

LEXINGTON PUBLIC LIBRARY
Lexington, Kentucky

Financial Statements
June 30, 2012

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the Lexington Public Library, a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the Lexington Public Library as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated **September 8, 2012** on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 be presented to supplement the basic financial statements and the budgetary comparison for the major funds on pages 42 through 43. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mountjoy Chilton Medley, LLP".

Mountjoy Chilton Medley, LLP

September 8, 2012

Management's Discussion and Analysis
June 30, 2012

FINANCIAL HIGHLIGHTS

- The Library's net assets increased \$1,644,546 (primary government) during fiscal year 2012. This is in part due to the remaining restricted funds of \$618,054 from the bond issuance for the energy project. Also, the Library received an unanticipated positive revenue adjustment to the 2010 tax settlement and the current year certified assessment of \$362,901.
- The Library made capital investments during the fiscal year for equipment and building improvements. This included a remodel and technology update to the William Stamps Parish Theater at the Central Library, which was funded by the Little Grant. Also, the Library began implementation of a \$1,270,000 energy update to its facilities. This expense will be offset by the guaranteed avoidance of energy costs over the next 15 years.
- The Library allocated 10% of its tax revenues for library books and materials.
- Personnel expenses were under budget for the year by \$616,110. The Library chose to leave a number of positions unfilled during fiscal year 2012 while undertaking the development of a new strategic plan. The positions will be filled in fiscal year 2013 as the Library aligns its staff to execute the new plan.
- The Library's Proprietary Fund had a positive change in net assets of \$13,257 for fiscal year 2012, a \$62,863 improvement over the prior fiscal year. Garage revenues increased 10% year over year and copy sales increased 4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, 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 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 snapshot 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 Assets 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, 2012
(Continued)**

GOVERNMENT-WIDE STATEMENTS (Continued)

These two statements report the net assets of the Library and the changes in net assets. One can think of the Library's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Library's net assets 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 Assets and the Statement of Activities, we divide the Library into three 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.

Component unit activities - The Library reports donations in this fund.

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 three 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 fewer 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.

Component Unit Funds - Donations and expenses related to funding the Library are reported in the component unit.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

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

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2012
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF NET ASSETS

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

Condensed Statement of Net Assets

	Total	
	2012	2011
Assets		
Current and other assets	\$ 9,801,282	\$ 7,641,516
Net Capital Assets	20,939,896	20,764,771
Total Assets	<u>\$30,741,178</u>	<u>\$28,406,287</u>
Liabilities		
Current Liabilities	\$ 1,602,373	\$ 1,775,347
Long-term Liabilities	8,315,416	7,452,097
Total Liabilities	<u>9,917,789</u>	<u>9,227,444</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	12,053,448	12,843,042
Restricted (Restated)	712,319	438,000
Unrestricted (Restated)	8,057,622	5,897,801
Total Net Assets	<u>20,823,389</u>	<u>19,178,843</u>
Total liabilities and net assets	<u>\$ 30,741,178</u>	<u>\$ 28,406,287</u>

The Library's total assets had little change over prior year.

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

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2012
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF ACTIVITIES

Condensed Statement of Activities

	<u>Total</u>		<u>Change</u>	<u>Percent Change</u>	<u>Percent of total</u>
	<u>2012</u>	<u>2011</u>			
Revenues					
LFUCG tax revenue	\$ 13,580,901	\$ 13,287,501	\$ 293,400	2%	91%
Interest and investment earnings	96,245	94,968	1,277	1%	1%
Capital grants and contributions	105,000	105,000		0%	1%
Operating grants and contributions	251,019	364,038	(113,019)	-31%	2%
Charges for services	839,300	770,180	69,120	9%	5%
Other revenues	12,099	7,702	4,397	57%	0%
Total Revenue	<u>14,884,564</u>	<u>14,629,389</u>	<u>255,175</u>	<u>2%</u>	<u>100%</u>
Expenses					
Personnel	7,638,000	7,656,145	(18,145)	0%	58%
Operating expenses	1,911,276	1,832,107	79,169	4%	14%
Grant-foundation	105,933	186,553	(80,620)	-43%	1%
Books & materials	1,362,515	1,355,352	7,163	1%	10%
Enterprise	488,073	517,845	(29,772)	-6%	3%
Depreciation and amortization -general fund	1,134,839	1,060,430	74,409	7%	9%
Carnegie Payment		45,000	(45,000)	-100%	0%
Library corporation	261,372	261,372		0%	2%
Transfers	130,000	(294,277)	424,277	-144%	1%
Interest expense	208,010	216,159	(8,149)	100%	2%
Total Expenses	<u>13,240,018</u>	<u>12,836,686</u>	<u>403,332</u>	<u>3%</u>	<u>100%</u>
Change In Net Assets	<u>1,644,546</u>	<u>1,792,703</u>	<u>(148,157)</u>	<u>-8%</u>	
Net Assets - Beginning	<u>19,178,843</u>	<u>17,386,140</u>	<u>1,792,703</u>	<u>10%</u>	
Net Assets - Ending	<u>\$ 20,823,389</u>	<u>\$ 19,178,843</u>	<u>\$ 1,644,546</u>	<u>9%</u>	

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2012
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF ACTIVITIES

While the Statement of Net Assets 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 91% of the Library's total revenue. The property tax revenue source increased approximately 2%.

