

LEXINGTON PUBLIC LIBRARY
Lexington, Kentucky

Financial Statements
June 30, 2016

Lexington Public Library

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June 30, 2016

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Independent Auditor's Report

To the Board of Trustees
Lexington Public Library
140 East Main Street
Lexington, Kentucky 40507

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Lexington Public Library, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lexington Public Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Lexington Public Library, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, budgetary comparison information on pages 48 and 49, and the Schedule of Lexington Public Library's Net Pension Liability and Related Ratios Based on Participation in the County Employees' Retirement System of KRS on page 50 and the Schedule of Lexington Public Library's Contributions Based on participation in the County Employees' Retirement System of KRS on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2016 on our consideration of the Lexington Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lexington Public Library's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying *Schedule of Findings* included herein, which discusses the following report comment:

2016-01: Deposits Are Not Adequately Collateralized



Lexington, Kentucky
September 6, 2016

Management's Discussion and Analysis
June 30, 2016

FINANCIAL HIGHLIGHTS

- The Lexington Public Library's (the Library) net position increased \$1,878,461 during fiscal year 2016 in part due to the sale of the Eagle Creek Branch.
- The Library made capital investments during the fiscal year for equipment and building improvements and construction. This included construction related to the new Eastside Branch that replaced the Eagle Creek Branch and technology improvements. The Library allocated 12% of its tax revenues for library books and materials.
- The Eagle Creek Branch was sold for \$2,297,471, with proceeds being used to retire debt on the Eastside Branch.
- The Eastside Branch opened during fiscal year 2016.
- The Library's business-type activities had an increase in net position of \$115,555 for fiscal year 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis, the independent auditor's report and the basic financial statements, and the budgetary comparison schedule, which is not part of the basic financial statements, of the Library. The basic financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Library's financial statements present two kinds of statements, each with a different viewpoint of the Library's finances. The focus is both the Library as a whole (government-wide) and the individual fund financial statements. The government-wide financial statements provide both long-term and short-term information about the Library's overall financial status. The fund financial statements focus on individual funds of the Library, reporting the Library's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year-to-year or government-to-government) and enhance the Library's accountability.

GOVERNMENT-WIDE STATEMENTS

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

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2016
(Continued)**

GOVERNMENT-WIDE STATEMENTS (Continued)

These two statements report the net position of the Library and the changes in net position. One can think of the Library's net position - the difference between assets plus deferred outflow resources and liabilities plus deferred inflows of resources - as one way to measure financial health or financial position. Over time, increases or decreases in the Library's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation.

In the Statement of Net Position and the Statement of Activities, we divide the Library into two kinds of activities.

Governmental activities - Most of the Library's basic services are reported here. Property taxes, grants and other income finance most of these activities.

Business-type activities - The Library reports fees for service activities in this fund; this includes video rentals, copiers and other machines, and garage activity.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the Library's funds. The fund financial statements provide more information about the Library's funds and not the Library as a whole.

The Library has two kinds of funds:

Governmental Funds: Most of the Library's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

Proprietary Funds: Services for which the Library charges customers a fee are generally reported in proprietary funds.

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2016
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

A comparative analysis of government-wide information is presented in the financial report.

STATEMENT OF NET POSITION

A summary of the Library's Statement of Net Position is presented in Table A-1.

TABLE A-1 STATEMENT OF NET POSITION

Condensed Statement of Net Position

	Total	
	2016	2015
Assets		
Current and other assets	\$ 9,935,456	\$ 10,133,242
Net noncurrent assets	<u>27,472,519</u>	<u>24,900,018</u>
Total Assets	<u>37,407,975</u>	<u>35,033,260</u>
Deferred Outflows of Resources	<u>1,792,733</u>	<u>653,251</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 39,200,708</u>	<u>\$ 35,686,511</u>
Liabilities		
Current liabilities	\$ 1,932,537	\$ 2,718,496
Long-term Liabilities	<u>19,398,495</u>	<u>16,215,875</u>
Total Liabilities	<u>21,331,032</u>	<u>18,934,371</u>
Deferred Inflows of Resources	<u>46,075</u>	<u>807,000</u>
Total Liabilities and Deferred Inflows of Resources	<u>21,377,107</u>	<u>19,741,371</u>
Net Position		
Net investment in capital assets	17,159,197	15,262,505
Restricted	226,918	214,033
Unrestricted	<u>437,486</u>	<u>468,602</u>
Total Net Position	<u>17,823,601</u>	<u>15,945,140</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 39,200,708</u>	<u>\$ 35,686,511</u>

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2016
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

A summary of the Library's Statement of Activities is presented in Table A-2.

STATEMENT OF ACTIVITIES

TABLE A-2 STATEMENT OF ACTIVITIES

Condensed Statement of Activities

	<u>Total</u>		<u>Change</u>	<u>Percent Change</u>	<u>Percent of Total</u>
	<u>2016</u>	<u>2015</u>			
Revenues					
LFUCG tax revenue	\$ 14,528,966	\$ 14,081,581	\$ 447,385	3%	83%
Interest and investment earnings	55,895	63,449	(7,554)	-12%	0%
Capital grants and contributions	105,000	105,000	-	0%	1%
Operating grants and contributions	341,931	299,314	42,617	14%	2%
Charges for services	727,906	744,831	(16,925)	-2%	3%
Gain on sale of Eagle Creek branch	1,688,649	-	1,688,649	100%	9%
Other revenues	140,230	114,899	25,331	22%	1%
Total Revenue	<u>17,588,577</u>	<u>15,409,074</u>	<u>2,179,503</u>	<u>14%</u>	<u>100%</u>
Expenses					
Personnel	9,103,958	8,334,737	769,221	9%	58%
Operating expenses	2,392,153	2,320,128	72,025	3%	15%
Grant-foundation	121,521	109,115	12,406	11%	1%
Books & materials	1,879,980	1,789,578	90,402	5%	12%
Enterprise	369,852	392,052	(22,200)	-6%	2%
Depreciation and amortization - general fund	1,302,261	1,170,174	132,087	11%	8%
Library corporation	256,641	256,212	429	0%	2%
Interest expense	283,750	217,271	66,479	31%	2%
Total Expenses	<u>15,710,116</u>	<u>14,589,267</u>	<u>1,120,849</u>	<u>8%</u>	<u>100%</u>
Change In Net Position	<u>1,878,461</u>	<u>819,807</u>	<u>1,058,654</u>	<u>129%</u>	
Net Position - Beginning	<u>15,945,140</u>	<u>15,125,333</u>	<u>819,807</u>	<u>5%</u>	
Net Position - Ending	<u>\$ 17,823,601</u>	<u>\$ 15,945,140</u>	<u>\$ 1,878,461</u>	<u>12%</u>	

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2016
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF ACTIVITIES

While the Statement of Net Position shows the financial position of the Library, the Statement of Activities provides answers as to the nature and source of these changes. The Library's main source of revenue, property tax, is approximately 83% of the Library's total revenue. The property tax revenue source increased approximately 3%.

The personnel expense represents approximately 58% of total expenses. Personnel expenses reflect a \$372,947 change in deferred assets/deferred liabilities.

BUDGET HIGHLIGHTS

The Library adopts an annual Operating Budget following budget workshops with the Board of Trustees and a vote of the entire Board of Trustees. The operating budget includes proposed expenses and the means of financing them. The Library's operating budget is amended during the year if unusual events occurred. A fiscal year 2016 budget comparison for the current month and year to date is presented to management and the Board of Trustees as interim financial statements; however, they are not reported on nor shown on the financial statements section of this report.

