities	258,675,126	282,299,749	283,245,850	277,628,208	363,252,420	357,550,215	416,991,666	412,564,167	408,047,873	434,166,244
Business-type Activities:										
Sanitary Sewer System	20,800,028	21,319,274	22,347,738	23,554,596	24,553,305	26,703,501	36,565,069	35,438,026	41,453,360	42,472,580
Public Facilities	9,046,445	13,568,097	13,500,561	12,121,284	12,175,005	10,444,503	11,359,294	10,971,103	10,806,267	10,741,225
Public Parking	997,765	967,952	941,821	891,857	909,544	511,198	463,177	1,012,399	927,900	906,926
Landfill	4,882,616	4,662,162	5,423,413	4,233,412	1,391,578	1,651,318	7,250,365	6,209,619	6,641,801	6,581,625
Right of Way	75,665	261,494	266,933	266,933	292,284	307,012	333,723	299,598	313,383	312,770
Extended School Program	1,215,530	1,230,845	1,387,203	1,452,385	1,578,873	1,967,573	2,081,422	2,333,357	2,456,874	2,207,310
Prisoners' Account System	693,371	1,053,084	1,360,709	1,472,693	1,363,204	1,273,913	1,724,224	1,628,156	1,421,523	1,287,139
Enhanced 911	2,418,817	2,650,745	2,300,114	2,112,518	2,107,592	3,057,919	3,870,267	3,314,149	3,634,032	3,083,806
LexVan Program			17,545	40,296	35,122	62,228	54,347	63,502	57,644	84,242
Small Business Development			108,343	3,562	8,838					
Stormwater										
Total business-type activities	40,054,572	45,527,824	47,648,941	46,149,536	44,415,345	45,979,165	63,701,888	63,111,884	72,241,187	73,957,704
Total primary government	\$298,729,698	\$327,827,573	\$330,894,791	\$323,777,744	\$407,667,765	\$403,529,380	\$480,693,554	\$475,676,051	\$480,289,060	\$508,123,948

(Accrual Basis of Accounting)

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

TABLE 3

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved	\$4,595,676	\$6,345,782	\$3,473,224	\$4,940,741	\$4,845,381	\$4,637,101	\$5,254,246	\$12,177,430	\$12,019,893	\$ -
Unreserved										
Designated for Economic Contingency	5,745,936	5,825,468	5,878,356	5,996,710	8,272,087	11,894,147	13,219,620	14,470,569	14,470,569	
Designated for Payroll	2,859,554	2,890,562	3,300,418	4,260,723		556,400	1,293,279	2,116,169	2,923,169	
Designated for Working Capital	4,757,915	3,600,360	3,864,830	3,394,250	7,036,780	9,634,602				
Designated for Pay Adjustments			906,180							
Undesignated	4,179,207	3,674,154	12,177,065	17,468,671	17,734,190	15,713,298	4,620,501	4,365,746	2,106,483	1,493,737
Nonspendable										
Assigned to:										
General Government										3,931,000
Economic Stabilization										18,200,738
Unassigned										562,360
Total	22,138,288	22,336,326	29,600,073	36,061,095	37,888,438	42,435,548	24,387,646	33,129,914	31,520,114	24,187,835
Urban Services										
Reserved	3,525,288	3,031,240	1,419,156	3,796,313	2,963,095	1,661,414	1,064,326	5,612,288	8,842,245	
Designated for Payroll	191,011	233,899	302,654	367,505		45,700	99,401	127,622	154,622	
Undesignated	16,720,062	15,193,297	18,167,725	17,637,287	20,771,372	26,852,738	31,935,168	28,237,751	16,986,960	4,031
Nonspendable										
Restricted for:										
Urban Service Projects										181,622
Unassigned										20,239,119
Total	20,436,361	18,458,436	19,889,535	21,801,105	23,734,467	28,559,852	33,098,895	33,977,661	25,983,827	20,424,772
All Other Governmental Funds										
Reserved	11,484,513	12,562,673	9,770,889	9,119,957	11,641,885	6,521,414	18,430,040	7,944,462	12,702,665	
Undesignated, reported in:										
Nonspendable										369
Restricted for:										
Public Works										10,357,176
Public Safety										3,117,402
Special Revenue Funds	1,953,071	3,462,414	3,486,847	4,315,924	6,789,094	8,770,810	9,269,371	12,137,914	13,742,070	
Capital Projects	9,501,913	5,883,281	1,014,962	19,410,938	25,849,967	14,852,272	(13,728,932)	6,138,952	36,272,857	32,094,257
Grants Projects	1,294,046	1,169,455	329,493	514,983	235,303	313,460	119,184	100,842	116,485	546,461
Assigned to:										
General Government										410,544
Unassigned										(974,484)
Total	\$24,233,543	\$23,077,823	\$14,602,191	\$33,361,802	\$44,516,249	\$30,457,956	\$14,089,663	\$26,322,170	\$62,834,077	\$45,551,725

LFUCG elected to implement GASB Statement No. 54, Fund Balance Reporting and the Governmental Fund Type Definitions, in fiscal year 2011. This statement allows the entity to apply prospectively in the statistical section. Therefore, LFUCG has not reclassified prior information.

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

TABLE 4

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Licenses and Permits	\$160,717,826	\$165,274,588	\$179,533,692	\$189,786,177	\$198,653,467	\$215,760,874	\$224,874,954	\$222,841,928	\$219,586,264	\$228,816,452
Taxes	37,203,745	40,127,166	41,964,425	43,189,707	44,889,961	47,791,867	51,455,185	54,301,749	51,143,199	52,548,109
Charges for Services	20,404,416	20,489,827	20,449,154	21,561,092	20,648,157	22,350,901	21,357,602	22,073,405	21,182,005	24,158,224
Fines and Forfeitures	382,532	236,226	245,150	184,104	323,063	57,192	180,785	303,205	268,459	220,449
Local Contributions	2,325,000									
Intergovernmental	38,269,881	41,632,430	47,380,792	30,321,835	31,784,556	32,419,475	45,587,385	36,462,389	41,088,818	33,622,666
Exactions	561,670	1,754,136	1,754,558	4,767,468	2,823,892	1,584,199	1,283,254	379,575	601,993	96,613
Grant Match	2,271,624	2,766,839	2,450,210	2,025,396	2,256,329	2,178,329	1,709,521	2,734,433	2,619,353	
Property Sales	87,186	138,315	457,849	523,841	956,340	785,073	557,071	803,382	499,119	2,681,463
Income on Investments	1,562,701	773,032	451,123	1,420,555	3,366,361	5,737,945	3,582,709	804,510	300,149	129,839
Other	3,554,903	5,667,056	4,230,933	5,544,293	5,787,271	7,260,457	8,145,477	7,928,848	9,988,984	8,998,513
Total Revenues	267,341,484	278,859,615	298,917,886	299,324,468	311,489,397	335,926,312	358,732,943	348,633,424	347,278,343	351,272,328
Expenditures										
General Government	9,869,176	9,552,502	21,330,624	9,812,520	8,635,249	6,706,895	13,651,464	6,761,982	6,962,873	7,382,550
Administrative Services	15,961,216	17,683,142	29,924,619	24,077,384	25,104,922	25,431,738	1,845,175	3,213,262	1,098,505	1,209,504
Chief Information Officer							9,919,332	13,566,187	10,287,205	8,450,628
Finance	6,096,794	6,118,472	6,488,798	6,593,458	7,145,881	9,890,462	11,561,109	11,488,448	11,979,265	9,271,854
Public Works	40,375,022	42,235,913	36,175,381	41,247,381	40,430,609	34,857,640	23,013,365	24,708,831	22,514,826	21,858,996
Public Safety	98,744,205	103,806,458	106,315,766	118,307,014	137,232,016	142,764,740	153,492,722	227,892,046	191,233,566	160,552,216
Social Services	9,288,878	9,929,597	11,162,991	13,389,135	12,245,264	13,347,071	12,006,737	11,623,944	9,615,423	8,402,054
Environmental Quality						19,441,341	21,076,668	20,398,457	22,544,214	
General Services	25,560,791	25,270,975	23,757,464	24,696,780	30,279,293	28,040,506	28,280,713	29,246,730	26,370,443	25,763,110
Law and Risk Management	1,576,323	1,879,329	1,630,466	1,861,769	1,575,637	2,064,825	23,551,596	10,851,780	9,327,861	10,237,207
Outside Agencies	31,840,555	32,513,602	27,557,006	18,876,456	15,846,048	15,613,480	20,090,648	19,236,209	18,123,297	19,244,315
Special Projects	2,044,329									
Debt Service:										
Principal	7,743,568	9,711,219	10,404,328	14,156,321	15,030,273	18,797,661	16,740,000	13,760,000	26,230,000	20,035,000
Interest and Other	14,348,596	11,914,692	12,150,607	7,634,836	7,384,493	7,594,762	6,907,518	5,495,982	9,409,512	13,703,243
Capital	22,324,958	22,168,069	17,883,186	12,927,159	21,389,866	36,861,883	47,475,384	45,435,689	70,941,523	49,010,038
Total Expenditures	285,774,411	292,783,970	304,781,236	293,580,213	322,299,551	341,971,663	387,977,104	444,357,758	434,492,756	377,664,929
Excess (Deficiency) of Revenues over (under) Expenditures	(18,432,927)	(13,924,355)	(5,863,350)	5,744,255	(10,810,154)	(6,045,351)	(29,244,161)	(95,724,334)	(87,214,413)	(26,392,601)
Other Financing Sources (Uses)										
Transfers In	810,599	2,620,303	1,820,461	5,719,846	6,807,387	3,746,037	1,375,483	4,238,345	6,723,504	3,843,657
Transfers Out	(2,194,686)	(3,666,134)	(2,956,814)	(7,000,929)	(6,137,133)	(7,054,091)	(2,008,473)	(3,620,469)	(4,985,650)	(3,773,123)
Property Sales		1,479,458								
Debt Proceeds (net of bond refunding)	15,415,000	10,490,000	6,590,000	22,325,000	24,700,000	4,667,606		116,960,000	119,515,000	19,720,000
Bond Anticipation Note			445,187	304,813	7,599					
Premium (Discount) on Bonds Issued	(148,782)	65,121	183,730	39,218	210,968				(7,130,168)	(4,580,255)
Total Other Financing Sources (Uses)	13,882,131	10,988,748	6,082,564	21,387,948	25,588,821	1,359,552	(632,990)	117,577,876	114,122,686	15,210,279
Net Change in Fund Balances	(\$4,550,796)	(\$2,935,607)	\$219,214	\$27,132,203	\$14,778,667	(\$4,685,799)	(\$29,877,151)	\$21,853,542	\$26,908,273	(\$11,182,322)
Debt Service as a percentage of noncapital expenditures*	5.1%	5.7%	5.6%	7.2%	7.1%	8.3%	6.6%	4.7%	9.7%	10.1%

*Prior year ratios recalculated to include only principal and interest components of debt service expenditures.