The personnel expense represents approximately 58% of total expenses.

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 2012 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 Library's actual expenditures, overall, were less than the approved budget. A 2012 budget comparison and analysis is presented in Table A-3 on page 8.

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2012
(Continued)**

BUDGET HIGHLIGHTS (Continued)

BUDGET TO ACTUAL - 2012

TABLE A-3 2011 BUDGET TO ACTUAL

	Budget	Actual	Over (Under) Budget
SUPPORT AND REVENUES			
KY Dept. of Libraries and Archives	\$ 123,953	\$ 131,837	\$ 7,884
Grants, other	130,000	234,249	104,249
LFUCG tax revenue	12,839,252	13,580,901	741,649
Contributions	123,386	95,511	(27,875)
Enterprise fund revenue	395,500	501,330	105,830
Fines and lost books	335,000	343,292	8,292
Interest income	63,152	88,905	25,753
Miscellaneous	5,000	7,677	2,677
Total support and revenues	<u>14,015,243</u>	<u>14,983,702</u>	<u>968,459</u>
EXPENSES			
Personnel	8,254,110	7,638,000	616,110
Operating expenses	2,068,695	1,911,273	157,422
Library materials	1,478,611	1,362,515	116,096
Foundation donation/expense	180,000	215,931	(35,931)
Grant Expenses	25,000	12,926	12,074
Depreciation/interest- enterprise	317,500	292,681	24,819
Enterprise expenses	171,800	195,392	(23,592)
Capital purchases	579,046	1,431,553	(852,507)
Other expenditures/expenses	311,372	261,372	50,000
Debt service	456,234	452,974	3,260
Friends donation	73,386	93,007	(19,621)
Total expenses	<u>13,915,754</u>	<u>13,867,624</u>	<u>48,130</u>
SUPPORT AND REVENUES OVER EXPENSES	99,489	1,116,078	1,016,589
Debt issuance	<u>99,489</u>	<u>1,239,182</u>	<u>1,239,182</u>
Changes in fund balances	99,489	2,355,260	2,255,771
Fund balances- beginning of year	<u>6,348,454</u>	<u>6,348,454</u>	<u>6,348,454</u>
FUND BALANCES-END OF YEAR	<u><u>\$ 6,447,943</u></u>	<u><u>\$ 8,703,714</u></u>	<u><u>\$ 2,255,771</u></u>

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2012
(Continued)**

CAPITAL ASSETS

The Library invested a total of \$1,431,553, in capital assets purchased 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 long-term debt held by the Public Library Corporation at June 30, 2012 amounted to \$2,992,211. 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 2007, 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 3.94%. The second note is a twenty-year loan for \$1,500,000 with a variable rate. The total balance of both loans was \$4,454,886 at June 30, 2012. During the past fiscal year the Library transferred \$261,372 to the Public Library Corporation to pay current debt service.

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

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 ASSETS**

June 30, 2012

(With Comparative Totals As Of June 30, 2011)

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NETS ASSETS
June 30, 2012
(With Comparative Totals As Of June 30, 2011)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Government
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,972,982	\$ 2,070	\$ 3,975,052
Short-term investments	5,140,632		5,140,632
Accounts receivable			
Due from enterprise fund	224,218		224,218
Due from component unit			
Due from general fund		218,122	218,122
Other	43,394	25,287	68,681
Prepaid payroll liabilities	77,262		77,262
Other assets	97,315		97,315
Total Current Assets	9,555,803	245,479	9,801,282
Noncurrent Assets:			
Unamortized bond issuance cost	124,384	44,967	169,351
Capital assets			
Nondepreciable	4,638,152		4,638,152
Depreciable, net	13,266,641	2,865,752	16,132,393
Total Noncurrent Assets	18,029,177	2,910,719	20,939,896
Total Assets	27,584,980	3,156,198	30,741,178
LIABILITIES			
Current Liabilities:			
Accounts payable	162,138	8	162,146
Accrued payroll	214,980		214,980
Accrued vacation	311,312		311,312
Payroll liabilities	50,360		50,360
Unearned revenue		501	501
Accrued interest payable	9,977	9,076	19,053
Due to enterprise fund	218,122		218,122
Due to general fund		224,218	224,218
Current portion of long-term debt	319,964	81,717	401,681
Total Current Liabilities	1,286,853	315,520	1,602,373
Noncurrent Liabilities:			
Bonds payable	5,404,922	2,910,494	8,315,416
Total Noncurrent Liabilities	5,404,922	2,910,494	8,315,416
Total Liabilities	6,691,775	3,226,014	9,917,789
NET ASSETS			
Invested in capital assets, net of related debt	12,179,907	(126,459)	12,053,448
Restricted For:			
Grants and bond (Restated)	712,319		712,319
Unrestricted (Restated)	8,000,979	56,643	8,057,622
Total Net Assets	\$ 20,893,205	\$ (69,816)	\$ 20,823,389