The net change in the Library's fund balance was \$315,955, which was \$202,238 better than budget.

The Library's actual expenses, overall, were over budget by \$5,860,373. A 2016 budget comparison and analysis is presented in Table A-3 on page 8. The debt service expenditures were over budget because all the proceeds from the sale of the former Eagle Creek branch were paid on debt (\$2,297,471). The capital expenditures related to the new Eastside Branch were approved by the board but were not included on the budget (\$4,012,202). These expenditures were offset by the issuance of debt for the Eastside Branch (\$3,354,071) and the sale of Eagle Creek Branch.

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2016
(Continued)**

BUDGET HIGHLIGHTS (Continued)

BUDGET TO ACTUAL - 2016

	Budget	Actual	Budget - Postive (Negative)
SUPPORT AND REVENUES			
KY Dept. of Libraries and Archives	\$ 118,764	\$ 121,479	\$ 2,715
Grants, other	155,000	105,000	(50,000)
LFUCG tax revenue	14,281,950	14,528,966	247,016
Contributions	131,058	220,452	89,394
Enterprise fund revenue	445,500	469,568	24,068
Fines and lost books	277,823	258,338	(19,485)
Interest income	28,000	55,895	27,895
Rental income	-	11,944	11,944
Miscellaneous	45,000	128,286	83,286
Total support and revenues	<u>15,483,095</u>	<u>15,899,928</u>	<u>416,833</u>
EXPENSES			
Personnel	8,867,571	8,731,011	136,560
Operating expenses	2,492,075	2,392,153	99,922
Library materials	1,886,452	1,879,980	6,472
Foundation expenses	70,000	67,943	2,057
Grant Expenses/foundation gift	50,000	12,269	37,731
Depreciation/interest- enterprise	257,100	248,512	8,588
Enterprise expenses	167,300	121,340	45,960
Capital purchases (Including Eastside Branch construction)	626,042	4,599,456	(3,973,414)
Other expenditures/expenses	256,641	256,641	-
Debt service (Includes payments from proceeds of Eagle Creek Branch sale)	635,139	2,884,901	(2,249,762)
Friends donation	61,058	41,309	19,749
Total expenses	<u>15,369,378</u>	<u>21,235,515</u>	<u>(5,866,137)</u>
Expenditures Over Support and Revenues	113,717	(5,335,587)	(5,449,304)
Other Financing/Capital			
Debt issuance	-	3,354,071	3,354,071
Proceeds from sale of Eagle Creek branch	-	2,297,471	2,297,471
Other Financing/Capital		<u>5,651,542</u>	<u>5,651,542</u>
Changes in fund balances	113,717	315,955	202,238
Fund balances- beginning of year	<u>8,213,824</u>	<u>8,213,824</u>	<u>-</u>
FUND BALANCES-END OF YEAR	<u><u>\$ 8,327,541</u></u>	<u><u>\$ 8,529,779</u></u>	<u><u>\$ 202,238</u></u>

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2016
(Continued)**

CAPITAL ASSETS

The Library invested a total of \$4,607,120 in capital assets purchased, in completion of Eastside Branch and in building improvements. The Library will continue to invest in new technology and replace capital assets and study expansion plans in accordance with the Library's strategic plan.

DEBT ADMINISTRATION

Business-type Long-term Debt

The Library maintains cash and investments in the Public Library Corporation in order to retire its long-term debt in a timely manner. The Library's outstanding debt held by the Public Library Corporation at June 30, 2016 amounted to \$2,624,905. This debt had an original principal balance of \$3,515,000. The debt was used to purchase the parking garage (\$3,001,000) and provide cash (\$514,000) for the renovation of the garage. This garage debt will be repaid through the operation of the parking garage.

Governmental Long-term Debt

In September 2008, the Library closed on financing for the Northside branch with the Kentucky League of Cities. Financing consists of two notes. The first note is a twenty-year loan for \$5,200,000 at a fixed rate of 3.89%. The second note is a twenty-year loan for \$1,500,000 with a variable rate. The total balance of both loans was \$3,537,137 at June 30, 2016.

On March 29, 2012, the Library closed on financing for the Energy Project with the Kentucky League of Cities. Financing program revenue bonds, 2014 Series A was issued in the amount of \$1,270,000 at variable interest rates varying from 2.5% to 4.0%. Bond payments are due every February and August. The outstanding bond payable amount was \$948,750 at June 30, 2016.

On December 30, 2014, the Library closed on financing for the relocation project related to the Eagle Creek Branch with Kentucky Bank. The construction lease has a borrowing capacity of \$5,500,000. As of June 30, 2015, \$2,145,929 was drawn on the construction lease. During fiscal year 2016, the remaining amount of \$3,354,071 was drawn on the lease to total \$5,500,000. The construction lease has a fixed rate of 2.78%. The principal balance as of June 30, 2016 was \$3,202,530.

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

CONTACTING THE LIBRARY FINANCIAL MANAGER

The financial report is designed to provide the citizens of Lexington-Fayette County and its creditors with a general overview of the Library's finances and to demonstrate the Library's accountability of the money it receives. If you have questions concerning any of the information provided in this report or requests for additional information, contact The Lexington Public Library, 140 East Main Street, Lexington, Kentucky 40507.

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION**

**June 30, 2016
(With Comparative Totals As Of June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION
For The Year Ended June 30, 2016
(With Comparative Totals as of June 30, 2015)

	Governmental Activities	Business-Type Activities	Total	2015 Totals
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 4,597,506	\$ 2,070	\$ 4,599,576	\$ 5,957,944
Short-term investments - unrestricted	4,752,208	-	4,752,208	3,551,157
Accounts receivable				
Due from enterprise fund	155,985	-	155,985	245,506
Due from general fund	-	285,755	285,755	204,584
Other	3,293	13,627	16,920	39,903
Prepaid expenses	125,012	-	125,012	134,148
Total Current Assets	9,634,004	301,452	9,935,456	10,133,242
Noncurrent Assets:				
Capital assets				
Nondepreciable	4,786,335	-	4,786,335	8,212,730
Depreciable, net	19,949,600	2,736,584	22,686,184	16,687,288
Total Noncurrent Assets	24,735,935	2,736,584	27,472,519	24,900,018
Total Assets	34,369,939	3,038,036	37,407,975	35,033,260
Deferred Outflows of Resources				
Actuarially determined outflow	1,122,121		1,122,121	
Pension contributions	670,612	-	670,612	653,251
Total Deferred Outflows of Resources	1,792,733	-	1,792,733	653,251
Total Assets and Deferred Outflows of Resources	36,162,672	3,038,036	39,200,708	35,686,511
LIABILITIES				
Current Liabilities:				
Accounts payable	282,719	70	282,789	496,517
Accrued payroll	91,391	-	91,391	312,307
Accrued vacation	311,312	-	311,312	311,312
Payroll liabilities	73,254	-	73,254	160,512
Loss contingency	316,253	-	316,253	316,253
Unearned revenue	-	501	501	501
Accrued interest payable	116	-	116	22,366
Due to enterprise fund	285,755	-	285,755	204,584
Due to general fund	-	155,985	155,985	245,506
Current portion of long-term debt	315,181	100,000	415,181	648,638
Total Current Liabilities	1,675,981	256,556	1,932,537	2,718,496
Noncurrent Liabilities:				
Net pension obligation	9,500,354		9,500,354	7,227,000
Bonds payable	7,373,236	2,524,905	9,898,141	8,988,875
Total Noncurrent Liabilities	16,873,590	2,524,905	19,398,495	16,215,875
Total Liabilities	18,549,571	2,781,461	21,331,032	18,934,371
Deferred Inflows of Resources	46,075	-	46,075	807,000
Total Liabilities and Deferred Inflows of Resources	18,595,646	2,781,461	21,377,107	19,741,371
NET POSITION				
Net investment in				
Capital assets	17,047,518	111,679	17,159,197	15,262,505
Restricted For:				
Grants and bond	226,918	-	226,918	214,033
Unrestricted	292,590	144,896	437,486	468,602
Total Net Position	\$ 17,567,026	\$ 256,575	\$ 17,823,601	\$ 15,945,140