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

TABLE 5

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Licenses and Permits	\$159,054,097	\$164,661,161	\$177,623,046	\$188,632,470	\$197,805,430	\$214,665,674	\$223,622,531	\$221,612,009	\$218,333,096	\$227,486,734
Taxes	13,539,941	14,547,490	15,729,458	17,731,787	17,156,666	18,150,819	19,509,219	20,737,242	20,222,945	20,992,845
Charges for Services	17,671,856	20,402,491	20,279,414	21,260,954	21,003,296	22,215,574	21,313,927	21,965,618	21,002,080	24,084,059
Fines and Forfeitures	382,532	236,226	245,150	184,104	323,063	57,192	137,659	270,598	262,040	215,493
Intergovernmental	1,941,787	2,079,144	3,693,236	2,418,670	2,465,624	2,133,350	3,315,630	2,405,778	1,156,085	2,441,417
Property Sales	33,617	1,479,458	438,709	516,536	349,715	465,537	392,892	646,007	473,784	1,985,318
Income on Investments	334,302	127,728	90,639	533,607	1,481,463	2,971,942	1,827,694	288,720	62,901	(2,381)
Other	1,711,660	1,483,755	1,138,913	1,873,064	1,743,395	4,088,217	3,206,921	3,559,545	5,640,858	4,159,715
Total Revenues	194,669,792	205,017,453	219,238,565	233,151,192	242,328,652	264,748,305	273,326,473	271,485,517	267,153,789	281,363,200
Expenditures and Other										
Financing Sources (Uses)										
General Government ⁽¹⁾	4,843,238	5,513,279	3,680,801	3,668,705	4,458,163	5,048,021	11,450,829	3,337,821	3,206,859	3,872,271
Administrative Services	10,796,794	15,396,156	14,858,450	13,228,125	15,582,368	15,276,489	1,081,760	1,052,574	1,098,505	1,209,504
Chief Information Officer							6,513,655	7,610,707	7,366,977	7,820,811
Finance	5,911,517	6,061,481	6,473,910	6,773,332	7,256,067	7,745,982	7,955,937	9,057,361	8,297,391	7,936,589
Public Works	11,954,671	11,377,147	10,706,996	12,389,534	12,637,417	11,771,654	18,553,415	17,198,118	18,296,963	16,628,445
Public Safety	92,178,648	94,704,416	99,730,690	111,767,425	131,079,150	138,132,390	146,778,076	219,175,755	183,918,587	154,017,726
Social Services ⁽¹⁾	6,244,601	6,590,974	7,871,084	9,143,767	9,274,916	10,617,866	10,245,245	9,604,663	7,439,405	6,801,050
Environmental Quality							2,025,452	53,206	3,217	6,407
General Services	21,735,067	22,410,805	21,644,848	24,917,618	25,299,456	28,318,762	28,032,856	28,401,996	26,464,121	25,414,155
Law	1,590,374	1,820,584	1,613,724	1,876,412	1,923,928	1,782,008	20,032,934	9,602,925	8,601,967	9,607,308
Outside Agencies	23,416,545	23,526,902	22,818,075	18,258,584	14,349,512	15,464,809	16,843,781	16,913,570	16,786,200	16,935,373
Debt Service	19,360,248	18,851,660	20,447,860	20,802,641	21,585,420	25,662,867	23,163,080	19,386,936	27,749,206	33,701,269
Other Financing (Sources) Uses	973,404	(1,981,067)	(479,708)	4,860,964	140,864	202,328	(685,501)	(78,652,384)	(40,465,809)	(3,207,654)
Residual Equity Transfers										
Total Expenditures and Other	199,005,107	204,272,337	209,366,730	227,687,107	243,587,261	260,023,176	291,991,519	262,743,248	268,763,589	280,743,254
Financing Sources (Uses)										
Net Change in Fund Balance	(\$4,335,315)	\$745,116	\$9,871,835	\$5,464,085	(\$1,258,609)	\$4,725,129	(\$18,665,046)	\$8,742,269	(\$1,609,800)	\$619,946

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

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

TABLE 6

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SANITARY SEWER SYSTEM
SUMMARY OF REVENUES AND EXPENSES

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Sewer Service Charges	\$20,425,852	\$24,298,724	\$25,457,887	\$24,049,216	\$25,602,266	\$24,014,195	\$25,884,142	\$35,213,276	\$45,578,971	\$45,663,797
Sewer Tap on Fees	1,240,051	1,227,111	1,428,449	1,584,341	1,661,417	1,629,573	1,223,820	1,048,864	1,072,452	1,523,169
Exactions	195,672	826,960	878,035	1,974,660	1,160,296	513,539	343,998	198,914	287,677	885,730
Other Income	231,850	181,146	193,694	50,204	47,965	41,731	80,462	93,293	448,880	776,339
Total Revenues	22,093,425	26,533,941	27,958,065	27,658,421	28,471,944	26,199,038	27,532,422	36,554,347	47,387,980	48,849,035
Operating Expenses										
Treatment Plant	5,692,586	6,428,699	6,616,161	6,088,076	7,106,877	7,259,708	8,164,345	8,447,048	8,502,531	8,411,093
Collection System	3,001,129	3,048,143	3,179,687	3,485,272	3,760,098	4,236,199	5,411,212	4,427,863	4,297,166	5,544,184
Administration	3,557,429	3,931,198	4,656,945	6,002,433	5,959,400	6,786,349	15,083,099	14,325,685	18,974,390	18,243,183
Depreciation	5,764,369	5,908,134	6,291,982	6,373,506	6,225,299	6,361,511	6,417,656	6,393,816	7,113,944	7,214,960
Total Operating Expenses	18,015,513	19,316,174	20,744,775	21,949,287	23,051,674	24,643,767	35,076,312	33,594,412	38,888,031	39,413,420
Operating Income	4,077,912	7,217,767	7,213,290	5,709,134	5,420,270	1,555,271	(7,543,890)	2,959,935	8,499,949	9,435,615
Net Nonoperating Revenues/(Expenses)	(954,809)	(1,138,325)	(1,074,183)	(504,103)	555,560	(279,228)	(406,882)	(1,255,146)	(2,909,369)	(2,486,197)
Capital Contributions	913,305	117,312	88,944							
Transfers In			10,000	10,000	10,000	533,401	81,331	453,974		3,010,299
Transfers Out		(1,014)	(4,400)	(952)	(1,149,277)	(910,455)	(596,775)	(888,779)	(394,869)	(4,283,344)
Net Income/Change in Net Assets	\$4,036,408	\$6,195,740	\$6,233,651	\$5,214,079	\$4,836,553	\$898,989	(\$8,466,216)	\$1,269,984	\$5,195,711	\$5,676,373

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

TABLE 7

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)
2002	\$9,141,865	\$446,553	\$4,326,255	\$ -	\$4,213,642	\$2,073,358	\$20,201,673	\$2,073,358	\$18,128,315	0.2945
2003	9,823,997	465,697	4,543,167	870	4,303,219	4,208,933	23,345,883	4,208,933	19,136,950	0.2945
2004	10,486,256	545,897	4,695,549	806	4,397,630	3,183,438	23,309,576	3,183,438	20,126,138	0.2904
2005	11,287,423	559,829	4,897,578	770	4,315,023	3,527,423	24,588,046	3,527,423	21,060,623	0.2704
2006	12,304,135	596,790	5,110,109	839	4,615,906	4,255,901	26,883,680	4,255,901	22,627,779	0.2704
2007	13,207,008	624,912	5,444,972	1,524	5,030,923		24,309,339		24,309,339	0.2704
2008	14,116,473	819,013	5,890,069	1,544	4,931,925		25,759,024		25,759,024	0.2694
2009	14,681,278	836,738	6,219,162	1,516	5,723,817		27,462,511		27,462,511	0.2535
2010	14,887,510	866,958	6,310,733	1,530	5,076,606		27,143,337		27,143,337	0.2535
2011	\$15,043,326	\$880,219	\$6,377,418	\$2,241	\$4,975,027		\$27,278,231		\$27,278,231	0.2535

Note: Property is assessed at 100% fair market value. The intangible property tax rate was repealed as of January 1, 2006 per Kentucky Revised Statute 132.208.

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

TABLE 8

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
2002	\$37,350,328	\$36,419,100	97.5%	\$490,377	\$36,660,389	98.2%
2003	39,997,319	39,116,817	97.8%	496,473	39,607,194	99.0%
2004	41,930,263	40,877,962	97.5%	1,429,648	41,374,435	98.7%
2005	41,915,431	41,211,370	98.3%	231,649	42,641,018	101.7%
2006	44,526,763	44,342,484	99.6%	47,172	44,574,133	100.1%
2007	47,282,303	47,245,216	99.9%	34,628	47,292,388	100.0%
2008	51,138,980	51,077,055	99.9%	25,838	51,102,893	99.9%
2009	53,823,142	53,779,117	99.9%	872,363	54,651,480	101.5%
2010	51,262,112	50,085,884	97.7%	890,279	50,976,163	99.4%
2011	\$52,264,220	\$51,732,977	99.0%	\$323,036	\$52,056,013	99.6%

Note:

Data provided by the Sheriff's Tax Settlement Report

1. Collections in Subsequent Years have been updated for Fiscal Year 2010.
2. FY 2011 reflects collections through November 2011.

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

TABLE 9

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						Total	
	General	Urban Services			Total Direct	Fayette County School	Commonwealth of Kentucky	Extension Services	Soil &		Health Department		Lextran
		Refuse	Street Lights	Street Cleaning					Water Conservation				
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
2005	0.0800	0.1600	0.0210	0.0094	0.2704	0.5350	0.1310	0.0032	0.0004	0.0280			0.9680
2006	0.0800	0.1600	0.0210	0.0094	0.2704	0.5380	0.1310	0.0031	0.0004	0.0280	0.0600		1.0309
2007	0.0800	0.1600	0.0210	0.0094	0.2704	0.5410	0.1280	0.0031	0.0004	0.0280	0.0600		1.0309
2008	0.0800	0.1590	0.0210	0.0094	0.2694	0.5940	0.1240	0.0031	0.0004	0.0280	0.0600		1.0789
2009	0.0800	0.1590	0.0210	0.0094	0.2694	0.6050	0.1220	0.0032	0.0004	0.0280	0.0600		1.0880
2010	0.0800	0.1431	0.0210	0.0094	0.2535	0.6280	0.1220	0.0032	0.0004	0.0280	0.0600		1.0951
2011	0.0800	0.1431	0.0210	0.0094	0.2535	0.6280	0.1220	0.0032	0.0004	0.0280	0.0600		1.0951

Note: All taxpayers in Fayette County are subject to the General Service rate. Total Direct 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

TABLE 10

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

Name	2011			2002		
	Taxable Assessed Value	Rank	% of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	% of Total City Taxable Assessed Value
Fayette Mall SPE LLC	117,000,000	1	0.43%			
Fourth Quarter Properties	94,605,300	2	0.35%	42,878,500	3	0.34%
Lexmark International Inc.	55,806,600	3	0.20%	42,175,500	4	0.33%
Weingarten Realty Inc.	48,274,200	4	0.18%			
War Admiral Place LLC	44,970,900	5	0.16%			
Fayette Plaza CMBS LLC	40,000,000	6	0.15%			
Ball Realty Inc.	38,488,100	7	0.14%	53,027,500	2	0.38%
Diamondrock Griffin	35,950,000	8	0.13%			
Meijer Stores Ltd	33,573,600	9	0.12%			
Mid American Apts LLC	32,700,000	10	0.12%	24,760,000	10	0.20%
Newtown Crossing LLC						
Lexington Joint Venture*				49,798,000	1	0.39%
W T Young Inc.				33,562,400	5	0.26%
CHCK Inc.						
Griffin Gate Association				30,516,000	6	0.24%
MCV Venture				27,397,900	7	0.21%
Wal Mart Jdn Dev Co				26,175,400	8	0.21%
Lexington Financial				25,000,000	9	0.20%
Total	\$541,368,700		1.98%	\$355,291,200		2.76%