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

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET ASSETS
June 30, 2012
(With Comparative Totals As Of June 30, 2011) (Continued)

<u>Component</u> <u>Unit - Foundation</u>	<u>2012</u> <u>Totals</u>	<u>2011</u> <u>Totals</u>
\$ 22,289	\$ 3,997,341	\$ 2,468,427
162,326	5,302,958	4,567,941
	224,218	312,012
		35,304
	218,122	182,895
	68,681	67,668
	77,262	78,684
	97,315	135,297
184,615	9,985,897	7,848,228
	169,351	146,619
	4,638,152	4,017,023
	16,132,393	16,601,129
	20,939,896	20,764,771
184,615	30,925,793	28,612,999
	162,146	395,545
	214,980	193,961
	311,312	318,287
	50,360	39,694
	501	501
	19,053	9,439
	218,122	182,895
	224,218	347,316
	401,681	323,013
	1,602,373	1,810,651
	8,315,416	7,452,097
	8,315,416	7,452,097
	9,917,789	9,262,748
	12,053,448	12,843,042
184,615	896,934	609,408
	8,057,622	6,335,801
\$ 184,615	\$ 21,008,004	\$ 19,788,251

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

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES**

**For The Year Ended June 30, 2012
(With Comparative Totals For the Year Ended June 30, 2011)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012
(With Comparative Totals For The Year Ended June 30, 2011)

Functions/Programs	Program Revenues Received			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Personnel	\$ 7,638,000	\$	\$	\$
Operating expenses	1,901,448	1,368		
Foundation			18,850	
Grant expenses	12,926		23,671	
Friends program support	93,007		76,661	
Construction	9,828			105,000
Books and materials	1,362,515	343,292	131,837	
Depreciation/Amortization	1,134,839			
Interest expense	208,010			
Library Corporation payments	261,372			
Total Governmental Activities	12,621,945	344,660	251,019	105,000
Business-type Activities:				
Video rentals and purchases	88,993	47,932		
Parking garage		363,904		
Operating expenses	106,399	82,804		
Interest expense	140,275			
Depreciation/Amortization	152,406			
Total Business-type Activities	488,073	494,640		
Total Primary Government	\$ 13,110,018	\$ 839,300	\$ 251,019	\$ 105,000
Component Unit				
Foundation	215,931		105,578	
Total Primary Government and Component Unit	\$ 13,325,949	\$ 839,300	\$ 356,597	\$ 105,000

General Revenues:

Property taxes for general purposes
Interest and investment earnings (loss)
Miscellaneous
Transfer to Bluegrass Foundation
Transfer to general fund
Transfer from general fund
Transfers to Carnegie Literacy Center, Inc.
Total General Revenues
Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

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

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012
(With Comparative Totals For The Year Ended June 30, 2011)
(Continued)

Net (Expenses) Revenues and Changes in Net Assets					
Primary Government					
Governmental Activities	Business-Type Activities	Total	Component Unit	2012 Totals	2011 Totals
\$ (7,638,000)	\$	\$ (7,638,000)	\$	\$ (7,638,000)	\$ (7,656,145)
(1,900,080)		(1,900,080)		(1,900,080)	(1,831,757)
18,850		18,850		18,850	63,186
10,745		10,745		10,745	(33,737)
(16,346)		(16,346)		(16,346)	15,625
95,172		95,172		95,172	105,000
(887,386)		(887,386)		(887,386)	(901,322)
(1,134,839)		(1,134,839)		(1,134,839)	(1,060,430)
(208,010)		(208,010)		(208,010)	(216,159)
(261,372)		(261,372)		(261,372)	(261,372)
(11,921,266)		(11,921,266)		(11,921,266)	(11,777,111)
	(41,061)	(41,061)		(41,061)	(62,220)
	363,904	363,904		363,904	329,950
	(23,595)	(23,595)		(23,595)	(30,964)
	(140,275)	(140,275)		(140,275)	(143,666)
	(152,406)	(152,406)		(152,406)	(162,734)
	6,567	6,567		6,567	(69,634)
(11,921,266)	6,567	(11,914,699)			
			(110,353)	(110,353)	314,444
			(110,353)	(12,025,052)	(11,532,301)
13,580,901		13,580,901		13,580,901	13,287,501
95,345	900	96,245	(6,440)	89,805	99,683
6,309	5,790	12,099		12,099	7,702
					(100,000)
					(438,486)
(130,000)		(130,000)	130,000		438,486
					(45,000)
13,552,555	6,690	13,559,245	123,560	13,682,805	13,249,886
1,631,289	13,257	1,644,546	13,207	1,657,753	1,717,585
19,261,916	(83,073)	19,178,843	171,408	19,350,251	17,632,666
\$ 20,893,205	\$ (69,816)	\$ 20,823,389	\$ 184,615	\$ 21,008,004	\$ 19,350,251