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

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES**

**For The Year Ended June 30, 2016
(With Comparative Totals For the Year Ended June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016
(With Comparative Totals For The Year Ended June 30, 2015)

Functions/Programs	Program Revenues Received			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Personnel	\$ 9,103,958	\$ -	\$ -	\$ -
Operating expenses	2,392,153	-	-	-
Foundation	67,943	-	135,409	-
Grant expenses	12,269	-	-	-
Friends program support	41,309	-	85,043	-
Construction	-	-	-	105,000
Books and materials	1,879,980	258,338	121,479	-
Depreciation/Amortization	1,302,261	-	-	-
Interest expense	283,750	-	-	-
Library Corporation payments	256,641	-	-	-
Total Governmental Activities	15,340,264	258,338	341,931	105,000
Business-type Activities:				
Printing charges and purchases	33,164	98,866	-	-
Business-type Activities:	88,176	370,702	-	-
Interest expense	124,976	-	-	-
Depreciation/Amortization	123,536	-	-	-
Total Business-type Activities	369,852	469,568	-	-
Total Primary Government	\$ 15,710,116	\$ 727,906	\$ 341,931	\$ 105,000

General Revenues:

Property taxes for general purposes
Interest and investment earnings
Gain on sale of Eagle Creek branch
Miscellaneous

Total General Revenues
Change in Net Position
Net Position- Beginning

Net Position - Ending

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES (Continued)
For The Year Ended June 30, 2016
(With Comparative Totals For The Year Ended June 30, 2015)

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

Governmental Activities	Business-Type Activities	Total	2015 Totals
\$ (9,103,958)	\$ -	\$ (9,103,958)	\$ (8,334,737)
(2,392,153)	-	(2,392,153)	(2,320,128)
67,466	-	67,466	73,426
(12,269)	-	(12,269)	(23,457)
43,734	-	43,734	18,751
105,000	-	105,000	105,000
(1,500,163)	-	(1,500,163)	(1,388,992)
(1,302,261)	-	(1,302,261)	(1,170,174)
(283,750)	-	(283,750)	(217,271)
(256,641)	-	(256,641)	(256,212)
<u>(14,634,995)</u>	<u>-</u>	<u>(14,634,995)</u>	<u>(13,513,794)</u>
-	65,702	65,702	47,116
-	282,526	282,526	278,633
-	(124,976)	(124,976)	(128,584)
<u>-</u>	<u>(123,536)</u>	<u>(123,536)</u>	<u>(123,493)</u>
<u>-</u>	<u>99,716</u>	<u>99,716</u>	<u>73,672</u>
<u>(14,634,995)</u>	<u>99,716</u>	<u>(14,535,279)</u>	<u>(13,440,122)</u>
14,528,966	-	14,528,966	14,081,581
54,995	900	55,895	63,449
1,688,649	-	1,688,649	-
125,291	14,939	140,230	114,899
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>16,397,901</u>	<u>15,839</u>	<u>16,413,740</u>	<u>14,259,929</u>
1,762,906	115,555	1,878,461	819,807
15,804,120	141,020	15,945,140	15,125,333
<u>\$ 17,567,026</u>	<u>\$ 256,575</u>	<u>\$ 17,823,601</u>	<u>\$ 15,945,140</u>

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

**LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2016
(With Comparative Totals As Of June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016
(With Comparative Totals As Of June 30, 2015)

ASSETS	General Fund	Library Collection Materials Fund	Construction Fund	2016 Total Governmental Funds	2015 Total Governmental Funds
ASSETS					
Current Assets					
Cash and cash equivalents					
Unrestricted	\$ 4,485,740	\$ -	\$ -	\$ 4,485,740	\$ 5,857,685
Restricted	79,532	-	32,234	111,766	98,189
Short-term investments - Unrestricted	4,604,822	-	-	4,604,822	3,405,150
Short-term investments - Restricted	147,386	-	-	147,386	146,007
Accounts receivable - other	3,293	-	-	3,293	9,939
Due from other funds	1,858,734	462,707	-	2,321,441	3,345,240
Due from business type funds	155,985	-	-	155,985	245,506
Prepaid expenses	84,020	40,992	-	125,012	134,148
	<u>\$ 11,419,512</u>	<u>\$ 503,699</u>	<u>\$ 32,234</u>	<u>\$ 11,955,445</u>	<u>\$ 13,241,864</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable	\$ 282,775	\$ (56)	\$ -	\$ 282,719	\$ 496,486
Accrued payroll	91,391	-	-	91,391	312,307
Accrued vacation	311,312	-	-	311,312	311,312
Accrued interest	116	-	-	116	22,366
Payroll liabilities	73,277	(23)	-	73,254	160,512
Loss contingency	316,253	-	-	316,253	316,253
Due to business type funds	285,755	-	-	285,755	204,584
Due to other funds	462,707	-	1,858,734	2,321,441	3,345,240
Total current liabilities	<u>\$ 1,823,586</u>	<u>\$ (79)</u>	<u>\$ 1,858,734</u>	<u>\$ 3,682,241</u>	<u>\$ 5,169,060</u>
FUND BALANCES:					
Restricted for:					
Little grant	\$ -	\$ -	\$ -	\$ -	\$ 2,071
Foundation expenditures	226,918	-	-	226,918	211,962
Committed for:					
Buildings, renewal and replacement	2,000,000	-	-	2,000,000	2,000,000
New branch	1,000,000	-	-	1,000,000	1,000,000
Emergency fund	300,000	-	-	300,000	300,000
Technology Enhancements and Innovatio	100,000	-	-	100,000	100,000
Assigned for:					
Book purchases	-	503,778	-	503,778	553,586
Capital construction	-	-	(1,826,500)	(1,826,500)	(2,759,420)
Unassigned	5,969,008	-	-	5,969,008	6,664,605
Total Fund Balances	<u>9,595,926</u>	<u>503,778</u>	<u>(1,826,500)</u>	<u>8,273,204</u>	<u>8,072,804</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,419,512</u>	<u>\$ 503,699</u>	<u>\$ 32,234</u>	<u>\$ 11,955,445</u>	<u>\$ 13,241,864</u>

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

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS (Continued)
June 30, 2016 (With Comparative Totals As Of June 30, 2015)

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 8,273,204
Amounts Reported For Governmental Activities In The Statement Of Net Position Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds.	24,735,935
Long-term Liability	-
Deferred Outflows of Resources Are Expensed in the Current Period and, Therefore, Are Not Reported in the Governmental Funds.	1,792,733
Net Pension Obligation Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Governmental Funds.	(9,500,354)
Deferred Inflows of Resources Are Not Due and Payable in the Current Period and, Therefore, Are Not Reported in the Governmental Funds.	(46,075)
Short-term and Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Governmental Funds.	-
	<u>(7,688,417)</u>
Net Position Of Governmental Activities	<u><u>\$ 17,567,026</u></u>

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

**For The Year Ended June 30, 2016
(With Comparative Totals For The Year Ended June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2016 (With Comparative Totals For The Year Ended June 30, 2015)