*Lexington Joint Venture - changed name to Fayette Mall SPE LLC in 2010

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

TABLE 11
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
DIRECT AND OVERLAPPING
LICENSE FEE RATES
LAST TEN FISCAL YEARS

Fiscal Year	LFUCG Direct		Fayette County School		Total
	Rate				
2002	2.25%		0.50%		2.75%
2003	2.25%		0.50%		2.75%
2004	2.25%		0.50%		2.75%
2005	2.25%		0.50%		2.75%
2006	2.25%		0.50%		2.75%
2007	2.25%		0.50%		2.75%
2008	2.25%		0.50%		2.75%
2009	2.25%		0.50%		2.75%
2010	2.25%		0.50%		2.75%
2011	2.25%		0.50%		2.75%

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

TABLE 12

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

Name	2011 Rank	2002 Rank
University of Kentucky	1	1
Lexmark International	2	2
Fayette County Board of Education	3	3
Lexington-Fayette Urban County Government	4	4
Defense Finance & Acctg System (formerly Dept of Veterans Affairs)	5	7
St. Joseph Hospital	6	5
Baptist Healthcare	7	6
L3 Communications	8	
Lexington Clinic	9	
Ashland, Inc.	10	10
American Standard		9
IBM Information Products		8
Source: Department of Finance, Lexington-Fayette Urban County Government		

TABLE 13

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	
	General Obligation		Bond		Revenue		Mortgage Revenue				Debt Per Capita	
	Bonds, Notes, Leases	Mortgage Revenue Bonds	Lease Revenue Notes Payable	Anticipation Notes	Bonds	Bonds	Bonds					
2002	\$117,900,000	\$885,000	\$1,991,244	\$ -	\$56,710,531	\$103,730,000			\$281,216,775	3.3%	1,063	
2003	119,795,000	285,000	1,543,585		53,375,000	98,320,000			273,318,585	3.1%	1,021	
2004	136,560,000		434,255		50,040,000	73,940,000			260,974,255	2.8%	968	
2005	144,905,000		257,934	742,401	46,560,000	71,680,000			264,145,335	2.7%	970	
2006	154,760,000		72,661	750,000	42,915,000	69,625,000			268,122,661	2.6%	972	
2007	142,805,000				39,400,000	68,885,000			251,090,000	2.3%	900	
2008	126,065,000				35,715,000	68,195,000			229,975,000	2.2%	816	
2009	229,265,000				31,860,000	66,470,000			327,595,000	na	na	
2010	308,355,000			8,000,000	64,565,000	63,890,000			444,810,000	na	na	
2011	\$303,865,000	\$ -	\$ -	\$ -	\$61,393,639	\$61,990,000			\$427,248,639	na	na	

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

See page 147 for population data.

Personal income data not available after 2008.

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

TABLE 14
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation	% of Assessed Value of Property	Per Capita
	Bonds		
2002	\$117,900,000	0.65%	\$446
2003	119,795,000	0.63%	447
2004	136,560,000	0.68%	506
2005	144,905,000	0.69%	532
2006	154,760,000	0.68%	561
2007	142,805,000	0.59%	512
2008	126,065,000	0.49%	447
2009	229,265,000	0.83%	773
2010	308,355,000	1.14%	na
2011	\$303,865,000	1.11%	na

Notes: Details regarding LFUCG outstanding debt can be found in the notes to the financial statements.
See page 140 for property value date and page 150 for population data.
Personal income data not available after 2008

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

TABLE 15

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
SCHEDULE OF DIRECT AND OVERLAPPING INDEBTEDNESS
AS OF JUNE 30, 2011

	Debt Outstanding (1)	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Lexington Center Corporation			
Refunding and Improvement Mortgage Revenue Bonds, Series 1993	\$4,934,216	3.38%	\$166,692
Mortgage Revenue Bonds, Series 2008A	20,370,000	3.38%	688,157
Lexington-Fayette Urban County Government Airport Corporation			
Fixed Rate General Airport, Revenue and Refunding Bond 2009A (non-AMT)	31,880,000	2.99%	954,211
Variable Rate General Airport, Revenue and Refunding Bond 2009B (non-AMT)	16,420,000	2.99%	491,473
Variable Rate General Airport, Revenue and Refunding Bond 2008B (non-AMT)	11,140,000	2.99%	333,435
Variable Rate General Airport Taxable Revenue and Refunding Bond 2008C	725,000	2.99%	21,700
Fayette County School & Kentucky School Commission Bonds	309,985,013	100.00%	309,985,013
Lexington-Fayette Urban County Department of Health	\$730,000	100.00%	730,000
Subtotal, Overlapping Debt			313,370,682
LFUCG, Direct Debt			303,865,000
Total Direct and Overlapping Indebtedness			<u>\$617,235,682</u>

Notes

(1) 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.

(2) Determined by ratio of assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in LFUCG or by ratio of total revenue of overlapping unit to total revenue of LFUCG.

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

TABLE 16

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assessed Value	\$20,201,673	\$23,345,884	\$23,309,575	\$24,588,044	\$26,883,680	\$24,309,339	\$25,759,025	\$27,462,511	\$27,143,337	\$27,278,231
Debt limit (10% of Assessed Value)	2,020,167	2,334,588	2,330,958	2,458,804	2,688,368	2,430,934	2,575,902	2,746,251	2,714,334	2,727,823
Total net debt applicable to limit	190,533	187,635	187,350	181,675	176,110	171,270	166,455	195,775	171,510	108,710
Legal debt margin	\$1,829,634	\$2,146,953	\$2,143,608	\$2,277,129	\$2,512,258	\$2,259,664	\$2,409,447	\$2,550,476	\$2,542,824	\$2,619,113
Total net debt applicable to the limit as a percentage of debt limit	9.43%	8.04%	8.04%	7.39%	6.55%	7.05%	6.46%	7.13%	6.32%	3.99%
Source: Department of Finance, Lexington-Fayette Urban County Government										

TABLE 17

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

Fiscal Year	Sanitary Sewer System					Public Facilities Corporation				
	Less:		Gross Revenue	Net Available Revenue		Less:		Gross Revenue	Net Available Revenue	
	Operating Expenses			Principal	Debt Service Interest	Operating Expenses			Principal	Debt Service Interest
2002	\$23,343	\$12,251	\$11,092	\$2,868	\$1,989	\$1,840	\$9,181	\$11,021	\$3,505	\$3,407
2003	27,196	13,408	13,788	3,336	2,725	2,328	8,855	11,183	4,580	4,733
2004	28,428	14,453	13,975	3,335	2,570	2,474	9,030	11,504	4,760	4,530
2005	28,701	15,576	13,125	3,480	2,414	2,479	4,464	6,943	1,365	3,473
2006	28,472	16,826	11,646	3,515	2,076	2,600	4,651	7,251	1,485	3,348
2007	26,199	18,282	7,917	3,685	1,906	2,095	3,344	5,439	3,344	3,495
2008	28,994	28,659	335	3,855	1,726	2,853	3,385	6,238	1,005	3,721
2009	37,049	27,201	9,848	3,855	1,706	2,681	4,160	6,841	1,005	2,716
2010	47,446	31,774	15,672	4,040	1,849	2,670	3,761	6,431	2,643	2,661
2011	\$49,383	\$32,198	\$17,185	\$ -	\$ -	\$2,789	\$4,370	\$7,159	1,900	\$ -
Public Parking Corporation										
Fiscal Year	Less:		Gross Revenue	Net Available Revenue		Special Assessment Bonds		Special Assessment Collections	Debt Service	
	Operating Expenses			Principal	Debt Service Interest	Principal			Principal	Interest
2002	\$1,298	\$317	\$981	\$775	\$303	\$49	\$355	\$56	\$12	0.12
2003	1,447	335	1,112	830	268	49	555	39	0.08	0.08
2004	1,563	306	1,257	860	229	46	45	14	0.78	0.78
2005	1,451	343	1,108	895	190	34	45	12	0.60	0.60
2006	1,304	387	917	655	129	29	50	9	0.49	0.49
2007	594	149	445	690	100	26	50	7	0.46	0.46
2008	1,193	0	1,193	720	70	35	55	4	0.59	0.59
2009	1,383	580	803	720	70		50	1	0.00	0.00
2010	1,203	539	664	750	36				0.00	0.00
2011	\$861	\$600	\$261	\$ -	\$ -	\$ -	\$ -	\$ -	0.00	0.00

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.

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

TABLE 18

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
2002	264,568	\$8,558,655	\$32,350	139,303	6,229	4.3%
2003	267,794	8,774,357	32,765	139,285	6,837	4.7%
2004	269,631	9,197,855	34,113	137,816	6,033	4.2%
2005	272,219	9,798,607	35,995	139,182	6,679	4.6%
2006	275,915	15,634,000	35,543	142,077	6,582	4.4%
2007	279,044	16,619,000	37,253	144,393	6,056	4.0%
2008	282,000	17,115,000	37,745	144,068	7,311	4.8%
2009	296,545	n/a	n/a	141,049	13,087	8.5%
2010	295,803 *	n/a	n/a	142,196	12,029	7.8%
2011	n/a	n/a	n/a	147,052	12,146	7.6%

* updated in 2011

Note:

Personal Income and Per Capita Personal Income data not available after 2008.

Source: The Bureau of Economic Analysis

Source: U.S. Census Bureau

Source: The Bureau of Labor Statistics

TABLE 19

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
PRINCIPAL EMPLOYERS, FAYETTE COUNTY
CURRENT YEAR AND NINE YEARS AGO

Name	2011			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
University of Kentucky	12,278	1	8.35%	n/a	n/a	n/a
Fayette County Board of Education	5,500	2	3.74%	n/a	n/a	n/a
St. Joseph Hospital	3,500	3	2.38%	n/a	n/a	n/a
Lexington-Fayette Urban County Government	3,300	4	2.24%	n/a	n/a	n/a
Lexmark International	3,000	5	2.04%	n/a	n/a	n/a
ACS a Zerox Company	2,700	6	1.84%	n/a	n/a	n/a
Baptist Healthcare	2,496	7	1.70%	n/a	n/a	n/a
Wal-Mart	2,027	8	1.38%	n/a	n/a	n/a
Lockheed Martin (formerly L3 Communications)	1,800	9	1.22%	n/a	n/a	n/a
Kroger	1,655	10	1.13%	n/a	n/a	n/a
	<u>38,256</u>		<u>26.02%</u>			

Note:

First year of presentation for Employees and Percentage of Total City Employment was FY2010. This data is not available for FY2002.

