

LEXINGTON PUBLIC LIBRARY
Lexington, Kentucky

Financial Statements
June 30, 2013

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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 Statement

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund, of Lexington Public Library (Library), a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 of 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 opinion.

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 Library as of June 30, 2013 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 Information**Required Supplementary Information**

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 and pages 43 through 44 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 19, 2013 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.

Lexington, Kentucky
September 19, 2013

Management's Discussion and Analysis
June 30, 2013

FINANCIAL HIGHLIGHTS

- The Library's net position increased \$880,197 during fiscal year 2013. This is in part due to tax revenues exceeding budget and personnel savings.
- The Library made capital investments during the fiscal year for equipment and building improvements. This included a remodel and technology update to the Beaumont Branch, Eagle Creek Branch, and Central Branch. Also, the Library completed an 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.
- The Library's Proprietary Fund had a positive change in net position of \$60,806 for fiscal year 2013.
- GASB 65 was early implemented during fiscal year 2013, which resulted in a decrease of net position in the amount of \$169,350 due to the elimination of debt issuance costs.
- GASB 61 was implemented during fiscal year 2013. As of result of this implementation, the Foundation is now presented as a blended entity. A prior year restatement was made to include the Foundation as a blended entity. The Foundation's financial information is included in the governmental activities column on the Statement of Net Position and in the general fund on the Balance Sheet.

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 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, 2013
(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 position and liabilities - 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 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 Lexington Library Foundation are reported with the governmental funds due to the implementation of GASB 61.

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, 2013
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

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	
	2013	2012 (Restated)
Assets		
Current and other assets	\$ 10,909,430	\$ 9,985,898
Net Capital Assets	<u>20,957,880</u>	<u>20,770,545</u>
Total Assets	<u><u>\$ 31,867,310</u></u>	<u><u>\$ 30,756,443</u></u>
Liabilities		
Current Liabilities	\$ 2,226,726	\$ 1,602,373
Long-term Liabilities	<u>7,921,733</u>	<u>8,315,416</u>
Total Liabilities	<u><u>10,148,459</u></u>	<u><u>9,917,789</u></u>
Net Position		
Net investment in capital assets	12,679,948	12,053,448
Restricted (Restated)	184,813	896,934
Unrestricted (Restated)	<u>8,854,090</u>	<u>7,888,272</u>
Total Net Position	<u><u>21,718,851</u></u>	<u><u>20,838,654</u></u>
Total liabilities and net position	<u><u>\$ 31,867,310</u></u>	<u><u>\$ 30,756,443</u></u>

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2013
(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>2013</u>	<u>2012</u> (Restated)			
Revenues					
LFUCG tax revenue	\$ 13,746,809	\$ 13,580,901	\$ 165,908	1%	91%
Interest and investment earnings	87,255	89,805	(2,550)	-3%	1%
Capital grants and contributions	105,000	105,000		0%	1%
Operating grants and contributions	277,441	356,597	(79,156)	-22%	2%
Charges for services	885,442	839,300	46,142	5%	5%
Other revenues	6,699	12,099	(5,400)	-45%	0%
Total Revenue	15,108,646	14,983,702	124,944	1%	100%
Expenses					
Personnel	7,894,685	7,638,000	256,685	3%	55%
Operating expenses	2,118,825	2,004,283	114,542	6%	15%
Grant-foundation	196,703	228,857	(32,154)	-14%	1%
Books & materials	1,564,649	1,362,515	202,134	15%	12%
Enterprise	482,664	485,999	(3,335)	-1%	3%
Depreciation and amortization - general fund	1,152,079	1,159,645	(7,566)	-1%	8%
Loss on lawsuit settlement	316,253		316,253	100%	2%
Library corporation	256,212	261,372	(5,160)	-2%	2%
Interest expense	246,379	208,010	38,369	100%	2%
Total Expenses	14,228,449	13,348,681	879,768	7%	100%
Change In Net Position	880,197	1,635,021	(754,824)	-46%	
Net Position - Beginning (Restated)	20,838,654	19,203,633	1,635,021	9%	
Net Position - Ending	\$ 21,718,851	\$ 20,838,654	\$ 880,197	4%	

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2013
(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 91% of the Library's total revenue. The property tax revenue source increased approximately 1%.