	General Fund	Library Collection Materials Fund	Construction Fund
SUPPORT			
Grants			
Ky Dept of Libraries and Archives	121,479	-	-
Construction grant	-	-	105,000
LFUCG appropriation	-	-	-
Unrestricted	12,611,142	-	-
Restricted	-	1,917,824	-
Donations	-	-	-
Foundation (restricted)	135,409	-	-
Friends (unrestricted)	85,043	-	-
Total support	<u>12,953,073</u>	<u>1,917,824</u>	<u>105,000</u>
REVENUE			
Fines and lost books	258,338	-	-
Investment income	-	-	-
Unrestricted	54,995	-	-
Rental income	11,944	-	-
Miscellaneous	113,347	-	-
Total revenue	<u>438,624</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>13,391,697</u>	<u>1,917,824</u>	<u>105,000</u>
EXPENDITURES			
Salaries and employee benefits	8,731,011	-	-
Operating expenditures	2,304,501	87,652	-
Books and materials	-	1,879,980	-
Operating sublease expenditures	256,641	-	-
Friends program support	41,309	-	-
Grant expenditures/foundation gifts	12,269	-	-
Foundation expenditures	67,943	-	-
Debt services	283,750	-	-
Total Expenditures	<u>11,697,424</u>	<u>1,967,632</u>	<u>-</u>
Support and revenue over expenditures	<u>1,694,273</u>	<u>(49,808)</u>	<u>105,000</u>
OTHER FINANCING SOURCES (USES)			
Principal payment on debt	(75,000)	-	(2,526,151)
Purchase of property and equipment	(4,599,456)	-	-
Proceeds from the sale of Eagle Creek branch	2,297,471	-	-
Issurance of long-term debt	-	-	3,354,071
Net other financing (uses)	<u>(2,376,985)</u>	<u>-</u>	<u>827,920</u>
Net change in Fund Balances	(682,712)	(49,808)	932,920
Fund Balances - Beginning	<u>10,278,638</u>	<u>553,586</u>	<u>(2,759,420)</u>
Fund Balances - Ending	<u><u>9,595,926</u></u>	<u><u>503,778</u></u>	<u><u>(1,826,500)</u></u>

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

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (Continued)
For The Year Ended June 30, 2016 (With Comparative Totals For The Year Ended June 30, 2015)

	2016 Totals	2015 Totals
	Governmental Funds	Governmental Funds
SUPPORT		
Grants		
Ky Dept of Libraries and Archives	\$ 121,479	\$ 121,479
Construction grant	105,000	105,000
LFUCG appropriation		
Unrestricted	12,611,142	12,259,744
Restricted	1,917,824	1,821,837
Donations		
Foundation (restricted)	135,409	105,840
Friends (unrestricted)	85,043	68,927
Total support	<u>14,975,897</u>	<u>14,485,895</u>
REVENUE		
Fines and lost books	258,338	279,107
Investment income		
Unrestricted	54,995	62,549
Rental income	11,944	10,186
Miscellaneous	113,347	90,338
Total revenue	<u>438,624</u>	<u>442,180</u>
Total support and revenue	<u>15,414,521</u>	<u>14,928,075</u>
EXPENDITURES		
Salaries and employee benefits	8,731,011	8,409,988
Operating expenditures	2,392,153	2,320,128
Books and materials	1,879,980	1,789,578
Operating sublease expenditures	256,641	256,212
Friends program support	41,309	50,176
Grant expenditures/foundation gifts	12,269	26,525
Foundation expenditures	67,943	32,414
Debt services	283,750	217,271
Total Expenditures	<u>13,665,056</u>	<u>13,102,292</u>
Support and revenue over expenditures	<u>1,749,465</u>	<u>1,825,783</u>
OTHER FINANCING SOURCES (USES)		
Principal payment on debt	(2,601,151)	(319,762)
Purchase of property and equipment	(4,599,456)	(5,202,963)
Proceeds from the sale of Eagle Creek branch	2,297,471	
Issurance of long-term debt	3,354,071	2,145,929
Net other financing (uses)	<u>(1,549,065)</u>	<u>(3,376,796)</u>
Net change in Fund Balances	200,400	(1,551,013)
Fund Balances - Beginning	<u>8,072,804</u>	<u>9,623,817</u>
Fund Balances - Ending	<u>\$ 8,273,204</u>	<u>\$ 8,072,804</u>

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

LEXINGTON PUBLIC LIBRARY
RECONCILIATION OF THE STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2016

LEXINGTON PUBLIC LIBRARY
RECONCILIATION OF THE STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	200,400
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 allocated over their estimated useful lives and reported as depreciation expense.		
Depreciable assets		4,599,456
Depreciation expense		(1,302,261)
Net effect of gain on sale related to the sale of a fixed asset and that is not included in the Governmental Funds		(608,822)
Pension expense related to long-term Net Pension Obligations that is not included in the Governmental Funds		(372,947)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net position.		
Bond Debt Principal Payments		<u>(752,920)</u>
Change in Net Position of Governmental Activities	\$	<u><u>1,762,906</u></u>

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**June 30, 2016
(With Comparative Totals As Of June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2016 (With Comparative Totals As Of June 30, 2015)

	Enterprise Fund	Parking Fund	2016 Total Proprietary Fund	2015 Total Proprietary Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,070	\$ 1,000	\$ 2,070	\$ 2,070
Accounts receivables		13,627	13,627	29,964
Due from general fund	285,755	-	285,755	204,584
Total current assets	286,825	14,627	301,452	236,618
Noncurrent assets				
Capital assets, net of depreciation	87,684	2,648,900	2,736,584	2,852,456
TOTAL ASSETS	\$ 374,509	\$ 2,663,527	\$ 3,038,036	\$ 3,089,074
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	\$ 8	\$ 62	\$ 70	\$ 31
Unearned revenue	-	501	501	501
Due to general fund	-	155,985	155,985	245,506
Current portion of long-term debt	-	100,000	100,000	125,000
Total current liabilities	8	256,548	256,556	371,038
Long-term debt	-	2,524,905	2,524,905	2,577,016
Total liabilities	8	2,781,453	2,781,461	2,948,054
Net position				
Invested in capital assets, net of related debt	87,684	23,995	111,679	150,440
Unrestricted	286,817	(141,921)	144,896	(9,420)
Total net position	374,501	(117,926)	256,575	141,020
TOTAL LIABILITIES AND NET POSITION	\$ 374,509	\$ 2,663,527	\$ 3,038,036	\$ 3,089,074

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

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS**

**For The Year Ended June 30, 2016
(With Comparative Totals For The Year Ended June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
For The Year Ended June 30, 2016 (With Comparative Totals For The Year Ended June 30,
2015)

	Enterprise Fund	Parking Fund	2016 Total Proprietary Fund	2015 Total Proprietary Fund
Operating revenues				
Video rentals and fines	\$ -	\$ -	\$ -	\$ 32
Copy sales	98,852	-	98,852	84,439
Parking garage	-	370,702	370,702	381,253
Miscellaneous revenue	14,883	70	14,953	14,375
Total operating revenues	<u>113,735</u>	<u>370,772</u>	<u>484,507</u>	<u>480,099</u>
Operating expenses				
Operating expenses	33,164	88,176	121,340	139,975
Depreciation	31,885	91,651	123,536	123,493
Total operating expenses	<u>65,049</u>	<u>179,827</u>	<u>244,876</u>	<u>263,468</u>
Total operating income	<u>48,686</u>	<u>190,945</u>	<u>239,631</u>	<u>216,631</u>
Nonoperation revenues and (expenses)				
Interest income	600	300	900	900
Interest expense	-	(124,976)	(124,976)	(128,584)
Total nonoperation revenues (expenses)	<u>600</u>	<u>(124,676)</u>	<u>(124,076)</u>	<u>(127,684)</u>
Change in net position	49,286	66,269	115,555	88,947
Total net position-beginning	<u>325,215</u>	<u>(184,195)</u>	<u>141,020</u>	<u>52,073</u>
TOTAL NET POSITION-ENDING	<u>\$ 374,501</u>	<u>\$ (117,926)</u>	<u>\$ 256,575</u>	<u>\$ 141,020</u>