Source: Lexington Chamber of Commerce

TABLE 20

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

Year	Farm	Agricultural Service	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
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
2001	1,852	3,107	335	12,727	16,252	13,314	5,315	24,222	13,180	79,852	35,156	205,312
2002	1,821	2,924	339	11,478	14,993	12,860	5,075	23,878	13,259	81,320	34,208	202,155
2003	2,067	2,644	438	11,432	14,347	13,024	4,883	23,897	13,330	82,154	35,099	203,315
2004	2,000	2,484	452	11,524	14,174	12,621	4,367	23,831	13,978	85,688	34,607	205,726
2005	1,717	2,499	494	11,875	14,864	13,225	4,456	24,022	14,277	87,802	34,910	210,141
2006	1,708	2,882	589	11,980	15,034	13,083	4,445	24,091	15,129	89,795	36,138	214,874
2007	1,667	3,060	646	11,716	15,601	13,565	4,323	24,207	15,340	89,812	38,641	218,578

Source: The Bureau of Economic Analysis

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
EMPLOYMENT BY INDUSTRY, FAYETTE COUNTY
Reflects Current Industry Standards

Year	Construction	Education and Health Services	Financial Activities	Information	Leisure and Hospitality	Manufacturing	Natural Resources and Mining	Other Services	Professional and Business Services	Trade, Transportation, and Utilities	Others	Total Employment by Place of Work
2008	7,723	21,035	8,583	5,086	19,427	14,929	2,260	4,941	23,700	34,320	110,466	252,470
2009	7,109	21,603	7,921	4,403	19,455	13,194	2,043	5,138	23,745	32,697	104,602	241,910
2010	6,937	21,477	8,046	4,628	20,176	12,882	2,170	5,383	22,186	30,782	104,273	238,940

Source: Bureau of Labor Statistics

TABLE 21

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

	1990 Census		2000 Census		2010 Census	
	Value	%	Value	%	Value	%
Population and Number of Households						
Population						
Under 18 years	50,416	22.4%	55,533	21.3%	62,633	21.2%
18 - 64 years	152,638	67.7%	178,805	68.6%	202,032	68.3%
65 years and over	22,312	9.9%	26,174	10.0%	31,138	10.5%
Total	<u>225,366</u>	100.0%	<u>260,512</u>	100.0%	<u>295,803</u>	100.0%
Number of Households	89,529		108,288		123,043	
Economic and Education						
Family Income						
Less than \$10,000	5,979	10.5%	3,587	5.6%	4,407	6.3%
\$10,000 - \$24,999	12,365	21.7%	8,947	14.1%	8,791	12.7%
\$25,000 - \$49,999	20,889	36.7%	17,124	26.9%	15,164	21.8%
\$50,000 - \$74,999	10,790	19.0%	14,759	23.2%	12,913	18.6%
\$75,000 or more	6,850	12.0%	19,231	30.2%	28,149	40.5%
Total Families	<u>56,873</u>	100.0%	<u>63,648</u>	100.0%	<u>69,424</u>	100.0%
Median Family Income	\$35,936		\$53,264		\$63,086	
Mean Family Income	\$44,467		\$52,261		\$76,373	
Per Capita Income	\$20,355		\$23,109		\$25,561	
School Enrollment						
Elementary/Secondary	32,858		36,938		43,918	
College	28,339		31,508		41,238	
Education for Individuals 25+ years of age						
Less than 9th grade	11,760	8.3%	8,539	5.1%	8,813	4.6%
High School, No Diploma	16,365	11.5%	15,213	9.1%	13,986	7.3%
High School Graduate	33,238	23.4%	37,448	22.4%	43,875	22.9%
College 1 - 3 years	37,299	26.2%	46,420	27.8%	54,796	28.6%
College 4 or more years	43,454	30.6%	59,615	35.6%	70,124	36.6%
Total	<u>142,116</u>	100.0%	<u>167,235</u>	100.0%	<u>191,595</u>	100.0%
Unemployment Rate	3.7%		1.8%		7.0%	

Source: U.S. Census Bureau

TABLE 22

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

Function/Program	2002	2003	2004	2005	2006	2007	2008*	2009	2010	2011
Administrative Services	145	150	140	139	143	145	77	89	91	86
General Government	96	94	67	64	70	74	77	48	73	70
Finance & Administration	99	100	94	90	98	94	104	108	103	94
General Services										
Parks and Recreation	166	169	172	180	187	183	180	145	138	132
Other	166	169	157	124	129	132	123	132	134	130
Law	19	20	19	18	19	21	34	31	26	26
Public Safety										
Fire and Emergency Services										
Firefighters and Officers	477	473	464	498	504	530	512	504	522	520
Civilians	42	40	38	39	37	23	20	18	15	18
Police										
Officers	488	469	471	472	527	534	538	557	542	511
Civilians	153	162	192	184	177	151	117	77	102	93
Community Corrections	342	347	371	383	357	376	359	341	294	284
Other	69	71	72	73	78	78	99	101	75	79
Public Works & Development							221	218	244	
Solid Waste	225	238	236	217	221	211				
Sanitary Sewers	119	121	129	125	130	135				
Other	176	173	168	154	162	162				240
Environmental Quality										
Waste Management							208	199	206	196
Water & Air Quality							135	145	149	151
Other							18	10	15	16
Social Services	147	156	163	160	174	169	137	128	113	99
	2,929	2,952	2,953	2,920	3,013	3,018	2,959	2,851	2,842	2,745

*The following Departmental reorganization took place in FY 2008:

Human Resources and Community Development moved from Administrative Services to Finance & Administration
 Risk Management moved from Administrative Services to Law
 Historic Preservation, Planning and Purchase of Development Rights moved from Administrative Services to Public Works & Development
 Computer Services moved from Finance & Administration to Administrative Services
 Building Inspection moved from Public Safety to Public Works & Development
 Solid Waste (Waste Management) and Sanitary Sewers (Water & Air Quality) moved from Public Works and Development to Environmental Quality

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

TABLE 23

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

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fire and Emergency Services										
Emergency Medical Calls	25,901	28,345	27,750	28,698	28,772	30,087	31,336	31,490	32,199	34,197
False Calls	2,806	3,082	2,721	2,606	2,560	2,667	2,804	2,715	2,653	2,870
Fire Incidents	1,182	1,366	1,356	1,194	1,315	1,402	1,322	1,301	1,129	1,337
Good Intent Calls	na	na	na	na	na	1,112	1,090	1,245	1,265	1,271
Hazardous Materials Calls	1,352	1,484	1,115	1,155	1,090	1,087	1,252	1,295	1,192	1,118
Other	na	na	na	na	na	129	109	134	62	79
Rescues	na	na	na	na	na	517	387	366	451	460
Rupture - Gas, Water, etc.	na	na	na	na	na	52	32	51	45	47
Service Calls	1,201	1,065	985	1,022	1,128	1,161	1,313	1,330	1,227	1,529
Police										
Physical Arrests	**19,747	**19,835	**22,422	**22,295	**23,411	**24,677	19,460	18,155	17,126	15,248
Parking Violations	**25,247	**18,185	**16,325	**20,874	**21,668	**17,665	8,945	49,471	46,949	42,675
Traffic Violations	**59,059	**57,351	**67,115	**66,954	**67,487	**75,014	76,529	73,945	64,954	63,546
Parks and Recreation										
Rounds of Golf	177,604	160,958	159,505	154,124	152,659	139,353	141,776	122,153	107,565	89,291
Pool Visits	233,689	209,408	180,417	180,619	199,496	198,181	202,093	217,917	188,389	185,421
Building Inspection										
Permits Issued *	12,533	19,172	19,875	20,514	20,719	16,620	14,173	13,660	13,646	14,285
Inspections	28,574	32,869	36,937	38,669	39,773	29,991	27,650	29,404	28,915	26,460
Sanitary Sewers										
Tap-on Inspections	**1,955	**2,025	**2,212	**2,131	**2,108	**1,681	1,057	879	946	625
Average daily sewage treatment (mgd) **	40	43	48	51	38	42	38	40	36	41
Solid Waste										
Annual tons of refuse collected	154,178	157,121	157,618	156,347	152,969	154,637	165,087	155,645	141,831	138,331
Annual tons of recyclables collected	5,568	6,825	10,412	11,668	15,188	18,740	18,355	20,190	18,831	20,402
Annual tons of yard waste collected									18,199	18,049
Other Public Works										
Street Resurfacing (miles)	21	19	21	23	16	40	38	35	30	15

* 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

TABLE 24

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

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fire and Emergency Services										
Number of Fire Stations	21	21	21	21	22	23	23	23	23	23
Number of Engines	21	21	21	21	22	24	24	24	23	23
Number of Aerials	6	6	6	8	8	8	8	8	7	7
Number of EC Units	7	7	7	9	9	9	9	10	10	10
Number of Haz-Mat Units	3	3	3	3	3	3	3	3	2	2
Police										
Stations	3	3	3	3	3	3	3	3	3	3
Patrol Units	na	na	460	463	467	467	481	438	444	440
Parks and Recreation										
Acres of Parks	4,206	4,263	4,263	4,261	4,261	4,261	4,565	4,565	4,917	4,917
Number of Golf Courses	6	6	6	6	6	6	6	6	6	6
Number of Swimming Pools	12	10	8	10	10	10	9	9	9	9
Sanitary Sewers										
Treatment Capacity (mgd)	64	64	64	64	64	64	64	64	64	64
Solid Waste										
Collection Trucks	na	na	117	117	118	126	116	115	119	113
Other Public Works										
Streets (miles)	na	na	1,516	1,544	1,563	1,542	1,589	1,599	1,628	1,634
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	54,618	54,618	54,618	54,618	54,618	54,618	54,618	54,618	54,618	54,618
Traffic Signals	330	344	340	349	353	357	363	367	376	380

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

APPENDIX C

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT STATEMENT OF INDEBTEDNESS KY CONST. §§157 AND 158 KRS §66.041

The undersigned Commissioner of Finance of the Lexington-Fayette-Urban County Government (the "LFUCG"), Commonwealth of Kentucky, does hereby certify that the following statements concerning the financial condition of LFUCG are true and correct as they appear from records of LFUCG:

1. The assessed valuation of all the taxable property in the County as estimated on the last certified assessment is \$27,278,231,000
2. The current population of the LFUCG is 295,803
3. The total of *all* bonds, notes and other obligations currently issued and outstanding, including the present issues of \$37,065,000* is \$552,387,009*
4. Bonds, notes and other obligations excluded from the calculation of net indebtedness are as follows:
 - (a) Obligations issued in anticipation of the levy or collection of special assessments which are payable solely from those assessments or are otherwise self-supporting obligations \$0
 - (b) Obligations issued in anticipation of the collection of current taxes or revenues for the fiscal year which are payable within that fiscal year \$0
 - (c) Obligations, which are not self-supporting obligations, issued after July 15, 1996 by any instrumentality of the LFUCG created for the purpose of financing public projects for which there has been no pledge to the payment of debt charges of any tax of the LFUCG or for which there is no covenant by the LFUCG to collect or levy a tax to pay debt charges \$0
 - (d) Self-supporting obligations and other obligations for which there has been no pledge to the payment of debt charges of any tax of the LFUCG or for which there is no covenant by the LFUCG to collect or levy a tax to pay debt charges \$0
 - (e) Obligations issued to pay costs of public projects to the extent they are issued in anticipation of the receipt of, and are payable as to principal from, federal or state grants within that fiscal year \$0
 - (f) Leases entered into under KM 65.940 to 65.956 after July 15, 1996 which are not tax-supported leases \$151,214,009
 - (g) Bonds issued in the case of an emergency, when the public health or safety should so require \$0

* Preliminary; subject to change.