The personnel expense represents approximately 55% 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 2013 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 more than the approved budget. The reasons for the overbudget were due to remaining energy debt expenditures of \$645,795 which were funded by a debt issuance in fiscal year 2012 and the loss on the lawsuit settlement. A 2013 budget comparison and analysis is presented in Table A-3 on page 8.

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2013
(Continued)**

BUDGET HIGHLIGHTS (Continued)

BUDGET TO ACTUAL - 2013

TABLE A-3 2013 BUDGET TO ACTUAL

	Budget	Actual	Budget - Postive (Negative)
SUPPORT AND REVENUES			
KY Dept. of Libraries and Archives	\$ 118,653	\$ 125,053	\$ 6,400
Grants, other	130,000	129,031	(969)
LFUCG tax revenue	13,385,240	13,746,809	361,569
Contributions	188,000	128,357	(59,643)
Enterprise fund revenue	423,300	541,237	117,937
Fines and lost books	321,600	335,532	13,932
Interest income	63,152	87,255	24,103
Miscellaneous	5,000	15,372	10,372
Total support and revenues	<u>14,634,945</u>	<u>15,108,646</u>	<u>473,701</u>
EXPENSES			
Personnel	8,169,664	7,894,685	274,979
Operating expenses	2,128,581	2,118,825	9,756
Library materials	1,528,611	1,564,649	(36,038)
Foundation expenses	110,000	33,464	76,536
Grant Expenses/foundation gift	135,000	91,749	43,251
Depreciation/interest- enterprise	317,500	219,477	98,023
Enterprise expenses	159,800	263,187	(103,387)
Capital purchases	788,156	1,422,671	(634,515)
Other expenditures/expenses	300,000	256,212	43,788
Debt service	829,767	578,827	250,940
Loss on lawsuit settlement		316,253	(316,253)
Friends donation	78,000	71,490	6,510
Total expenses	<u>14,545,079</u>	<u>14,831,489</u>	<u>(286,410)</u>
Changes in fund balances	89,866	277,157	187,291
Fund balances-			
beginning of year (Restated)	<u>8,703,714</u>	<u>8,658,747</u>	<u>(44,967)</u>
FUND BALANCES-END OF YEAR	<u>\$ 8,793,580</u>	<u>\$ 8,935,904</u>	<u>\$ 142,324</u>

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2013
(Continued)**

CAPITAL ASSETS

The Library invested a total of \$1,422,671 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 debt held by the Public Library Corporation at June 30, 2013 amounted to \$2,885,494. 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 \$4,197,438 at June 30, 2013. During the past fiscal year the Library transferred \$261,372 to the Public Library Corporation to pay current debt service.

On March 29, 2013, the Library closed on financing for the Energy Project with the Kentucky League of Cities. Financing program revenue bonds, 2013 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 \$1,195,000 at June 30, 2013.

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, 2013

(With Comparative Totals As Of June 30, 2012)

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION
June 30, 2013
(With Comparative Totals As Of June 30, 2012)