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

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**For The Year Ended June 30, 2016
(With Comparative Totals As Of June 30, 2015)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For The Year Ended June 30, 2016 (With Comparative Totals As Of June 30, 2015)

	Enterprise Fund	Parking Fund	2016 Total Proprietary Fund	2015 Total Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 113,735	\$ 387,109	\$ 500,844	\$ 463,775
Payroll payments		(29,517)	(29,517)	(29,517)
Payments to suppliers	(33,164)	(58,659)	(91,823)	(102,667)
Net cash provided by operating activities	80,571	298,933	379,504	331,591
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer to general fund	(81,171)	(97,146)	(178,317)	(110,366)
Bond principal debt paid	-	(77,111)	(77,111)	(93,541)
Interest paid on capital debt	-	(124,976)	(124,976)	(128,584)
Net cash used by capital and related financing activities	(81,171)	(299,233)	(380,404)	(332,491)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	600	300	900	900
Net cash provided by financing activities	600	300	900	900
Net increase in cash and cash equivalents				
Balances-beginning of year	1,070	1,000	2,070	2,070
BALANCES-END OF THE YEAR	\$ 1,070	\$ 1,000	\$ 2,070	\$ 2,070
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 48,686	\$ 190,945	\$ 239,631	\$ 216,631
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	31,885	91,651	123,536	123,493
Changes in asset and liabilities				
Accounts receivable	-	16,337	16,337	(16,324)
Prepaid expenses	-	-	-	7,791
Interest payable				
Net cash provided by operating activities	\$ 80,571	\$ 298,933	\$ 379,504	\$ 331,591

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

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TO THE FINANCIAL STATEMENTS**

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LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies

Nature of Organization

The Lexington Public Library (the Library) is a governmental entity established as a tax-supported library in 1898. The Library is a component unit of the Lexington-Fayette Urban County Government. The Library is governed by a seven-member Board of Trustees that is empowered by Chapter 173 of the Kentucky Revised Statutes. The primary mission of the Library is to maintain a free public library in Lexington-Fayette County, Kentucky with financial support provided by the Lexington-Fayette Urban County Government (LFUCG). The LFUCG support is provided in the form of annual appropriations based upon property assessments.

The Library's financial statements include the assets and liabilities of the Lexington Public Library Foundation, Inc (the "Foundation"). The Foundation was formed in May 1997 for the purpose of benefiting, promoting, supporting, encouraging, and enhancing the program and facilities of the Lexington Public Library. The purpose of the Foundation is twofold; one, to provide financial support for specific projects of any type it considers appropriate; and two, to assist the Board of Trustees of the Library and its Advisory Board in making the Library more valuable to the entire community. The Foundation is included as a blended component unit in the general fund.

Basis of Presentation

The Library's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis-for State and Local Government."* Statement No. 34 established financial reporting requirements for all state and local governments and consists of the following:

Management's discussion and analysis (required supplementary information);

Basic Financial Statements

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The government-wide financial statements include a statement of net position and the statement of activities. These statements display information about the Library as a whole. The statements distinguish between governmental and business-type activities. The government-wide statements are prepared using the economic measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

Fund financial statements report detailed information about the Library. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities, generally, are included on the balance sheet.

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Library. It accounts for all financial resources of the general government, except where the management requires that a separate fund be used for some function.

Library Collection Materials Fund - This fund is used to account for library materials purchased and collections from late fees and fines. The primary source of revenue for this fund is transfers from the general fund for property taxes. The major expenditures for this fund are books and materials for the Library. This fund is presented as a special revenue fund.

Construction Fund - This fund is for library construction. The primary source of income for this fund is debt incurred. The major expenditures for this fund are construction costs and interest costs from debt. This fund is presented as a debt service fund.

The government has no non-major governmental funds.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The primary government reports the following major proprietary funds:

Enterprise Fund - This fund is used to account for revenues and expenses related to video rentals and copiers.

Parking Fund - This fund is used to account for revenues and expenses related to the parking garage owned and operated by the Library.

Blended Entity Component Unit

The financial data of the Lexington Public Library Foundation, Inc., is reported on the Statement of Net Position and the Statement of Activities in the column labeled "Governmental Activities". The Foundation collects restricted donations made to the Library. The primary source of revenue for the Foundation is from library patronages. The major expense for the Foundation is fundraising related expenses. The Foundation's financial data is also included in the Balance Sheet - Governmental Funds and the Statement of Support, Revenue, Expenditures and Changes in Fund Balances - Governmental Funds in the column labeled "General Fund".

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

Short-Term Investment

Short-term investments consist of certificates of deposit with initial maturities of twelve months or less. Fair value approximates carrying amounts.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are stated at cost. Donated assets are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible capital assets is charged as an expense against their operations. The costs of books are expensed when purchased. Depreciation is computed using the straight-line method over the estimated useful life of each asset, which varies from five to twenty years.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as an organization that is not a private foundation. The Foundation recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Library's participation in the County Employees Retirement System of the Kentucky Retirement Systems (KRS) have been determined on the same basis (CERS) as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2015.

Cash and Cash Equivalents

For purposes of statements of cash flows, the Library considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events for the Library have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance Classification Policies and Procedures

The Board of Trustees is the Library's highest level of decision-making authority. Commitments of fund balance must be approved by the Budget/Finance Committee and brought forward to the entire Board in an open meeting where the Board approves commitments by formal vote. The Board has retained the authority to assign amounts to a specific purpose utilizing the same policy established for committing funds to a specific purpose.

The Library adopted a policy to govern the order of priority on use of fund balance when (1) either restricted or unrestricted amounts are both available and (2) when committed, assigned, or unassigned fund balance classifications could be used. When expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the Library to consider restricted amounts to have been reduced first. When an expense is incurred for purposes for which unrestricted fund balance classification could be used, it is the policy of the Library to first use any current fiscal year budgeted amounts available, followed by committed amounts, followed by assigned amounts and then unassigned amounts.

Note 2. Cash and Investments

Kentucky Revised Statutes authorize governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

The carrying amount of the Library's cash and cash equivalents deposits at June 30, 2016 was \$4,599,576. The carrying amount of the Library's short-term investments at June 30, 2016 was \$4,752,208.

Note 3. Deposits

The Library maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Library and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2016, the library's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$ 2,574

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)**

Note 4. Fair Value and Measurement - Investments

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs.

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Library has the following recurring fair value measurements as of June 30, 2016:

Certificate of deposits of \$4,752,208 are valued using quoted market prices (Level 1 inputs).

The Library has no Level 2 or Level 3 inputs.

Note 5. Lexington-Fayette Urban County Government Agreements

The Library is funded by a dedicated property tax assessment collected by the LFUCG, equivalent to \$.015 per \$100 valuation of tobacco in storage and \$.05 per each \$100 valuation of all other property assessed for local taxation in Lexington, Fayette County, Kentucky under Kentucky Revised Statutes 173.360.