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

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012
(With Comparative Totals As Of June 30, 2011)

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2012 (With Comparative Totals As Of June 30, 2011)

	General Fund	Library Collection Materials Fund	Construction Fund	2012 Total Governmental Funds	2011 Total Governmental Funds
ASSETS					
Current Assets					
Cash and cash equivalents					
Unrestricted	\$ 3,940,748	\$	\$	\$ 3,940,748	\$ 2,390,417
Restricted			32,234	32,234	69,994
Short-term investments	5,140,632			5,140,632	4,367,175
Construction bond fund					
Accounts receivable - other	43,394			43,394	43,653
Due from other funds	367,808	514,340		882,148	663,848
Due from business type funds	224,218			224,218	312,012
Due from foundation fund					35,304
Prepaid payroll liabilities	77,262			77,262	78,684
Other assets	97,315			97,315	93,378
	<u>\$ 9,891,377</u>	<u>\$ 514,340</u>	<u>\$ 32,234</u>	<u>\$ 10,437,951</u>	<u>\$ 8,054,465</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable	\$ 162,138	\$	\$	\$ 162,138	\$ 395,545
Accrued payroll	214,980			214,980	193,961
Accrued vacation	311,312			311,312	318,287
Accrued interest	9,977			9,977	116
Payroll liabilities	50,360			50,360	39,694
Due to business type funds	218,122			218,122	182,895
Due to other funds	514,340		367,808	882,148	663,848
Total current liabilities	<u>1,481,229</u>		<u>367,808</u>	<u>1,849,037</u>	<u>1,794,346</u>
FUND BALANCES:					
Restricted for:					
Little grant	94,265			94,265	438,000
Energy project bond	618,054			618,054	
Committed for:					
Buildings, renewal and replacement	2,000,000			2,000,000	1,750,000
New branch	750,000			750,000	500,000
New ILS system	350,000			350,000	350,000
Emergency fund	300,000			300,000	200,000
Public use computer replacement	300,000			300,000	200,000
Assigned for:					
Book purchases		514,340		514,340	398,244
Capital construction			(335,574)	(335,574)	(195,610)
Unassigned	3,997,829			3,997,829	2,619,485
Total Fund Balances	<u>8,410,148</u>	<u>514,340</u>	<u>(335,574)</u>	<u>8,588,914</u>	<u>6,260,119</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,891,377</u>	<u>\$ 514,340</u>	<u>\$ 32,234</u>	<u>\$ 10,437,951</u>	<u>\$ 8,054,465</u>

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

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2012 (With Comparative Totals As Of June 30, 2011)

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

Total Fund Balances	\$ 8,588,914
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Governmental Funds.	17,904,793
Unamortized Bond Issuance Cost	124,384
Short-term and Long-term Debt Is Not Due and Payable in the Current Period and,	
Therefore, Is Not Reported in the Governmental Funds.	
Bonds debt	<u>(5,724,886)</u>
Net Assets Of Governmental Activities	<u><u>\$ 20,893,205</u></u>

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012
(With Comparative Totals For The Year Ended June 30, 2011)

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2012 (With Comparative Totals For The Year Ended June 30, 2011)

	<u>General Fund</u>	<u>Library Collection Materials Fund</u>	<u>Construction Fund</u>
SUPPORT			
Grants			
Ky Dept of Libraries and Archives	\$ 131,837	\$	\$
Construction grant			105,000
Grants, other	23,671		
LFUCG appropriation			
Unrestricted	12,102,290		
Restricted		1,478,611	
Donations			
Foundation (restricted)	18,850		
Friends (unrestricted)	76,661		
Total support	<u>12,353,309</u>	<u>1,478,611</u>	<u>105,000</u>
REVENUE			
Fines and lost books	343,292		
Investment income			
Unrestricted	95,345		
Restricted			
Rental income	1,368		
Miscellaneous	6,309		
Total revenue	<u>446,314</u>		
Total support and revenue	<u>12,799,623</u>	<u>1,478,611</u>	<u>105,000</u>
EXPENDITURES			
Salaries and employee benefits	7,638,000		
Operating expenditures	1,901,446		
Construction	9,828		
Books and materials		1,362,515	
Operating sublease expenditures	261,372		
Friends program support	93,007		
Grant expenditures	12,926		
Debt services	208,010		244,964
Total Expenditures	<u>10,124,589</u>	<u>1,362,515</u>	<u>244,964</u>
Support and revenue over (under) expenditures	<u>2,675,034</u>	<u>116,096</u>	<u>(139,964)</u>
Other Financing Sources (Uses)			
Payment to Carnegie Literacy Center, Inc.			
Bond Proceeds	1,270,000		
Bond issuance costs	(30,818)		
Purchase of property and equipment	(1,431,553)		
Interfund transfer	(130,000)		
Net other financing sources (uses)	<u>(322,371)</u>		
Net change in Fund Balances	2,352,663	116,096	(139,964)
Fund Balances - Beginning	<u>6,057,485</u>	<u>398,244</u>	<u>(195,610)</u>
Fund Balances - Ending	<u>\$ 8,410,148</u>	<u>\$ 514,340</u>	<u>\$ (335,574)</u>