	Primary Government			2012 Totals (Restated)
	Governmental Activities	Business-Type Activities	Total Primary Government	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 4,017,413	\$ 2,070	\$ 4,019,483	\$ 3,997,341
Short-term investments	6,281,820		6,281,820	5,302,958
Accounts receivable				
Due from enterprise fund	231,670		231,670	224,218
Due from general fund		254,796	254,796	218,122
Other	12,285	16,512	28,797	68,681
Prepaid payroll liabilities		7,824	7,824	77,262
Other assets	85,040		85,040	97,316
Total Current Assets	<u>10,628,228</u>	<u>281,202</u>	<u>10,909,430</u>	<u>9,985,898</u>
Noncurrent Assets:				
Capital assets				
Nondepreciable	4,017,023		4,017,023	4,638,152
Depreciable, net	14,158,362	2,782,495	16,940,857	16,132,393
Total Noncurrent Assets	<u>18,175,385</u>	<u>2,782,495</u>	<u>20,957,880</u>	<u>20,770,545</u>
Total Assets	<u>28,803,613</u>	<u>3,063,697</u>	<u>31,867,310</u>	<u>30,756,443</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	345,057	8	345,065	162,146
Accrued payroll	246,799		246,799	214,980
Accrued vacation	311,312		311,312	311,312
Payroll liabilities	142,419		142,419	50,360
Loss contingency	316,253		316,253	
Unearned revenue		501	501	501
Accrued interest payable	21,712		21,712	19,053
Due to enterprise fund	254,796		254,796	218,122
Due to general fund		231,670	231,670	224,218
Current portion of long-term debt	283,109	73,090	356,199	401,681
Total Current Liabilities	<u>1,921,457</u>	<u>305,269</u>	<u>2,226,726</u>	<u>1,602,373</u>
Noncurrent Liabilities:				
Bonds payable	5,109,329	2,812,404	7,921,733	7,452,097
Total Noncurrent Liabilities	<u>5,109,329</u>	<u>2,812,404</u>	<u>7,921,733</u>	<u>8,315,416</u>
Total Liabilities	<u>7,030,786</u>	<u>3,117,673</u>	<u>10,148,459</u>	<u>9,917,789</u>
NET POSITION				
Net investment in				
Capital assets	12,782,947	(102,999)	12,679,948	12,053,448
Restricted For:				
Grants and bond	184,813		184,813	896,934
Unrestricted	8,805,067	49,023	8,854,090	7,888,272
Total Net Position	<u>\$ 21,772,827</u>	<u>\$ (53,976)</u>	<u>\$ 21,718,851</u>	<u>\$ 20,838,654</u>

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

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES**

**For The Year Ended June 30, 2013
(With Comparative Totals For the Year Ended June 30, 2012)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013
(With Comparative Totals For The Year Ended June 30, 2012)

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Personnel	\$ 7,894,685	\$	\$	
Operating expenses	2,118,825	8,673		
Foundation	33,464		66,664	
Grant expenses	91,749		24,031	
Friends program support	71,490		61,693	
Construction			105,000	
Books and materials	1,564,649	335,532	125,053	
Depreciation/Amortization	1,152,079			
Bond insurance costs				
Interest expense	246,379			
Loss from lawsuit settlement	316,253			
Library Corporation payments	256,212			
Total Governmental Activities	13,745,785	344,205	277,441	105,000
Business-type Activities:				
Video rentals and purchases	53,524	1,243		
Parking garage	209,663	452,682		
Operating expenses		87,312		
Interest expense	136,220			
Depreciation/Amortization	83,257			
Total Business-type Activities	482,664	541,237		
Total Primary Government	\$ 14,228,449	\$ 885,442	\$ 277,441	\$ 105,000

General Revenues:

Property taxes for general purposes
Interest and investment earnings
Miscellaneous
Total General Revenues
Change in Net Position
Net Position- Beginning (Restated)

Net Position - Ending

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES (Continued)
For The Year Ended June 30, 2013
(With Comparative Totals For The Year Ended June 30, 2012)

Net (Expenses) Revenues and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	2012 Totals (Restated)
\$ (7,894,685)	\$	\$ (7,894,685)	\$ (7,638,000)
(2,110,152)		(2,110,152)	(1,900,080)
33,200		33,200	(91,503)
(67,718)		(67,718)	10,745
(9,797)		(9,797)	(16,346)
105,000		105,000	95,172
(1,104,064)		(1,104,064)	(887,386)
(1,152,079)		(1,152,079)	(1,128,828)
			(30,817)
(246,379)		(246,379)	(208,010)
(316,253)		(316,253)	
(256,212)		(256,212)	(261,372)
<u>(13,019,139)</u>		<u>(13,019,139)</u>	<u>(12,056,425)</u>
	(52,281)	(52,281)	(41,061)
	243,019	243,019	363,904
	87,312	87,312	(23,595)
	(136,220)	(136,220)	(140,275)
	<u>(83,257)</u>	<u>(83,257)</u>	<u>(150,332)</u>
	<u>58,573</u>	<u>58,573</u>	<u>8,641</u>
<u>(13,019,139)</u>	<u>58,573</u>	<u>(12,960,566)</u>	<u>(12,056,425)</u>
13,746,809		13,746,809	13,580,901
86,355	900	87,255	89,805
5,366	1,333	6,699	12,099
<u>13,838,530</u>	<u>2,233</u>	<u>13,840,763</u>	<u>13,682,805</u>
819,391	60,806	880,197	1,635,021
<u>20,953,436</u>	<u>(114,782)</u>	<u>20,838,654</u>	<u>19,203,633</u>
<u>\$ 21,772,827</u>	<u>\$ (53,976)</u>	<u>\$ 21,718,851</u>	<u>\$ 20,838,654</u>