The Library and the Lexington Public Library Corporation (the Corporation), which was established in 1985 for the purpose of providing a means to finance the construction of a new central library, entered into a Memorandum of Agreement (the Agreement) in March 1986, to facilitate this construction process and to facilitate the expansion of library materials and other future capital projects. The Agreement specified that the Library provide the Corporation with 24% of its appropriations from the LFUCG for fiscal year 1989 and each fiscal year thereafter until the debt obligations approved by the Library and incurred by the Corporation have been paid or until such other time as the Library and Corporation determine by mutual agreement. This agreement was amended in 2006 for the current fiscal and future fiscal years reducing the transfer to current debt service until all debts are paid.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Reporting Entity				Ending Balance
	Beginning Balance	Increases	Decreases	Reclasss from Other Noncurrent Asset	
Primary Government:					
<u>Governmental Activities:</u>					
Depreciable capital assets					
Land improvements	\$ 70,279	\$ -	\$ -	\$ -	\$ 70,279
Village branch construction	841,291	-	-	-	841,291
Buildings and improvements	23,170,928	3,046,941	(2,176,409)	4,195,707	28,237,167
Furniture/equipment	9,922,765	312,385	-	-	10,235,150
Totals at Cost	34,005,263	3,359,326	(2,176,409)	4,195,707	39,383,887
Less: accumulated depreciation:	20,170,431	1,302,263	(2,038,407)	-	19,434,287
Depreciable capital assets, net	\$ 13,834,832	\$ 2,057,063	\$ (138,002)	\$ 4,195,707	\$ 19,949,600
Nondepreciable capital assets					
Land	\$ 3,539,842	\$ 1,226,400	\$ (470,818)	\$ -	\$ 4,295,424
Construction in progress	4,195,707	-	-	(4,195,707)	-
Artistic clock	477,181	13,730	-	-	490,911
	\$ 8,212,730	\$ 1,240,130	\$ (470,818)	\$ (4,195,707)	\$ 4,786,335
Business-Type Activities:					
Furniture/equipment	\$ 159,426	\$ -	\$ -	\$ -	\$ 159,426
Parking garage & improvements	3,591,016	7,664	7,664	-	3,606,344
Totals at cost	3,750,442	7,664	7,664	-	3,765,770
Less: accumulated depreciation	897,986	123,536	123,536	-	1,145,058
Capital assets net	\$ 2,852,456	\$ (115,872)	\$ (115,872)	\$ -	\$ 2,736,584

Depreciation expense was charged as follows:

Governmental Activities:

Total Depreciation Expense - Governmental Activities \$ 1,302,263

Business-Type Activities

Total Depreciation Expense - Business-Type Activities \$ 123,536

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Retirement Plan

General Information about the Pension Plan

Plan description. Employees of the Library are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the Cost of Living Adjustment (COLA) is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Retirement Plan (Continued)

General Information about the Pension Plan (Continued)

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The Library makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions for the Library were \$921,147 based on a rate of 17.06% of covered payroll. By law, employer contributions are required to be paid. The KRS may intercept the Library's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The Library's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50% percent, net of pension plan investment expense, including inflation

The mortality table used for active and healthy retired members, and beneficiaries is RP-2000 Combined Mortality Table projected with Scale BB to 2013. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Retirement Plan (Continued)

Net Pension Liability (Continued)

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Combined Equity	5.40%	44.00%
Combined Fixed Income	1.50%	19.00%
Real Return (Diversified Inflation Strategies)	3.50%	10.00%
Real Estate	4.50%	5.00%
Absolute Return (Diversified Hedge Funds)	4.25%	10.00%
Private Equity	8.50%	10.00%
Cash	-0.25%	2.00%
		100.00%

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50 percent based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Library will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Retirement Plan (Continued)

Net Pension Liability (Continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the Library calculated using the discount rate of 7.50 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Lexington Library's net pension liability	\$ 12,128,226	\$ 9,500,354	\$ 7,249,588

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2016, the Library recognized pension expense of \$1,043,559.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

The amount shown below for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 7. Retirement Plan (Continued)

Net Pension Liability (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Deferred Outflows of Resources</u>
Difference between expected and actual experience	\$ 78,951
Difference between projected and actual investment earns on plan investments	85,163
Change of assumptions	958,007
Contributions subsequent to the measurement date of June 30, 2015	<u>670,612</u>
Total	<u>\$ 1,792,733</u>

Deferred Inflows of Resources

Original Deferral Year	Original Deferral Amount	2016	2017	2018	2019	2020
2014	\$ 807,000	\$ (201,750)	\$ (201,750)	\$ (201,750)	\$ (201,750)	\$
2015	(559,175)		139,794	139,794	139,794	139,793
	<u>\$ 247,825</u>	<u>\$ (201,750)</u>	<u>\$ (61,956)</u>	<u>\$ (61,956)</u>	<u>\$ (61,956)</u>	<u>\$ 139,793</u>
Amortization - 2016						<u>\$ 201,750</u>
Unamortized Amount 2016						<u>\$ 46,075</u>

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)**

Note 7. Retirement Plan (Continued)

Net Pension Liability (Continued)

Deferred Outflows of Resources

Original Deferral Original Deferral Year	Original Deferral Amount	2017	2018	2019	2020	Total
2015	\$ 1,122,121	\$ 280,530	\$ 280,530	\$ 280,530	\$ 280,531	\$ 1,122,121

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2016, the Library reported a payable of \$150,355 (included in payroll liabilities amount on the Statement of Net Position and on the Balance Sheet - Governmental Funds) and for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

Note 8. Interfund Transactions

Interfund loans on the fund statements at June 30, 2016 consist of the following receivables and payables:

Fund	Receivables	Payable
General Fund	\$ 2,014,719	\$ 748,462
Collection Materials	462,707	
Construction		1,858,734
Proprietary Funds	285,755	155,985
	<u>\$ 2,763,181</u>	<u>\$ 2,763,181</u>

Note 9. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. In addition to its general liability insurance, the Library also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accidental insurance.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 10. Long-Term Liabilities

A. Parking Garage Debt

The Library purchased the Park Plaza Garage on April 29, 2005 through a competitive bid process for \$3,001,000. The Library's Board of Trustees determined that in the long-term interest of the Lexington Public Library the purchase and operation of the parking garage was required. It was also determined that an additional \$514,000 would be required to repair and improve the facility. The Library borrowed \$3,515,000 from the Kentucky League of Cities for a term of 29 years. The debt was broken down into a fixed rate loan of \$2,970,000 with a rate of 4.28% and a variable rate loan of \$545,000. The final maturity of the debt is May 21, 2014 (In prior year the final maturity date April 21, 2034; however, in fiscal year 2016 the loan was restructured and the final maturity was pushed by one month.). The variable rate is based on an assumed rate that is established at the beginning of each fiscal year. The effective rate at June 30, 2015 was 3.49%. The outstanding balance was \$2,624,905.

Fiscal Year Ended June 30	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 100,000	\$ 108,767	\$ 208,767
2018	108,585	118,881	227,466
2019	174,966	52,485	227,451
2020	114,291	111,857	226,148
2021	119,457	105,245	224,702
2022-2026	678,512	434,203	1,112,715
2027-2031	843,181	251,535	1,094,716
2032-2034	485,913	160,478	646,391
Totals	<u>\$ 2,624,905</u>	<u>\$ 1,343,451</u>	<u>\$ 3,968,356</u>

B. Northside Branch Debt

The Library obtained financing for the construction of the Northside branch on September 21, 2008. The Library borrowed \$6,700,000 from the Kentucky League of Cities for a term of 20 years. The debt was broken down into a fixed rate loan of \$5,200,000 with a rate of 3.89% and a variable rate loan of \$1,500,000. The final maturity of the debt is November 1, 2027. The variable rate is based on a weekly rate that is reported to the Kentucky League of Cities by the remarketing agent. At June 30, 2016 the effective rate was 3.21%. The outstanding balance was \$3,537,137.