(h) Bonds issued to fund a floating indebtedness\$0
 Total Exempt Obligations \$151,214,009

5. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 (3 minus 4) is\$370,863,000 *
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 LFUCG or \$2,547,017,247
7. The current tax rate of the LFUCG, for other than school purposes, upon the value of the taxable property therein is \$0.2535 (which includes 0.1735 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 29th day of May, 2012.

 /s/ Jane C Driskell
 Jane C Driskell
 Commissioner of Finance
 Lexington-Fayette Urban County Government

 * Preliminary; subject to change.

APPENDIX D-1

FORM OF LEGAL APPROVING OPINION OF BOND COUNSEL (SERIES 2012A BONDS)

The form of the legal approving opinion of Peck, Shaffer & Williams LLP, bond counsel, is set forth as follows. The actual opinion will be delivered on the date of delivery of the Series 2012A Bonds 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 opinion subsequent to the date of such opinion.

_____, 2012

Lexington-Fayette Urban County Government
Lexington, Kentucky

RE: \$31,000,000* Lexington-Fayette Urban County Government Taxable General
Obligation Pension Funding Bonds, Series 2012A (the "Series 2012A Bonds")

Ladies and Gentlemen:

We have examined the transcript submitted relating to the issue by the Lexington-Fayette Urban County Government (the "Issuer") of its \$31,000,000* Taxable General Obligation Pension Funding Bonds, Series 2012A, dated June __, 2012 (the "Series 2012A Bonds"), numbered AR-1 upward and of the denomination of \$5,000 and any integral multiple thereof. The Series 2012A Bonds mature, bear interest and are subject to mandatory redemption upon the terms set forth therein. We have also examined a specimen Series 2012A Bond. 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 2012A Bonds 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 2012A Bonds is includable in gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Series 2012A Bonds.
3. The interest on the Series 2012A Bonds is not subject to income taxation by the Commonwealth of Kentucky, and the Series 2012A Bonds are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision

* Preliminary; subject to change.

thereof. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Series 2012A Bonds.

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 2012A Bonds 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,

APPENDIX D-2

FORM OF LEGAL APPROVING OPINION OF BOND COUNSEL (SERIES 2012B BONDS)

The form of the legal approving opinion of Peck, Shaffer & Williams LLP, bond counsel, is set forth as follows. The actual opinion will be delivered on the date of delivery of the Series 2012B Bonds 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 opinion subsequent to the date of such opinion.

Ladies and Gentlemen:

We have examined the transcript submitted relating to the issuance by the Lexington-Fayette Urban County Government of its \$6,065,000* Various Purpose General Obligation Refunding Bonds, Series 2012B (the “Series 2012B Bonds”), dated their date of initial issuance and delivery, numbered BR-1 upward, and of the denomination of \$5,000 and any integral multiple thereof. The Series 2012B Bonds mature, bear interest, and are subject to mandatory and optional redemption upon the terms set forth therein. We have also examined a specimen Series 2012B Bond.

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 2012B Bonds 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 2012B Bonds 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 2012B Bonds 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 2012B Bonds.

3. The interest on the Series 2012B Bonds is exempt from income taxation and the Series 2012B Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

The Issuer has not designated the Series 2012B Bonds as “qualified tax-exempt obligations” with respect to certain financial institutions under Section 265 of the Internal Revenue Code of 1986, as amended.

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 2012B Bonds 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,

APPENDIX E

**ACTUARIAL REPORTS OF
CAVANAUGH MACDONALD CONSULTING, LLC
DATED JULY 1, 2011**

[SEE ATTACHED]



Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you deserve



LEXINGTON-FAYETTE
URBAN COUNTY GOVERNMENT
Lexington, Kentucky

Policemen's & Firefighters'
Retirement Fund



GASB Update Report of the Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund

Prepared as of July 1, 2011





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

December 7, 2011

Lexington Fayette Urban County Government
Policemen's and Firefighters' Retirement Fund
200 East Main Street
Lexington, KY 40507

Dear Members of the Board:

We are pleased to submit herewith the results of the bi-annual GASB disclosure update of the Lexington Fayette Urban County Government Policemen's and Firefighters' Retirement Fund prepared as of July 1, 2011. The purpose of this report is to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27).

This update is based on membership data and Fund assets as of June 30, 2011 supplied by the County. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The update has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution (ARC) of the Government under GASB for the fiscal year ending June 30, 2012 is 44.67% of payroll, which will liquidate the unfunded accrued liability over a 23 year period on the assumption that payroll will increase 3% annually.

We trust that the report will meet the approval of the Board and will furnish the desired information concerning the financial condition of the Fund. The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Thomas J. Cavanaugh, FSA, EA, FCA, MAAA
Chief Executive Officer

Todd B. Green, ASA, FCA, MAAAA
Principal and Consulting Actuary

TJC/TBG:jw

S:\Lexington Fayette Urban County Government Police and Firefighters Pension Plan\Valuation\GASB Update\7-1-2011\GASB Update Report 6-30-11.doc

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SECTION I – INTRODUCTION

This report provides updated disclosure information in accordance with GASB Statements 25 and 27. The information was developed from the results of the July 1, 2010 valuation, adjusted to reflect basic changes in the active and retired membership on June 30, 2011 as well as the actual investment experience of the Fund for the year ended June 30, 2011.

Section II of this report provides the updated disclosure information. Schedule A presents the development of the actuarial value of assets as of July 1, 2011. Schedule B shows the Fund's receipts and disbursements for the year ended June 30, 2011. Schedule C provides an outline of the assumptions used in the July 1, 2010 valuation and Schedule D discusses the actuarial cost method used to develop the Annual Required Contribution (ARC), which form the basis for the updated results provided in Section II. Finally Schedule E provides a summary of the benefit structure for the Fund.



SECTION II – ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

NUMBER OF ACTIVE AND RETIRED PARTICIPANTS AS OF JULY 1, 2011

GROUP	NUMBER
Retired participants and beneficiaries currently receiving benefits	935
Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits	0
Active Participants	<u>1,051</u>
Total	1,986

2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
7/1/2006	373,314,278	594,804,448	221,490,170	62.8	57,192,876	387.3
7/1/2007	397,712,302	627,939,926	230,227,624	63.3	57,717,156	398.9
7/1/2008	418,311,038	664,935,356	246,624,318	62.9	61,368,960	401.9
7/1/2009	441,772,820	699,851,128	258,078,308	63.1	65,765,448	392.4
7/1/2010	502,259,967	724,140,738	221,880,771	69.4	60,512,412	366.7
7/1/2011	501,069,884	758,851,546	257,781,662	66.0	64,258,162	401.2



3. Following is the calculation of the annual pension cost and net pension obligation for the fiscal year ending June 30, 2011.

Annual Pension Cost and Net Pension Obligation for Fiscal Year Ending June 30, 2011

(a)	Employer annual required contribution	\$28,216,938
(b)	Interest on net pension obligation	(3,930,219)
(c)	Adjustment to annual required contribution	<u>(3,636,504)</u>
(d)	Annual pension cost (a) + (b) – (c)	\$27,923,223
(e)	Employer contributions made for fiscal year ending June 30, 2011	<u>14,408,809</u>
(f)	Increase (decrease) in net pension obligation (d) – (e)	\$13,514,414
(g)	Net pension obligation beginning of fiscal year	<u>(49,127,742)</u>
(h)	Net pension obligation end of fiscal year (f) + (g)	\$(35,613,328)

TREND INFORMATION

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
June 30, 2009	28,839,699	291.3	(30,143,003)
June 30, 2010	30,485,067	162.3	(49,127,742)
June 30, 2011	27,923,223	51.6	(35,613,328)

4. The annual required contribution (ARC) as a percentage of payroll, determined in accordance with the parameters of GASB 25/27, is shown below.

EMPLOYER ANNUAL REQUIRED CONTRIBUTION (ARC)

EMPLOYER ANNUAL REQUIRED CONTRIBUTION (ARC)	FISCAL YEAR ENDING JUNE 30, 2012
Normal (including expenses)	17.51%
Accrued liability	<u>27.16</u>
Total	44.67%



5. Additional information as of July 1, 2011 follows:

Valuation date	7/1/2011
Actuarial cost method	Entry Age
Amortization period	Level Percent of Payroll
Remaining amortization period	23 years
Asset valuation method	Market Related Value
Actuarial assumptions:	
Investment rate of return (includes inflation)	8.00%
Projected salary increases (includes inflation)	5.00%
Inflation	3.00%
Cost-of-living adjustments	3.00%



SCHEDULE A

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial Value of Assets on July 1, 2010	\$502,259,969
(2)	Market Value of Assets on July 1, 2011	491,370,669
(3)	Market Value of Assets on July 1, 2010	421,629,959
(4)	Net Cash Flow During the Fiscal Year	
	a. Contributions	22,251,294
	b. Other Revenue	54,292
	c. Benefit Payments	(40,242,987)
	d. Administrative Expenses	(108,497)
	e. Investment Expenses	<u>(2,543,556)</u>
	f. Net Cash Flow (a. + b. + c. + d. + e.)	(20,589,454)
(5)	Actual Investment Return [(2) - (3) - (4)f.]	90,330,164
(6)	Assumed Rate of Return on Assets	8.00%
(7)	Expected Investment Return [(3) * (6) + [(4)a. + (4)b. + (4)c. + (4)d.] * .5 * (6)] - (4)e.]	35,664,954
(8)	Investment Gain/(Loss) for the Fiscal Year [(5) - (7)]	54,665,210
(9)	Phased-In Recognition of Investment Gain/(Loss)	
	a. Current Fiscal Year [.2 * (8)]	10,933,042
	b. Prior Fiscal Year	656,893
	c. Second Prior Fiscal Year	(24,101,088)
	d. Third Prior Fiscal Year	(7,199,883)
	e. Fourth Prior Fiscal Year	<u>3,445,451</u>
	f. Total Recognized Investment Gain/(Loss) for Fiscal Year	(16,265,585)
(10)	Contribution Receivable	0
(11)	Preliminary Actuarial Value of Assets on July 1, 2011 (1) + (4)f. + (7) + (9)f. + (10)	\$501,069,884
(12)	Actuarial Value Corridor	
	a. 80% of Market Value End of Year [.8 * (2)]	\$393,096,535
	b. 120% of Market Value End of Year [1.2 * (2)]	\$585,644,803
(13)	Final Actuarial Value of Assets on July 1, 2011	\$501,069,884
(14)	Rate of Return on Actuarial Value of Assets	3.42%



SCHEDULE B

SUMMARY OF RECEIPTS AND DISBURSEMENTS

<u>Receipts for the Period</u>		
Contributions:		
Members	\$	7,896,777
Employer		<u>14,354,517</u>
Total		22,251,294
Other		54,292
Investment Income		<u>87,786,608</u>
TOTAL	\$	110,092,194
<u>Disbursements for the Period</u>		
Benefit Payments		40,242,987
Refunds to Members		0
Administrative Expense		<u>108,497</u>
TOTAL	\$	40,351,484
<u>Excess of Receipts over Disbursements</u>	\$	69,740,710
<u>Reconciliation of Asset Balances</u>		
Market Value of Assets as of July 1, 2010	\$	421,629,959
Excess of Receipts over Disbursements		<u>69,740,740</u>
Market Value of Assets as of July 1, 2011	\$	491,370,669
Contribution Receivable		0
Market Value of Assets as of July 1, 2011 including Receivable		491,370,669
Rate of Return on Market Value of Assets		21.28%



SCHEDULE C

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

INVESTMENT RATE OF RETURN: 8.00% per year, compounded annually.