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

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

June 30, 2013
(With Comparative Totals As Of June 30, 2012)

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2013 (With Comparative Totals As Of June 30, 2012)

ASSETS	General Fund	Library Collection Materials Fund	Construction Fund	2013 Total Governmental Funds	2012 Total Governmental Funds (Restated)
ASSETS					
Current Assets					
Cash and cash equivalents					
Unrestricted	\$ 3,962,334	\$	\$	\$ 3,962,334	\$ 3,940,748
Restricted	22,845		32,234	55,079	54,523
Short-term investments	6,281,820			6,281,820	5,302,958
Accounts receivable - other	12,285			12,285	43,394
Due from other funds	520,256	478,302		998,558	882,148
Due from business type funds	231,670			231,670	224,218
Prepaid payroll liabilities					77,262
Other assets	85,040			85,040	97,315
	<u>\$ 11,116,250</u>	<u>\$ 478,302</u>	<u>\$ 32,234</u>	<u>\$ 11,626,786</u>	<u>\$ 10,622,566</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable	\$ 345,057	\$	\$	\$ 345,057	\$ 162,138
Accrued payroll	246,799			246,799	214,980
Accrued vacation	311,312			311,312	311,312
Accrued interest	21,712			21,712	9,977
Payroll liabilities	142,419			142,419	50,360
Loss contingency	316,253			316,253	
Due to business type funds	254,796			254,796	218,122
Due to other funds	478,302		520,256	998,558	882,148
Total current liabilities	<u>2,116,650</u>		<u>520,256</u>	<u>2,636,906</u>	<u>1,849,037</u>
FUND BALANCES:					
Restricted for:					
Little grant	38,092			38,092	94,265
Foundation expenditures	146,721			146,721	184,615
Energy project bond					618,054
Committed for:					
Buildings, renewal and replacement	2,000,000			2,000,000	2,000,000
New branch	2,000,000			2,000,000	750,000
New ILS system	350,000			350,000	350,000
Emergency fund	300,000			300,000	300,000
Technology Enhancements and Innovation	300,000			300,000	300,000
Signage and lighting project	100,000			100,000	
Assigned for:					
Book purchases		478,302		478,302	514,340
Capital construction			(488,022)	(488,022)	(335,574)
Unassigned	3,764,787			3,764,787	3,997,829
Total Fund Balances	<u>8,999,600</u>	<u>478,302</u>	<u>(488,022)</u>	<u>8,989,880</u>	<u>8,773,529</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,116,250</u>	<u>\$ 478,302</u>	<u>\$ 32,234</u>	<u>\$ 11,626,786</u>	<u>\$ 10,622,566</u>

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

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2013 (With Comparative Totals As Of June 30, 2012)

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

Total Fund Balances	\$ 8,989,880
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.	18,175,385
Unamortized Bond Issuance Cost	
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>(5,392,438)</u>
Net Assets Of Governmental Activities	<u><u>\$ 21,772,827</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, 2013
(With Comparative Totals For The Year Ended June 30, 2012)

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2013 (With Comparative Totals For The Year Ended June 30, 2012)