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

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2012 (With Comparative Totals For The Year Ended June 30, 2011)

	2012 Totals	2011 Totals
	Governmental Funds	Governmental Funds
SUPPORT		
Grants		
Ky Dept of Libraries and Archives	\$ 131,837	\$ 132,411
Construction grant	105,000	105,000
Grants, other	23,671	57,417
LFUCG appropriation		
Unrestricted	12,102,290	11,908,890
Restricted	1,478,611	1,378,611
Donations		
Foundation (restricted)	18,850	63,186
Friends (unrestricted)	76,661	111,024
Total support	<u>13,936,920</u>	<u>13,756,539</u>
REVENUE		
Fines and lost books	343,292	321,619
Investment income		
Unrestricted	95,345	89,484
Restricted		4,584
Rental income	1,368	350
Miscellaneous	6,309	1,731
Total revenue	<u>446,314</u>	<u>417,768</u>
Total support and revenue	<u>14,383,234</u>	<u>14,174,307</u>
EXPENDITURES		
Salaries and employee benefits	7,638,000	7,656,145
Operating expenditures	1,901,446	1,832,107
Construction	9,828	
Books and materials	1,362,515	1,355,352
Operating sublease expenditures	261,372	261,372
Friends program support	93,007	95,399
Grant expenditures	12,926	91,154
Debt services	452,974	450,475
Total Expenditures	<u>11,732,068</u>	<u>11,742,004</u>
Support and revenue over (under) expenditures	<u>2,651,166</u>	<u>2,432,303</u>
Other Financing Sources (Uses)		
Payment to Carnegie Literacy Center, Inc.		(45,000)
Bond Proceeds	1,270,000	
Bond fees	(30,818)	
Purchase of property and equipment	(1,431,553)	(544,823)
Interfund transfer	(130,000)	294,277
Net other financing sources (uses)	<u>(322,371)</u>	<u>(295,546)</u>
Net change in Fund Balances	2,328,795	2,136,757
Fund Balances - Beginning	<u>6,260,119</u>	<u>4,123,362</u>
Fund Balances - Ending	<u>\$ 8,588,914</u>	<u>\$ 6,260,119</u>

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

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

For The Year Ended June 30, 2012

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

For The Year Ended June 30, 2012

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	2,328,795
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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	1,431,553
Depreciation Expense	(1,128,828)
Amortization Expense	(6,011)

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 assets.

Bond Proceeds Less Bond Issuance Costs	(1,239,184)
Bond Debt Principal Payments	244,964

Change in Net Assets of Governmental Activities	\$	<u>1,631,289</u>
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**LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET ASSETS - PROPRIETARY FUND**

**June 30, 2012
(With Comparative Totals As Of June 30, 2011)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET ASSETS - PROPRIETARY FUND

June 30, 2012 (With Comparative Totals As of June 30, 2011)

	Enterprise Fund	Parking Fund	2012 Total Proprietary Fund	2011 Total Proprietary Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,070	\$ 1,000	\$ 2,070	\$ 2,070
Accounts receivables		25,287	25,287	24,015
Due from general fund	218,122		218,122	182,895
Prepaid expenses				41,919
Total current assets	219,192	26,287	245,479	250,899
Noncurrent assets				
Unamortized bond issuance cost		44,967	44,967	47,040
Capital assets, net of depreciation		2,865,752	2,865,752	3,016,084
Total noncurrent assets		2,910,719	2,910,719	3,063,124
TOTAL ASSETS	\$ 219,192	\$ 2,937,006	\$ 3,156,198	\$ 3,314,023
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 8	\$	\$ 8	\$
Accrued interest payable		9,076	9,076	9,323
Unearned revenue		501	501	501
Due to general fund		224,218	224,218	312,012
Current portion of long-term debt		81,717	81,717	78,049
Total current liabilities	8	315,512	315,520	399,885
Long-term debt		2,910,494	2,910,494	2,997,211
Total liabilities	8	3,226,006	3,226,014	3,397,096
Net assets				
Invested in capital assets, net of related debt		(126,459)	(126,459)	(59,176)
Unrestricted	219,184	(162,541)	56,643	(23,897)
Total net assets	219,184	(289,000)	(69,816)	(83,073)
TOTAL LIABILITIES AND NET ASSETS	\$ 219,192	\$ 2,937,006	\$ 3,156,198	\$ 3,314,023

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

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND**

**For The Year Ended June 30, 2012
With Comparative Totals For The Year Ended June 30, 2011)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND

For The Year Ended June 30, 2012 (With Comparative Totals For The Year Ended June 30, 2011)