SALARY INCREASES: Representative values of the assumed annual rates of salary increases are as follows:

<u>Age</u>	<u>Rate</u>
20	5.00%
25	5.00
30	5.00
35	5.00
40	5.00
45	5.00
50	5.00
55	5.00

SEPARATIONS FROM ACTIVE SERVICE: For death rates, the UP 1994 Mortality Table projected to 2002 set forward three years was used. Representative values of the assumed annual rates of separation from active service are as follows:

<u>Age</u>	<u>Withdrawal</u>	<u>Disability</u>	<u>Annual Rate of</u>	
			<u>Male</u>	<u>Female</u>
20	6.58%	1.00%	0.05%	0.03%
25	5.27	1.00	0.07	0.03
30	4.83	1.40	0.09	0.04
35	4.47	1.40	0.10	0.06
40	3.84	2.00	0.14	0.08
45	3.21	2.50	0.20	0.11
50	1.52	3.00	0.33	0.18
55	0.33	3.00	0.58	0.34



SERVICE RETIREMENT: Representative annual rates of assumed service retirement are as follows:

<u>Service</u>	<u>Rate</u>
20	25.0%
21	10.0
22	11.1
23	12.5
24	14.3
25	16.7
26	20.0
27	25.0
28	33.3
29	50.0
30	100.0

DEATHS AFTER RETIREMENT: The UP 1994 Mortality Table projected to 2002 is used for the period following service retirement and for beneficiaries of deceased members. For disabled lives, mortality was assumed to be consistent with rates issued by the IRS in Revenue Ruling 96-7 for use in determining current liability for disabled lives prior to January 1, 1995.

OCCUPATIONAL VS. NON OCCUPATIONAL DEATH: 20% of all deaths are assumed to be due to occupational causes.

OCCUPATIONAL VS. NON OCCUPATIONAL DISABILITY: 75% of disabilities are assumed to be due to occupational causes. For occupational disabilities the average benefit percentage is assumed to be 67.5%.

PERCENT MARRIED: 75% of employees who die before retirement are assumed to be married with the husband 3 years older than the wife. 85% of employees who die after retirement are assumed to be married with the husband 3 years older than the wife.

ASSETS: Actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected actuarial value.

VALUATION METHOD: Entry age actuarial cost method. See Schedule F for a brief description of this method.



SCHEDULE D

ACTUARIAL COST METHOD

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future (currently 8.00%), of each member's expected benefits at retirement or death is determined, based on age, service and sex. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable from the Plan on account of the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the Plan are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the entry age actuarial cost method. Under this method, a calculation is made to determine the level percentage of payroll which, if applied for the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the Plan.



SCHEDULE E

SUMMARY OF MAIN PLAN PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

Member	Any member of the police and fire department who is included in the membership of the fund.
Membership Service	Service rendered on or after the date of establishment of the fund or the fund of a city existing within the boundaries of the government immediately prior to the establishment of the urban-county government.
Total Service	Prior service, membership service, and service credit purchased by a member as provided in KRS 67A.402.
Average Salary	The highest average salary of the member for any three consecutive years of service.
Retirement Annuity	
Eligibility	Anytime after completion of 20 years of Total Service (including service purchased up to 4 years).
Benefit	<p>Annuity is 2½% of Average Salary multiplied by years of Total Service. The minimum monthly benefit is \$1,250.</p> <p>Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.</p>
Occupational Disability Benefit	
Eligibility	No requirements.
Benefit	Annuity equal to a minimum of 60% of member's last rate of salary, increased above the 60% minimum by ½ the amount by which the member's percentage of disability exceeds 20%, but not greater than 75%. The member's percentage of disability shall be the average of the impairment rating determined by two physicians selected by the Board using the American Medical Association "Guide to the Evaluation of Permanent Impairment". If a member is eligible for a service retirement annuity and the amount of the service retirement annuity exceeds the amount of the disability benefit, then the member may elect to receive an additional service retirement annuity equal to this difference.



Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

In addition, any minor children will receive benefits as provided under the occupational death benefit provisions.

Non-Occupational Disability Benefit

Eligibility

5 years of Total Service.

Benefit

2½% of Average Salary times years of Total Service subject to a minimum payment of 25% of Average Salary and a maximum payment of 75% of Average Salary.

Upon the death of a retired member whose marriage was in effect at least six months before retirement or one year prior to death, the surviving spouse shall receive an annuity equal to 60% of the member's final annuity or final rate of pay, whichever is greater, unless the retired member elected an alternative actuarial equivalent form at the time of retirement of either a joint and 75% or and joint and 100% survivor payment form.

In addition, any minor children will receive benefits provided under the non-occupational death benefit provisions.

Termination Benefit

If a member is terminated with less than 20 years of total service credit, he is entitled to a return of his accumulated contributions, without interest.

Occupational Death Benefit

Eligibility

No requirements.

Benefit

Surviving Spouse receives immediate annuity equal to 60% of the member's last rate of salary until death or remarriage.

In addition, 10% of the member's last rate of salary is payable for each minor child until each child attains age 18 (age 23 if involved in educational activities). Maximum total income is 75% of final rate of salary.



If no surviving spouse or upon remarriage, then minor children will receive a benefit based on the following schedule:

One minor child	50% of Salary
Two minor children	65% of Salary
Three of more minor children	75% of Salary

Non-Occupational Death Benefit

Eligibility

5 Years of Total Service, married 6 months prior to death.

Benefit

Surviving spouse received immediate annuity equal to $1\frac{1}{2}\%$ of the Average Salary multiplied by years of Total Service, until death or remarriage. The minimum benefit is 15% of Average Salary. In addition, this annuity is increased by $\frac{1}{2}\%$ for the first minor child and by $\frac{1}{4}\%$ for each additional child. Maximum total income is 75% of Average Salary.

If no surviving spouse or upon remarriage, then minor children will receive a benefit based on the following schedule:

One minor child	50% of Salary
Two minor children	65% of Salary
Three of more minor children	75% of Salary

Member Contributions

Each active member contributes 11% of current salary.

Employer Contributions

The government shall make current contributions to the fund on an actuarially funded basis. Such contributions shall be equal to the sum of:

- (1) An amount resulting from the application of a rate percent of salaries of active members determined under the entry age normal cost funding method (fixed by the board every two years), and
- (2) An amount resulting from the application of a rate percent of salaries of active members which will provide each year regular interest on any remaining liability for prior service.

In any event, the total contribution of the government shall be at least 17% of salaries of active members participating in the fund.

Post Retirement Cost-Of-Living Increases

Each retired member will have his pension increased each year by an amount, to be determined by the board, of not less than 2.00% nor more than 5.00%, compounded annually. This increase shall also apply to beneficiaries of deceased members.

APPENDIX F
OFFICIAL TERMS AND CONDITIONS OF BOND SALE
[SEE ATTACHED]

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

\$37,065,000*

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT (KENTUCKY)
GENERAL OBLIGATION BONDS**

\$31,000,000[†]

**Taxable General Obligation
Pension Funding Bonds
Series 2012A**

\$6,065,000[†]

**Various Purpose
General Obligation Refunding Bonds
Series 2012B**

SALE: TUESDAY, JUNE 5, 2012 AT 11:00 A.M., E.D.T.

BIDS SUBMITTED THROUGH PARITY[®]

Notice is hereby given that electronic bids will be received by Lexington-Fayette Urban County Government until 11:00 a.m., E.D.T. on Tuesday, June 5, 2012 (or at such later time and date announced by noon, E.D.T. on the day preceding the Bid Opening via the **PARITY[®]** system or the Thomson Municipal News wire) for the purchase of (i) approximately \$31,000,000[†] Taxable General Obligation Pension Funding Bonds, Series 2012A (the "Series 2012A Bonds"); and (ii) approximately \$6,065,000[†] Various Purpose General Obligation Refunding Bonds, Series 2012B (the "Series 2012B Bonds" and, together with the Series 2012A Bonds, the "Series 2012 Bonds"). The Series 2012 Bonds are more fully described in the Preliminary Official Statement dated May 31, 2012, available at www.i-dealprospectus.com. Prior to opening the bids, the Lexington-Fayette Urban County Government reserves the right to change the principal amount and terms related to the Series 2012 Bonds, cancel the sale, or change the sale date. Such notice of change will be posted on **PARITY[®]** or i-dealprospectus.com. Electronic bids must be submitted through **PARITY[®]** as described herein and no other form of bid or provider of electronic bidding services will be accepted. Bids will be opened and acted upon later that same day. This Notice has been duly advertised in *The Courier-Journal*, published in Louisville, Kentucky; the *Lexington Herald-Leader*, published in Lexington, Kentucky; and *The Bond Buyer*, published in New York City, New York.

*Preliminary; subject to change.

[†]Preliminary; subject to Permitted Adjustment. See "Bidding Conditions and Restrictions" herein.

BIDDING PARAMETERS TABLE¹

Series 2012A Bonds

INTEREST		PRICING	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:	102.5% ²
Anticipated Delivery Date:	June 21, 2012	Min. Aggregate Bid Price:	98.5% ²
Interest Payment Dates:	April 1 and October 1		
First Interest Payable:	October 1, 2012		
Coupon Multiples:	1/8, or 1/10 or 1/20 of 1%		
Maximum Coupon:	6.00%		
Minimum Coupon:	N/A		
		PROCEDURAL	
		Sale Date:	June 5, 2012 ³
		Bid Submission:	PARITY only
Optional Redemption:	Bonds maturing on and after October 1, 2023 are callable on and after October 1, 2022 at 100%.	All or None?	Yes
Post-bid Permitted Adjustment - Principal Increases Aggregate:	5%	Bid Award Method:	Lowest TIC
Post-bid Permitted Adjustment - Principal Reductions Aggregate:	5%	Bid Confirmation:	Fax Signed PARITY screen
Term Bonds:	Any two or more consecutive maturities may be designated term bonds; Must have sinking fund payments equal to date and amount shown on amortization schedule.	Awarding of Bid:	On the sale date by the LFUCG or its official designees
		Insurance:	May be purchased by the bidder at its option and cost. Insurer has no right to require changes in transaction documents.
		Good Faith Deposit:	\$620,000; as more fully described on page 9, section (H).

¹ If numerical or date references contained in the body of this Official Terms and Conditions of Bond Sale conflict with the Bidding Parameters Tables, the Bidding Parameters Tables of this Official Terms and Conditions of Bond Sale shall control. Consult the body of this Official Terms and Conditions of Bond Sale for a detailed explanation of the items contained in the Bidding Parameters Tables, including interpretation of such items and methodologies used to determine such items.

² Minimum bid amount of the Series 2012A Bonds will be \$30,535,000. Maximum bid amount of the Series 2012A Bonds will be \$31,775,000.

³ Subject to change before the Sale Date as provided in this Official Terms and Conditions of Bond Sale.