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 240,181	\$ 162,824	\$ 403,005
2018	251,433	151,572	403,005
2019	263,496	139,509	403,005
2020	275,905	127,100	403,005
2021	289,511	140,495	430,006
2022-2026	1,668,434	346,591	2,015,025
2027-2028	548,177	15,544	563,721
Totals	<u>\$ 3,537,137</u>	<u>\$ 1,083,635</u>	<u>\$ 4,620,772</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 10. Long-Term Liabilities (Continued)

C. Energy Project Debt

On March 29, 2012, the Library closed on financing for the Energy Project with the Kentucky League of Cities. Financing program revenue bonds, 2014 Series A was issued in the amount of \$1,270,000 at variable interest rates varying from 2.5% to 4.0%. The final maturity of the debt is October 1, 2026. Bonds payments are due every February and August. The outstanding bond payable amount was \$948,750 at June 30, 2016.

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 75,000	\$ 32,962	\$ 107,962
2018	80,000	30,712	110,712
2019	80,000	28,312	108,312
2020	85,000	25,912	110,912
2021	85,000	23,362	108,362
2022-2026	465,000	73,276	538,276
2027	78,750	4,200	82,950
Totals	<u>\$ 948,750</u>	<u>\$ 218,736</u>	<u>\$ 1,167,486</u>

D. Relocation of Eagle Creek Branch Debt

On December 30, 2014, the Library closed on financing for the relocation project related to the Eagle Creek Branch with Kentucky Bank. The construction lease has a borrowing capacity of \$5,500,000. As of June 30, 2015, \$2,145,929 was drawn on the construction lease. During fiscal year 2016, the remaining amount of \$3,354,071 was drawn on the lease to total \$5,500,000. The final maturity of the debt is December 30, 2024. The construction lease has a fixed rate of 2.78%. The principal balance as of June 30, 2016 was \$3,202,530, which was due to an additional principal payment of \$2,077,513 paid in fiscal year 2016 from the proceeds of the sale of the Eagle Creek Branch. No principal is due in fiscal year 2017 as a result of this payment.

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2017	\$	\$ 89,030	\$ 89,030
2018	274,598	85,549	360,147
2019	282,330	77,817	360,147
2020	290,279	69,868	360,147
2021	298,452	61,694	360,146
2022-2025	2,056,871	148,184	2,205,055
Totals	<u>\$ 3,202,530</u>	<u>\$ 532,142</u>	<u>\$ 3,734,672</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 10. Long-Term Liabilities (Continued)

E. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Additional principal payment	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>						
Debt Obligations	\$ 5,911,747	\$ 3,354,071	\$ 448,638	\$ 2,077,513	\$ 6,739,667	\$ 240,181
Bond	1,023,750		75,000		948,750	75,000
Governmental Activities Long-term Liabilities	<u>\$ 6,935,497</u>	<u>\$ 3,354,071</u>	<u>\$ 523,638</u>	<u>\$ 2,077,513</u>	<u>\$ 7,688,417</u>	<u>\$ 315,181</u>
	Beginning Balance	Reductions	Ending Balance	Due Within One Year		
<u>Business-Type Activities</u>						
Debt Obligations	<u>\$2,702,016</u>	<u>\$ 77,111</u>	<u>\$2,624,905</u>	<u>\$ 100,000</u>		
Business-Type Activities Long-term Liabilities	<u>\$2,702,016</u>	<u>\$ 77,111</u>	<u>\$2,624,905</u>	<u>\$ 100,000</u>		

Note 11. Accrued Vacation

When an employee terminates employment with the Library they are paid for their vacation time remaining, up to 150 hours. A current liability is recorded on the Statement of Net Position and the Balance Sheet for the total amount of vacation earned, not exceeding 150 hours for each employee. The amount of accrued vacation as of June 30, 2016 was \$311,312.

Note 12. Contingencies and Commitments

The Lexington Public Library Board of Trustees is a defendant in a lawsuit filed by the Library's former Director, for contract damages associated with her 2009 termination by the Board. This matter came before an American Arbitration Association panel that on May 17, 2014 issued an Order on Damages totaling \$907,762. On each of the panel's findings for damages a panel member dissented to the order except in the case of the salary remaining on the contract which totals \$257,731. The Lexington Public Library Board of Trustees' legal counsel presented to the Fayette Circuit Court arguments and memoranda supporting the Board's position that the Arbitration Panel exceeded its authority under Kentucky law.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 12. Contingencies and Commitments (Continued)

On February 21, 2014, the Fayette Circuit Court ruled that the Arbitration Panel exceeded its authority on several issues and entered an Opinion and Order reducing the award to the Plaintiff to \$256,940, representing unpaid salary for the term of the contract. The plaintiff filed an appeal with the Kentucky Court of Appeals and the Library had filed a Cross-Appeal that the award of unpaid salary for the balance of the original term of the contract is in contravention of Kentucky law. On January 15, 2016 the Court of Appeals found that the Plaintiff waived her right to arbitrate when she initiated the lawsuit in Fayette Circuit Court. The Court of Appeals vacated the \$256,940 judgment and remanded to the Circuit Court for further proceedings. The Plaintiff then filed a Motion for Discretionary Review with the Kentucky Supreme Court. On August 18, 2016, the Kentucky Supreme Court denied the Motion for Discretionary Review. The case will now proceed in the Fayette Circuit Court. Counsel for the Library is unable to opine at this point as to the outcome of the appeal.

It is probable that the damages awarded for salary remaining on the contract will be upheld as well as interest damages at 8% per annum per Kentucky statute. As such, the Lexington Public Library has recorded a liability of \$316,253 for damages in the lawsuit filed by its former Director.

In November 1999 the Public Library Corporation (the Corporation), a component unit of the Lexington-Fayette Urban County Government, issued \$3,570,000 in tax-exempt bonds for the construction of the Bates Creek Branch. As security for the bonds, the Library has pledged to transfer amount equal to annual debt service plus the highest annual debt service amount that will be on hand in the Corporation.

Through cancelable lease and sublease agreements, the Library is leasing the Bates Creek Branch from the Corporation for an annual rental equal to the annual debt service on the bonds. During the past fiscal year the Library transferred \$256,641 to the Public Library Corporation to pay current debt service. As of June 30, 2016 the Library is committed to fund a total of \$2,078,518 through fiscal year 2020 for this purpose.

Note 13. Blended Component Unit - Lexington Public Library Foundation

GASB 61: *The Financial Reporting Entity: Omnibus* was implemented during fiscal year 2014. This statement amended the criteria for blending component units. As a result of this new evaluation, the Foundation is presented as a blended entity. The financial data of the Lexington Public Library Foundation, Inc., is reported on the Statement of Net Position and the Statement of Activities in the column labeled "Governmental Activities". The Foundation collects restricted donations made to the Library. The primary source of revenue for the Foundation is from library patronages. The major expense for the Foundation is fundraising related expenses. The Foundation's financial data is also included in the Balance Sheet - Governmental Funds and the Statement of Support, Revenue, Expenditures and Changes in Fund Balances - Governmental Funds in the column labeled "General Fund".