	Enterprise Fund	Parking Fund	2012 Total Proprietary Fund	2011 Total Proprietary Fund
Operating revenues				
Video rentals and fines	\$ 47,932	\$	\$ 47,932	\$ 43,736
Copy sales	82,804		82,804	74,525
Parking garage		363,904	363,904	329,950
Miscellaneous revenue	5,340	450	5,790	5,971
Total operating revenues	<u>136,076</u>	<u>364,354</u>	<u>500,430</u>	<u>454,182</u>
Operating expenses				
Operating expenses	106,399	88,993	195,392	211,445
Depreciation/Amortization	67,074	85,332	152,406	162,734
Total operating expenses	<u>173,473</u>	<u>174,325</u>	<u>347,798</u>	<u>374,179</u>
Total operating income (loss)	<u>(37,397)</u>	<u>190,029</u>	<u>152,632</u>	<u>80,003</u>
Nonoperation revenues and (expenses)				
Interest income	600	300	900	900
Interest expense		(140,275)	(140,275)	(143,666)
Total nonoperation revenues (expenses)	<u>600</u>	<u>(139,975)</u>	<u>(139,375)</u>	<u>(142,766)</u>
Change in net assets	(36,797)	50,054	13,257	(62,763)
Total net assets-beginning	<u>255,981</u>	<u>(339,054)</u>	<u>(83,073)</u>	<u>(20,310)</u>
TOTAL NET ASSETS-ENDING	<u><u>\$ 219,184</u></u>	<u><u>\$ (289,000)</u></u>	<u><u>\$ (69,816)</u></u>	<u><u>\$ (83,073)</u></u>

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

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

**For The Year Ended June 30, 2012
(With Comparative Totals As Of June 30, 2011)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For The Year Ended June 30, 2012
(With Comparative Totals As Of June 30, 2011)

	Enterprise Fund	Parking Fund	2012 Total Proprietary Fund	2011 Total Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 136,084	\$ 296,901	\$ 432,985	\$ 435,439
Payroll payments		(29,241)	(29,241)	(29,241)
Payments to suppliers	(106,399)	(59,752)	(166,151)	(182,204)
Net cash provided by operating activities	<u>29,685</u>	<u>207,908</u>	<u>237,593</u>	<u>223,994</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer from (to) general fund	(30,285)	15,116	(15,169)	(6,037)
Bond principal debt paid		(83,049)	(83,049)	(75,192)
Interest paid on capital debt		(140,275)	(140,275)	(143,666)
Net cash (used) by capital and related financing activities	<u>(30,285)</u>	<u>(208,208)</u>	<u>(238,493)</u>	<u>(224,895)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	600	300	900	900
Net cash provided by financing activities	<u>600</u>	<u>300</u>	<u>900</u>	<u>900</u>
Net (decrease) in cash and cash equivalents				
Balances-beginning of year	<u>1,070</u>	<u>1,000</u>	<u>2,070</u>	<u>2,070</u>
BALANCES-END OF THE YEAR	<u>\$ 1,070</u>	<u>\$ 1,000</u>	<u>\$ 2,070</u>	<u>\$ 2,070</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ (37,397)	\$ 190,029	\$ 152,632	\$ 80,003
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	67,074	85,332	152,406	162,734
Changes in asset and liabilities				
Accounts receivable		(25,287)	(25,287)	(14,068)
Prepaid expenses		(41,919)	(41,919)	(4,879)
Accounts payable	8		8	(8)
Interest payable		(247)	(247)	212
Net cash provided by operating activities	<u>\$ 29,685</u>	<u>\$ 207,908</u>	<u>\$ 237,593</u>	<u>\$ 223,994</u>
Supplemental disclosures of cash flow information:				
Noncash capital and related financing activities:				
Amortization of bond issue cost		<u>2,074</u>	<u>2,074</u>	<u>2,074</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

Nature of Organization

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 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 considered a discretely presented component unit of the Lexington Public Library.

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 assets 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 a flow of 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, 2012
(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.

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.

The primary government has no non-major governmental funds.

Special Revenue Fund

The Library Collection Material Fund is presented as a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are raised for specific purposes.

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 government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

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 that the Library owns.

Discretely Presented Component Unit

The financial data of the Lexington Public Library Foundation, Inc., is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Library's primary government. 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 salaries.

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(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. The Foundation’s 2008 - 2011 tax years remain open and subject to examination.

Cash and Cash Equivalents

For purposes of statements of cash flows, the Library considers all highly-liquid investments with an initial maturity of three month 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, 2012
(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, 2012 was \$3,975,052. The carrying amount of the Library's short-term investments at June 30, 2012 was \$5,140,632.

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). As of June 30, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 4. 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.