Series 2012B Bonds

INTEREST		PRICING	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:	110% ⁴
Anticipated Delivery Date:	June 21, 2012	Min. Aggregate Bid Price:	98.5% ⁴
Interest Payment Dates:	January 1 and July 1		
First Interest Payable:	January 1, 2013		
Coupon Multiples:	1/8, or 1/10 or 1/20 of 1%		
Maximum Coupon:	5.00%		
Minimum Coupon:	N/A		
		PROCEDURAL	
		Sale Date:	June 5, 2012 ⁵
		Bid Submission:	PARITY only
Optional Redemption:	Bonds maturing on and after July 1, 2022 are callable on and after July 1, 2021 at 100%.	All or None?	Yes
Post-bid Permitted Adjustment - Principal Increases Aggregate:	10%	Bid Award Method:	Lowest TIC
Post-bid Permitted Adjustment - Principal Reductions Aggregate:	10%	Bid Confirmation:	Fax Signed PARITY screen
Term Bonds:	Any two or more consecutive maturities may be designated term bonds; Must have sinking fund payments equal to date and amount shown on amortization schedule.	Awarding of Bid:	On the sale date by the LFUCG or its official designees
		Insurance:	May be purchased by the bidder at its option and cost. Insurer has no right to require changes in transaction documents.
		Good Faith Deposit:	\$121,300; as more fully described on page 9, section (H).

⁴ Minimum bid amount of the Series 2012B Bonds will be \$5,974,025. Maximum bid amount of the Series 2012B Bonds will be \$6,671,500.

⁵ Subject to change before the Sale Date as provided in this Official Terms and Conditions of Bond Sale.

STATUTORY AUTHORITY, SECURITY AND PURPOSE OF ISSUE

Statutory Authority. Authority for the issuance of the Series 2012A Bonds is provided by Sections 66.011 through 66.191 of the Kentucky Revised Statutes and Ordinance No. 64-2012 (the “Series 2012A Ordinance”) adopted by the Lexington-Fayette Urban County Council (the “Urban County Council”) on May 17, 2012. Authority for the issuance of the Series 2012B Bonds is provided by Sections 66.011 through 66.191 of the Kentucky Revised Statutes and Ordinance No. 65-2012 (the “Series 2012B Ordinance” and together with the Series 2012A Ordinance, the “Authorizing Ordinance”) adopted by the Urban County Council on May 17, 2012. The Series 2012 Bonds are general obligation bonds and constitute a direct indebtedness of the Lexington-Fayette Urban County Government.

Security. The Series 2012 Bonds 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 the Lexington-Fayette County in a sufficient amount to pay the principal of and interest on the Series 2012 Bonds when due.

Purpose of Issue.

(a) *The Series 2012A Bonds.* The Series 2012A Bonds are being issued for the purpose of (i) funding certain unfunded liabilities to the Policemen's and Firefighters' Retirement Fund of the Lexington-Fayette Urban-County Government (the “Series 2012A Project”), based on computations set forth in an actuarial report dated July 1, 2011, prepared by Cavanaugh Macdonald Consulting, LLC; and (ii) paying certain costs related to the issuance of the Series 2012A Bonds.

(b) *The Series 2012B Bonds.* The Series 2012B Bonds are being issued to (i) advance refund all or a portion of the outstanding principal amount of the \$4,570,000 Lexington-Fayette Urban County Government General Obligation Bonds, Series 2002C (the “Series 2002C Prior Bonds”) and the \$9,640,000 Lexington-Fayette Urban County Government General Obligation Bonds (Day Treatment Center, Multi-Use Facility and Expansion Area Boulevard Projects), Series 2004C (the “Series 2004C Prior Bonds” and, together with the Series 2002C Prior Bonds, the “Prior Bonds”); and (ii) pay the costs of issuance of the Series 2012B Bonds.

BOND MATURITIES, PRIOR REDEMPTION PROVISIONS AND PAYING AGENTS

The Series 2012 Bonds shall be dated their date of initial delivery, bearing interest from such date of initial delivery, and shall be payable on the dates and in the amounts as set forth below:

Series 2012A Bonds

Year (Oct. 1)	Amount [†]		Year (Oct. 1)	Amount [†]
2013	\$1,250,000		2023	\$1,510,000
2014	1,260,000		2024	1,560,000
2015	1,275,000		2025	1,610,000
2016	1,290,000		2026	1,660,000
2017	1,310,000		2027	1,720,000
2018	1,335,000		2028	1,780,000
2019	1,360,000		2029	1,845,000
2020	1,390,000		2030	1,910,000
2021	1,425,000		2031	1,985,000
2022	1,465,000		2032	2,060,000

[†]Preliminary; subject to Permitted Adjustment. See “Bidding Conditions and Restrictions” herein.

Series 2012B Bonds

Year (July 1)	Amount ^{††}		Year (July 1)	Amount ^{††}
2013	\$ 80,000		2019	\$765,000
2014	85,000		2020	775,000
2015	85,000		2021	795,000
2016	215,000		2022	805,000
2017	215,000		2023	820,000
2018	755,000		2024	670,000

^{††}Preliminary; subject to Permitted Adjustment. See “Bidding Conditions and Restrictions” herein.

Optional Redemption

Series 2012A Bonds. The Series 2012A Bonds maturing October 1, 2023 and thereafter are subject to optional redemption prior to maturity, commencing October 1, 2022, in whole or in part, in such order of maturity as shall be designated in writing by the Lexington-Fayette Urban County Government and by lot within any maturity, at the election of the Lexington-Fayette Urban County Government upon 45 days' written notice to the Series 2012A Paying Agent and Registrar (as hereinafter defined) at a redemption price equal to the par amount thereof, plus accrued interest to the date of redemption.

Series 2012B Bonds. The Series 2012B Bonds maturing July 1, 2022 and thereafter are subject to optional redemption prior to maturity, commencing July 1, 2021, in whole or in part, in such order of maturity as shall be designated in writing by the Lexington-Fayette Urban County Government and by lot within any maturity, at the election of the Lexington-Fayette Urban County Government upon 45 days' written notice to the Series 2012B Paying Agent and Registrar (as hereinafter defined) at a redemption price equal to the par amount thereof, plus accrued interest to the date of redemption.

Notice of Redemption

Series 2012A Bonds. At least thirty (30) days before the redemption date of any Series 2012A Bonds, the Series 2012A Paying Agent and Registrar shall cause a notice of such redemption either in whole or in part, signed by the Series 2012A Paying Agent and Registrar, to be mailed, first class, postage prepaid, to all registered owners of the Series 2012A Bonds to be redeemed at their addresses as they appear on the registration books kept by the Series 2012A Paying Agent and Registrar, but failure to mail any such notice shall not affect the validity of the proceedings for such redemption of Series 2012A Bonds for which such notice has been sent. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Series 2012A Bonds being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive number or letters, if any, of such Series 2012A Bonds to be redeemed.

Series 2012B Bonds. At least thirty (30) days before the redemption date of any Series 2012B Bonds, the Series 2012B Paying Agent and Registrar shall cause a notice of such redemption either in whole or in part, signed by the Series 2012B Paying Agent and Registrar, to be mailed, first class, postage prepaid, to all registered owners of the Series 2012B Bonds to be redeemed at their addresses as they appear on the registration books kept by the Series 2012B Paying Agent and Registrar, but failure to mail any such notice shall not affect the validity of the proceedings for such redemption of Series 2012B Bonds for which such notice has been sent. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Series 2012B Bonds being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive number or letters, if any, of such Series 2012B Bonds to be redeemed.

Paying Agent and Registrar

Series 2012A Bonds. U.S. Bank National Association, Louisville, Kentucky has been appointed Paying Agent and Registrar for the Series 2012A Bonds (the "Series 2012A Paying Agent and Registrar").

Series 2012B Bonds. The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky has been appointed Paying Agent and Registrar for the Series 2012B Bonds (the "Series 2012B Paying Agent and Registrar").

BIDDING CONDITIONS AND RESTRICTIONS

The terms and conditions of the sale of the Series 2012 Bonds are as follows:

(A) Bids may be made for the entire issue of either or both of the Series 2012A Bonds and/or the Series 2012B Bonds. Electronic bids for the Series 2012 Bonds must be submitted through PARITY® system and no other form of bid or 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 Lexington-Fayette 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. 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 Lexington-Fayette Urban County Government. The Lexington-Fayette 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. The successful bidder(s) must confirm such bid by a signed PARITY® Bid Form and a signed statement of reoffering prices, both delivered by fax to the Secretary-Treasurer of the Lexington-Fayette Urban County Government, c/o Jane Driskell, Commissioner of Finance, Lexington-Fayette Urban County Government, 200 East Main Street, Third Floor, Lexington, Kentucky 40507 (Fax: (859) 258-3385), no later than one hour after being notified by the Lexington-Fayette Urban County Government of being the winning bidder(s), the original of each of which must be received by the Lexington-Fayette Urban County Government on the following business day at the address shown above. Failure to deliver this written confirmation does not relieve the bidder(s) of the obligation to purchase the applicable series of Series 2012 Bonds

(B) Bidders for the Series 2012A Bonds are required to bid for the entire issue of Series 2012A Bonds at a minimum or maximum price within the limitations set forth in the Bidding Parameters Table. Bidders for the Series 2012B Bonds are required to bid for the entire issue of Series 2012B Bonds at a minimum or maximum price within the limitations set forth in the Bidding Parameters Table.

(C) Interest rates for the Series 2012 Bonds must be in multiples within the limitations set forth in the Bidding Parameters Table. All Series 2012 Bonds of the same series and maturity shall bear the same and a single interest rate from the date thereof to maturity.

(D) The determination of the best purchase bid for the Series 2012A Bonds shall be made on the basis of all bids submitted for exactly \$31,000,000 principal amount of Series 2012A Bonds offered for sale hereunder. The Lexington-Fayette Urban County Government may adjust the principal amount of Series 2012A Bonds which may be

awarded to such best bidder upward or downward within the limitations set forth in the Bidding Parameter Table. In the event of such Series 2012A Bonds Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. If the principal amount of any maturity of the Series 2012A Bonds is revised after the award, the interest rate and reoffering price (as a percentage of principal) for each maturity and the Underwriter's Discount on the Series 2012A Bonds as submitted by the successful bidder shall be held constant. The "Underwriter's Discount" shall be defined as the difference between the purchase price of the Series 2012A Bonds submitted by the bidder and the aggregate of the prices at which the Series 2012A Bonds will be offered to the public, calculated from written information which must be provided by the successful bidder, divided by the par amount of the Series 2012A Bonds bid.

The determination of the best purchase bid for the Series 2012B Bonds shall be made on the basis of all bids submitted for exactly \$6,065,000 principal amount of Series 2012B Bonds offered for sale hereunder. The Lexington-Fayette Urban County Government may adjust the principal amount of Series 2012B Bonds which may be awarded to such best bidder upward or downward within the limitations set forth in the Bidding Parameter Table. In the event of such Series 2012B Bonds Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. If the principal amount of any maturity of the Series 2012B Bonds is revised after the award, the interest rate and reoffering price (as a percentage of principal) for each maturity and the Underwriter's Discount on the Series 2012B Bonds as submitted by the successful bidder shall be held constant. The "Underwriter's Discount" shall be defined as the difference between the purchase price of the Series 2012B Bonds submitted by the bidder and the aggregate of the prices at which the Series 2012B Bonds will be offered to the public, calculated from written information which must be provided by the successful bidder, divided by the par amount of the Series 2012B Bonds bid.