Note 14. Deficit Fund Balance - Construction Fund

The deficit balance in the Construction Fund is primarily the result of insufficient revenues to fund the yearly debt service requirements. The Library's general fund operating cash account pays the debt service requirements and the disbursements are recorded as expenditures of the Construction Fund with a corresponding liability for funds due to the General Fund.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

Note 15. Future Accounting Pronouncement

In June 2015, the GASB issued Statement No. 75, *Accounting and Reporting for Postemployment Other Than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

This statement establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The Library is currently evaluating the impact that will result from adopting GASB No. 75 and is therefore unable to disclose the impact that adopting this Standard will have on the Library's financial position and the results of its operations when the Statement is adopted.

**LEXINGTON PUBLIC LIBRARY
SUPPLEMENTAL INFORMATION**

For The Year Ended June 30, 2016

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION - GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Unfavorable) Favorable Budget</u>
SUPPORT				
Grants				
KY Dept. of Libraries and Archives	\$ 118,764	\$ 118,764	\$ 121,479	\$ 2,715
Grants, other	50,000	50,000		(50,000)
LFUCG appropriation				
Unrestricted	12,395,498	12,395,498	12,611,142	215,644
Donations				
Restricted	61,058	61,058	135,409	74,351
Unrestricted	70,000	70,000	85,043	15,043
Total support	<u>12,695,320</u>	<u>12,695,320</u>	<u>12,953,073</u>	<u>257,753</u>
REVENUE				
Fines and lost books	277,823	277,823	258,338	(19,485)
Interest earned				
Unrestricted	28,000	28,000	54,995	26,995
Rental income	2,000	2,000	11,944	9,944
Miscellaneous	45,000	45,000	113,347	68,347
Total revenue	<u>352,823</u>	<u>352,823</u>	<u>438,624</u>	<u>85,801</u>
Total support and revenue	<u>13,048,143</u>	<u>13,048,143</u>	<u>13,391,697</u>	<u>343,554</u>
EXPENDITURES				
Salaries wages and employee benefits	8,867,571	8,867,571	8,731,011	136,560
Operating expenses	2,398,166	2,398,166	2,304,501	93,665
Transfer to LPL Corporation	256,212	256,212	256,641	(429)
Grant expense	50,000	50,000	12,269	37,731
Foundation	70,000	70,000	67,943	2,057
Debt Service	455,568	455,568	283,750	171,818
Friends program support	61,058	61,058	41,309	19,749
Total expenses	<u>12,158,575</u>	<u>12,158,575</u>	<u>11,697,424</u>	<u>461,151</u>
Support and revenue over expenses	889,568	889,568	1,694,273	804,705
Other changes				
Principal payment on debt	(75,000)	(75,000)	(75,000)	
Purchases of property & equipment	(441,798)	(501,798)	(4,599,456)	(4,097,658)
Proceeds from the sale of Eagle Creek branch			2,297,471	2,297,471
Net increases (decrease) in fund balances	<u>372,770</u>	<u>312,770</u>	<u>(682,712)</u>	<u>(95,482)</u>
Fund balances-				
beginning of year	<u>10,278,638</u>	<u>10,278,638</u>	<u>10,278,638</u>	
FUND BALANCES-END OF YEAR	<u>\$ 10,651,408</u>	<u>\$ 10,591,408</u>	<u>\$ 9,595,926</u>	<u>\$ (95,482)</u>

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION - LIBRARY COLLECTION MATERIALS FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL (Continued)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Unfavorable) Favorable Budget</u>
SUPPORT				
LFUCG appropriations	\$ 1,886,452	\$ 1,886,452	\$ 1,917,824	\$ 31,372
Total support	<u>1,886,452</u>	<u>1,886,452</u>	<u>1,917,824</u>	<u>31,372</u>
Total support and revenue	<u>1,886,452</u>	<u>1,886,452</u>	<u>1,917,824</u>	<u>31,372</u>
EXPENSES				
Books and materials	<u>1,974,452</u>	<u>1,974,452</u>	<u>1,967,632</u>	<u>6,820</u>
Total expenses	<u>1,974,452</u>	<u>1,974,452</u>	<u>1,967,632</u>	<u>6,820</u>
Net decrease in fund balances	(88,000)	(88,000)	(49,808)	38,192
Fund balances-				
beginning of year	<u>553,586</u>	<u>553,586</u>	<u>553,586</u>	<u>-</u>
FUND BALANCES-END OF YEAR	<u>\$ 465,586</u>	<u>\$ 465,586</u>	<u>\$ 503,778</u>	<u>\$ 38,192</u>

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**LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF LEXINGTON PUBLIC LIBRARY'S NET PENSION
LIABILITY AND RELATED RATIOS BASED ON PARTICIPATION IN
COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS
FISCAL YEAR ENDING JUNE 30**

	<u>2015</u>	<u>2016</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,377,000	\$ 4,299,525,000
Employer's Proportion (Percentage) of Net Pension Liability	0.22275%	0.22096%
Employer's Proportion (Amount) of Net Pension Liability	\$ 7,227,000	\$ 9,500,354
Employer's Covered-Employer payroll	\$ 5,110,035	\$ 5,528,083
Employer's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	141.43%	171.86%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,146	\$ 6,440,800
Total Pension's Plan Pension Liability	\$ 9,772,523	\$ 10,740,325
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%	59.97%

**LEXINGTON PUBLIC LIBRARY
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF LEXINGTON PUBLIC LIBRARY'S CONTRIBUTIONS
 BASED ON PARTICIPATION IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS
 FISCAL YEAR ENDING JUNE 30**

	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 653,251	\$ 667,068
Contributions in relation to the actuarially determined contribution	<u>653,251</u>	<u>667,068</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 5,110,035	 5,528,083
Contributions as a percentage covered- employee payroll	12.78%	12.07%

**LEXINGTON PUBLIC LIBRARY
 NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES
 RETIREMENT SYSTEM OF KRS INFORMATION
 FISCAL YEAR ENDED JUNE 30, 2016**

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation	5-year smoothed market
Inflation	3.25 percent
Salary increases	4.00%
Investment Rate of Return	7.50 percent, net of investment expense, including
Inflation Retirement age	65 years or 27 years of service regardless of age



**Independent Auditor's Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

To the Board of Directors of
Lexington Public Library

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lexington Public Library as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Lexington Public Library's basic financial statements, and have issued our report thereon dated September 6, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lexington Public Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lexington Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Lexington Public Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Kentucky
Indiana
Ohio

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lexington Public Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding as item 2016-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Monte Chilton Muddly, LLP".

Lexington, Kentucky
September 6, 2016

**LEXINGTON PUBLIC LIBRARY
SCHEDULE OF FINDINGS
JUNE 30, 2016**

Schedule of auditor's results

We have issued an unmodified opinion on the financial statements of the Lexington Public Library as of and for the year ended June 30, 2016.

Finding relating to noncompliance

Our audit disclosed one issue of noncompliance which is required to be reported in accordance with *Government Auditing Standards*.

NONCOMPLIANCE:

2016-01: Deposits Are Not Adequately Collateralized

Condition: The Library's deposits as of June 30, 2016, were exposed to custodial credit risk in the amount of \$2,574.

Criteria: KRS 41.240 requires that all deposits over \$250,000 at each financial institution be adequately collateralized.

Effect: Deposits that are not adequately collateralized could be stolen and lost due to bank failure.

Recommendation: We recommend that the Library ensure that all deposits over \$250,000 be adequately collateralized.

Response: The Library will ensure that all deposits at the financial institutions are adequately collateralized.