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Depreciable capital assets				
Land improvements	\$ 70,279	\$	\$	\$ 70,279
Village branch construction	708,402	544		708,946
Buildings and improvements	20,471,800	329,441		20,801,241
Furniture/equipment	7,954,996	480,439		8,435,435
	<u>29,205,477</u>	<u>810,424</u>		<u>30,015,901</u>
Less: accumulated depreciation:	<u>15,620,432</u>	<u>1,128,828</u>		<u>16,749,260</u>
Depreciable capital assets, net	<u>\$ 13,585,045</u>	<u>\$ (318,404)</u>	<u>\$</u>	<u>\$ 13,266,641</u>
Nondepreciable capital assets				
Land	\$ 3,539,842	\$	\$	\$ 3,539,842
Construction in progress (Energy Project)		621,129		621,129
Artistic clock	477,181			477,181
	<u>\$ 4,017,023</u>	<u>\$ 621,129</u>	<u>\$</u>	<u>\$ 4,638,152</u>
Business-Type Activities:				
Furniture/equipment	\$ 682,312	\$	\$	\$ 682,312
Parking garage & improvements	3,465,758			3,465,758
	<u>4,148,070</u>			<u>4,148,070</u>
Less: accumulated depreciation	<u>1,131,986</u>	<u>150,332</u>		<u>1,282,318</u>
Capital assets net	<u>\$ 3,016,084</u>	<u>\$ (150,332)</u>	<u>\$</u>	<u>\$ 2,865,752</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 5. Capital Assets (Continued)

Depreciation expense was charged as follows:

Governmental Activities:

Total Depreciation Expense - Governmental Activities	<u>\$ 1,128,828</u>
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Business-Type Activities

Total Depreciation Expense - Business-Type Activities	<u>\$ 150,332</u>
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Note 6. Retirement Plan

The Library has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent. The Library's contribution for the year ended June 30, 2012 was \$880,810 and the employees contributed \$238,023.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Interfund Transactions

Interfund loans on the fund statements at June 30, 2012 consist of the following receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payable</u>
General Fund	\$ 592,026	\$ 732,462
Collection Materials	514,340	
Construction		367,808
Proprietary Funds	218,122	224,218
	<u>\$ 1,324,488</u>	<u>\$ 1,324,488</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 8. 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.

Note 9. 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 April 21, 2034. 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, 2012 was 3.49%.

Fiscal Year Ended June 30	Business-Type Activities		
	Principal	Interest	Total
2013	81,717	143,666	225,383
2014	73,090	151,298	224,388
2015	96,400	127,988	224,388
2016	125,000	83,767	208,767
2017	100,000	101,098	201,098
2018-2022	657,148	455,443	1,112,591
2023-2027	713,512	421,190	1,134,702
2028-2032	757,639	321,079	1,078,718
2033-2034	387,705	44,641	432,346
Totals	<u>\$ 2,992,211</u>	<u>\$ 1,850,170</u>	<u>\$ 4,842,381</u>

Bond issue costs in the amount of \$58,988 were incurred in relation to the borrowings. These costs are being amortized over the life of the bonds. Amortization for the year amounted to \$2,074.

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, 2012 the effective rate was 3.21%.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

Note 9. Long-Term Liabilities (Continued)

B. Northside Branch Debt (Continued)

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2013	257,448	206,258	463,706
2014	213,109	194,633	407,742
2015	218,512	184,494	403,006
2016	248,470	174,505	422,975
2017	240,181	162,824	403,005
2018-2022	1,383,549	631,481	2,015,030
2023-2027	1,748,389	266,641	2,015,030
2028	145,228	22,691	167,919
Totals	<u>\$ 4,454,886</u>	<u>\$ 1,843,527</u>	<u>\$ 6,298,413</u>

Bond issue costs in the amount of \$121,538 were incurred in relation to the borrowings. These costs are being amortized over the life of the bonds. Amortization for the year amounted to \$6,011.

C. Energy Project Debt

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

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2013	75,000	34,049	109,049
2014	70,000	38,712	108,712
2015	70,000	36,962	106,962
2016	75,000	35,212	110,212
2017	75,000	32,962	107,962
2018-2022	420,000	129,110	549,110
2023-2027	485,000	56,664	541,664
Totals	<u>\$ 1,270,000</u>	<u>\$ 363,671</u>	<u>\$ 1,633,671</u>

Bond issue costs in the amount of \$30,816 were incurred in relation to the borrowings. These costs are being amortized over the life of the bonds. Amortization for the year amounted to \$0.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

D. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Additional principal payment	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>						
Debt Obligations	\$ 4,699,850	\$	\$ 244,964	\$	\$ 4,454,886	\$ 244,964
Bond		1,270,000			1,270,000	75,000
Governmental Activities Long-term Liabilities	<u>\$ 4,699,850</u>	<u>\$ 1,270,000</u>	<u>\$ 244,964</u>	<u>\$</u>	<u>\$ 5,724,886</u>	<u>\$ 319,964</u>

	Beginning Balance	Additions	Reductions	Additional principal payment	Ending Balance	Due Within One Year
<u>Business-Type Activities</u>						
Debt Obligations	\$ 3,075,260	\$	\$ 78,049	\$ 5,000	\$ 2,992,211	\$ 81,717
Business-Type Activities Long-term Liabilities	<u>\$ 3,075,260</u>	<u>\$</u>	<u>\$ 78,049</u>	<u>\$ 5,000</u>	<u>\$ 2,992,211</u>	<u>\$ 81,717</u>

Note 10. 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 Assets 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, 2012 was \$311,312.