(E) Bidders have the option of specifying that all of the Series 2012A Bonds or the Series 2012B Bonds, respectively, 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 such Series 2012A Bonds or Series 2012B Bonds, respectively, 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 Series 2012A Bonds or Series 2012B Bonds, respectively, scheduled in the year of maturity of the term Series 2012A Bonds or Series 2012B Bonds, respectively, which principal amount shall mature in that year.

(F) The successful purchaser(s) shall pay the CUSIP Service Bureau charge with respect to the applicable series of the Series 2012 Bonds purchased. CUSIP identification numbers will be printed on the Series 2012 Bonds at the expense of the Lexington-Fayette Urban County Government. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser(s) to accept delivery of and pay for the applicable series of the Series 2012 Bonds in accordance with the terms of any accepted proposal for the purchase of such series of the Series 2012 Bonds.

(G) The Lexington-Fayette Urban County Government will provide to the successful purchaser(s) a Final Official Statement in accordance with SEC Rule 15c2-12. A final Official Statement will be provided in Electronic Form to the successful purchaser(s), in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements, at no cost to the purchaser(s).

(H) Bids need not be accompanied by a certified or bank cashier's good faith check, but the successful bidder for the Series 2012A Bonds will be required to wire transfer to the order of the Lexington-Fayette Urban County Government an amount equal to \$620,000 and the successful bidder for the Series 2012B Bonds will be required to wire transfer to the order of the Lexington-Fayette Urban County Government an amount equal to \$121,300, by the close of business on the day following the award. These respective good faith amounts will be forfeited as liquidated damages in the event of a failure of the successful bidder(s) to take delivery of the applicable series of Series 2012 Bonds, when ready. The respective good-faith amount will be applied (without interest) to the purchase price upon delivery of the applicable series of Series 2012 Bonds. The successful bidder(s) shall not be required to take delivery and pay for the applicable series of Series 2012 Bonds, unless delivery is made within 45 days from the date the applicable bid is accepted.

(I) The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2012 Bonds. They will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2012 Bond certificate will be issued for each maturity of the Series 2012 Bonds of each series, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchases of the Series 2012 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 Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 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 Series 2012 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 Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued. The successful bidder(s) may also elect to notify the Financial Advisor within twenty-four (24) hours of the award that standard bond certificates be issued. In the event that certificated Series 2012 Bonds are to be issued at the election of a successful bidder(s), the costs of printing such Series 2012 Bond Certificates shall be borne by such bidder.

(J) The Series 2012B Bonds are offered for sale subject to the principal and interest on the Series 2012B Bonds not being subject to Federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder and the Series 2012A Bonds are offered for sale subject to the principal and interest on the Series 2012A Bonds not being subject to Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, all in accordance with the final approving legal opinions of Peck, Shaffer & Williams LLP, Covington, Kentucky, which opinions will be qualified in accordance with the section hereof on TAX TREATMENT.

(K) Bidders are advised that Civic Finance Advisors, LLC and Morgan Keegan and Company, Inc. (or its successor in interest) (together, the "Financial Advisor") are as appointed co-Financial Advisors in connection with the issuance of the Series 2012 Bonds. Their respective fees for services rendered with respect to the sale of the Series 2012 Bonds are contingent upon the issuance and delivery thereof.

(L) As required by the Code, the purchaser(s) of the Series 2012 Bonds will be required to certify to the Lexington-Fayette Urban County Government as to certain of their activities regarding any reoffering to the public of the Series 2012 Bonds, including any reoffering prices. This information from the purchaser(s) of the Series 2012 Bonds shall also be made available to the Financial Advisor immediately after the sale of the Series 2012 Bonds.

(M) Unless bids for the Series 2012 Bonds are rejected, each series of the Series 2012 Bonds will be awarded on an all or none basis on the sale date to the bidder whose bid result in the lowest true interest rate for the respective series of Series 2012 Bonds to be calculated as that rate (or yield) that, when used in computing the present worth of all payments of principal and interest on the respective series of Series 2012 Bonds (compounded semi-annually from the date of the Series 2012 Bonds), produces an amount equal to the purchase price of the respective series of Series 2012 Bonds, exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of any Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year for the applicable series of Series 2012 Bonds. In the event that two or more bidders offer to purchase the respective series of Series 2012 Bonds at the same lowest true interest rate, the Mayor, upon the advice of the Commissioner of Finance shall determine (in their sole discretion), which of the bidders shall be awarded the respective series of Series 2012 Bonds. The Lexington-Fayette Urban County Government expressly reserves the right: (i) to waive any informalities, (ii) to reject all bids, any incomplete bid or any bid not fully complying with all of the requirements set forth herein, and (iii) to solicit new bids or proposals for the sale of the Series 2012 Bonds or otherwise provide for the public sale of the Series 2012 Bonds if all bids are rejected or the winning bidder defaults, such action to be consistent with Kentucky law.

(N) Additional information, including the Preliminary Official Statement, the Official Terms and Conditions of Bond Sale and the Official Bid Form, may be obtained from the Financial Advisors: (i) Civic Finance Advisors, LLC, 333 West Vine Street,

Suite 1610, Lexington, KY 40509, Telephone: (855) 211-1525, Attention: Chris Bowling; and (ii) Morgan Keegan & Company, Inc., 489 East Main Street, Lexington, Kentucky 40507, telephone (859) 232-8211, Attn: Bob Pennington; or at www.idealprospectus.com. Further information regarding PARITY® may be obtained from PARITY®, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: (800) 850-7422.

(O) The Lexington-Fayette Urban County Government expects to award the bid no later than 3:00 p.m. E.D.T. on June 5, 2012.

CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the "Rule") and so long as the Series 2012 Bonds are outstanding the Lexington-Fayette Urban County Government (the "Obligated Person") will agree pursuant to a Continuing Disclosure Certificate to be dated as of June 21, 2012, to be delivered on the date of delivery of the Series 2012 Bonds, to cause the following information to be provided:

(i) to the Municipal Securities Rulemaking Board ("MSRB"), certain annual information and operating data, including audited financial statements, generally consistent with the information contained in **Appendix B** 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;

(ii) to the MSRB, in a timely manner, not in excess of ten business days after the occurrence of the event, notice of the occurrence of the following events with respect to the Series 2012 Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the

tax status of the security, or other material events affecting the tax-exempt status of the security;

(g) Modifications to rights of security holders, if material;

(h) Bond calls, if material, and tender offers (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, if material;

(k) Rating changes;

(l) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);

(m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(iii) to the MSRB, notice of a failure (of which the Obligated Person 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.

As required by the Rule, the Continuing Disclosure Certificate provides that the information to be filed with the MSRB described in the preceding paragraph is to be filed in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB. An MSRB rule change approved by the Securities and Exchange Commission established a continuing disclosure service of the MSRB's Electronic Municipal

Market Access system ("EMMA") for the receipt of, and for making available to the public, continuing disclosure documents and related information to be submitted pursuant to continuing disclosure undertakings (such as the Continuing Disclosure Certificate) entered into on or after July 1, 2009, consistent with the Rule. In general, all continuing disclosure documents and related information are to be submitted to the MSRB's continuing disclosure service through an Internet-based electronic submitter interface (EMMA Dataport) or electronic computer-to-computer data connection, accompanied by certain identification information, in portable document format (PDF) files configured to permit document to be saved, viewed, printed and retransmitted by electronic means and must be word-searchable.

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 Authorizing Legislation. The Continuing Disclosure Certificate may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series 2012 Bonds are advised that the Continuing Disclosure Certificate, copies of which are available at the office of the Lexington-Fayette Urban County Government, 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 Series 2012 Bonds;
- (b) there are no credit enhancements applicable to the Series 2012 Bonds;
- (c) there are no liquidity providers applicable to the Series 2012 Bonds; and
- (d) there is no property securing the repayment of the Series 2012 Bonds.

The Lexington-Fayette Urban County Government is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities and has complied with requirements of Rule 15c2-12. The Lexington-Fayette Urban County Government is in compliance in all material respects with all previous undertakings with regard to Rule 15c2-12 to provide annual financial information or notices of material events pursuant to Rule 15c2-12.

TAX TREATMENT

Series 2012A Bonds

In the opinion of Bond Counsel for the Series 2012A Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2012A Bonds is includable in gross income for Federal income tax purposes. Furthermore, Bond Counsel for the Series 2012A Bonds is of the opinion that interest on the Series 2012A Bonds is exempt from income taxation and the Series 2012A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A form of the opinion of Bond Counsel for the Series 2012A Bonds is set forth in **Appendix D-1** to the Preliminary Official Statement.

If, prior to the delivery of the Series 2012A Bonds, any event shall occur which alters the tax treatment of the Series 2012A Bonds, the purchaser of the Series 2012A Bonds shall have the privilege of voiding the purchase contract by giving immediate written notice to the Lexington-Fayette Urban County Government, whereupon the amount of the good faith deposit of the purchaser of the Series 2012A Bonds will be returned to such purchaser, and all respective obligations of the parties will be terminated.

Series 2012B Bonds

In the opinion of Bond Counsel for the Series 2012B Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2012B Bonds will be excludible from gross income for Federal income tax purposes. Bond Counsel for the Series 2012B Bonds is also of the opinion that interest on the Series 2012B Bonds will not be 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 Series 2012B Bonds is of the opinion that interest on the Series 2012B Bonds is exempt from income taxation and the Series 2012B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Series 2012B Bonds is set forth in **Appendix D-2** to the Preliminary Official Statement.

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 Series 2012B Bonds. The Lexington-Fayette Urban County Government has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Series 2012B Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series 2012B Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series 2012B Bonds. 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 Series 2012B Bonds may adversely affect the tax status of the interest on the Series 2012B Bonds.

Certain requirements and procedures contained or referred to in the Series 2012B Bond documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2012B Bonds) 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 Series 2012B Bonds 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 Series 2012B Bonds is of the opinion that interest on the Series 2012B Bonds will be excludible from gross income for Federal income tax purposes and that interest on the Series 2012B Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012B Bonds may otherwise affect a Holder'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 Holder or the Holder'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 Holder or potential Holder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series 2012B Bonds on the tax liabilities of the individual or entity.

For example, although Bond Counsel is of the opinion that interest on the Series 2012B Bonds will not be a specific item of tax preference for the federal 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 corporation. Receipt of tax-exempt interest, ownership or disposition of the Series 2012B Bonds may result in other collateral federal, state or local tax consequence for certain taxpayers. Such effects include, 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 amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Series 2012B Bonds 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 Series 2012B Bonds 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 Series 2012B Bonds.

The Lexington-Fayette Urban County Government has not designated the Series 2012B Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

If, prior to the delivery of the Series 2012B Bonds, any event shall occur which alters the tax-exempt status of the Series 2012B Bonds, the purchaser of the Series 2012B Bonds shall have the privilege of voiding the purchase contract by giving immediate written notice to the Lexington-Fayette Urban County Government, whereupon the amount of the good faith deposit of the purchaser of the Series 2012B Bonds will be returned to such purchaser, and all respective obligations of the parties will be terminated.

[Remainder of page intentionally left blank]

These Official Terms and Conditions of Bond Sale have been duly executed and delivered for and on behalf of the Lexington-Urban County Government, by its Mayor.

/s/ Jim Gray

Mayor, Lexington-Fayette Urban County
Government