Note 11. Contingencies and Commitments

The former executive director has filed a suit against the Lexington Public Library seeking in excess of \$3,000,000 for damages. The suit has been submitted for arbitration; however, the arbitration has not been scheduled. Therefore, no evaluation of outcome or estimate of loss could be reasonably estimated.

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 Tates 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 Tates Creek Branch from the Corporation for an annual rental equal to the annual debt service on the bonds. As of June 30, 2012 the Library is committed to fund a total of \$2,078,518 through fiscal year 2020 for this purpose.

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

Note 12 Restatement of Beginning Net Assets

Beginning net assets were restated to properly reclassify \$438,000 of net assets related to the Little Grant from the unrestricted net asset category to the restricted net asset category. It was not necessary to restate beginning fund balance as the funds related to the Little Grant were properly classified as restricted at June 30, 2011.

**LEXINGTON PUBLIC LIBRARY
SUPPLEMENTARY INFORMATION**

For The Year Ended June 30, 2012

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION – GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
For The Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Over) Under Budget</u>
Support				
Grants				
KY Dept. of Libraries and Archives	\$ 123,953	\$ 123,953	\$ 131,837	\$ 7,884
Grants, other	25,000	25,000	23,671	(1,329)
LFUCG appropriation				
Unrestricted	11,360,641	11,360,641	12,102,290	741,649
Donations				
Unrestricted	73,386	73,386	76,661	3,275
Restricted	50,000	50,000	18,850	(31,150)
Total support	<u>11,632,980</u>	<u>11,632,980</u>	<u>12,353,309</u>	<u>720,329</u>
REVENUE				
Fines and lost books	335,000	335,000	343,292	8,292
Interest earned				
Unrestricted	63,152	63,152	95,345	32,193
Miscellaneous	5,000	5,000	7,677	2,677
Total revenue	<u>403,152</u>	<u>403,152</u>	<u>446,314</u>	<u>43,162</u>
Total support and revenue	<u>12,036,132</u>	<u>12,036,132</u>	<u>12,799,623</u>	<u>763,491</u>
EXPENDITURES				
Salaries wages and employee benefits	8,254,110	8,254,110	7,638,000	616,110
Operating expenses	2,118,695	2,118,695	1,901,446	217,249
Construction			9,828	(9,828)
Transfer to LPL Corporation	261,372	261,372	261,372	
Grant Expenses	75,000	75,000	12,926	62,074
Debt Service	351,234	351,234	208,010	143,224
Friends program support	73,386	73,386	93,007	(19,621)
Total expenses	<u>11,133,797</u>	<u>11,133,797</u>	<u>10,124,589</u>	<u>1,009,208</u>
SUPPORT AND REVENUE				
OVER EXPENSES	902,335	902,335	2,675,034	1,772,699
Other changes				
Bond proceeds less bond insurance costs			1,239,183	1,239,183
Purchases of property & equipment	(579,046)	(579,046)	(1,431,554)	(852,508)
Interfund Transfers	(130,000)	(130,000)	(130,000)	
Net increase in fund balances	<u>193,289</u>	<u>193,289</u>	<u>2,352,663</u>	<u>2,159,374</u>
Fund balances-				
beginning of year	<u>6,057,485</u>	<u>6,057,485</u>	<u>6,057,485</u>	
FUND BALANCES-END OF YEAR	<u>\$ 6,250,774</u>	<u>\$ 6,250,774</u>	<u>\$ 8,410,148</u>	<u>\$ 2,159,374</u>

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION – LIBRARY COLLECTION MATERIALS FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
For The Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Over) Under Budget</u>
Support				
LFUCG appropriations	\$ 1,478,611	\$ 1,478,611	\$ 1,478,611	\$
Total support	<u>1,478,611</u>	<u>1,478,611</u>	<u>1,478,611</u>	
REVENUE				
Interest earned				
Restricted				
Total revenue				
Total support and revenue	<u>1,478,611</u>	<u>1,478,611</u>	<u>1,478,611</u>	
EXPENSES				
Books and materials	<u>1,478,611</u>	<u>1,478,611</u>	<u>1,362,515</u>	<u>116,096</u>
Total expenses	<u>1,478,611</u>	<u>1,478,611</u>	<u>1,362,515</u>	<u>116,096</u>
SUPPORT AND REVENUE OVER EXPENSES			116,096	116,096
Net increase in fund balances			116,096	
Fund balances-				
beginning of year	<u>270,401</u>	<u>270,401</u>	<u>398,244</u>	<u>127,843</u>
FUND BALANCES-END OF YEAR	<u>\$ 270,401</u>	<u>\$ 270,401</u>	<u>\$ 514,340</u>	<u>\$ 243,939</u>

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
Lexington Public Library
Lexington, Kentucky

We have audited the financial statements of the Lexington Public Library as of and for the year ended June 30, 2012, and have issued our report thereon dated **September 8, 2012**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

Compliance And Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management, and others within the Lexington Public Library and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mountjoy Chilton Medley, LLP".

Mountjoy Chilton Medley, LLP

September 8, 2012