	<u>General Fund</u>	<u>Library Collection Materials Fund</u>	<u>Construction Fund</u>
SUPPORT			
Grants			
Ky Dept of Libraries and Archives	\$ 125,053	\$	\$
Construction grant			105,000
Grants, other	24,031		
LFUCG appropriation			
Unrestricted	12,218,198		
Restricted		1,528,611	
Donations			
Foundation (restricted)	66,664		
Friends (unrestricted)	61,693		
Total support	<u>12,495,639</u>	<u>1,528,611</u>	<u>105,000</u>
REVENUE			
Fines and lost books	335,532		
Investment income			
Unrestricted	86,355		
Restricted			
Rental income	8,673		
Miscellaneous	5,366		
Total revenue	<u>435,926</u>		
Total support and revenue	<u>12,931,565</u>	<u>1,528,611</u>	<u>105,000</u>
EXPENDITURES			
Salaries and employee benefits	7,894,685		
Operating expenditures	2,118,825		
Construction			
Books and materials		1,564,649	
Operating sublease expenditures	256,212		
Friends program support	71,490		
Grant expenditures	91,749		
Foundation expenditures	33,464		
Debt services	246,379		
Loss on lawsuit settlement	316,253		
Total Expenditures	<u>11,029,057</u>	<u>1,564,649</u>	
Support and revenue over (under) expenditures	<u>1,902,508</u>	<u>(36,038)</u>	<u>105,000</u>
Other Financing Sources (Uses)			
Bond Proceeds			
Bond fees			
Principal payment on debt	(75,000)		(257,448)
Purchase of property and equipment	(1,422,671)		
Net other financing sources (uses)	<u>(1,497,671)</u>		<u>(257,448)</u>
Net change in Fund Balances	404,837	(36,038)	(152,448)
Fund Balances - Beginning (Restated)	<u>8,594,763</u>	<u>514,340</u>	<u>(335,574)</u>
Fund Balances - Ending	<u>\$ 8,999,600</u>	<u>\$ 478,302</u>	<u>\$ (488,022)</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, 2013 (With Comparative Totals For The Year Ended June 30, 2012)

	2013 Totals	2012 Totals
	<u>Governmental Funds</u>	<u>Governmental Funds</u>
		(Restated)
SUPPORT		
Grants		
Ky Dept of Libraries and Archives	\$ 125,053	\$ 131,837
Construction grant	105,000	105,000
Grants, other	24,031	23,671
LFUCG appropriation		
Unrestricted	12,218,198	12,102,290
Restricted	1,528,611	1,478,611
Donations		
Foundation (restricted)	66,664	124,428
Friends (unrestricted)	61,693	76,661
Total support	<u>14,129,250</u>	<u>14,042,498</u>
REVENUE		
Fines and lost books	335,532	343,292
Investment income		
Unrestricted	86,355	88,905
Restricted		
Rental income	8,673	1,368
Miscellaneous	5,366	6,309
Total revenue	<u>435,926</u>	<u>439,874</u>
Total support and revenue	<u>14,565,176</u>	<u>14,482,372</u>
EXPENDITURES		
Salaries and employee benefits	7,894,685	7,638,000
Operating expenditures	2,118,825	1,901,446
Construction		9,828
Books and materials	1,564,649	1,362,515
Operating sublease expenditures	256,212	261,372
Friends program support	71,490	93,007
Grant expenditures	91,749	12,926
Foundation expenditures	33,464	215,931
Debt services	246,379	452,974
Loss from lawsuit settlement	316,253	
Total Expenditures	<u>12,593,706</u>	<u>11,947,999</u>
Support and revenue over (under) expenditures	<u>1,971,470</u>	<u>2,534,373</u>
Other Financing Sources (Uses)		
Bond Proceeds		1,270,000
Bond fees		(30,818)
Principal payment on debt	(332,448)	
Purchase of property and equipment	(1,422,671)	(1,431,553)
Net other financing sources (uses)	<u>(1,755,119)</u>	<u>(192,371)</u>
Net change in Fund Balances	216,351	2,342,002
Fund Balances - Beginning (Restated)	<u>8,773,529</u>	<u>6,431,527</u>
Fund Balances - Ending	<u>\$ 8,989,880</u>	<u>\$ 8,773,529</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, 2013

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, 2013

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	216,351
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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		1,422,671
Depreciation Expense		(1,152,079)

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 Debt Principal Payments		332,448
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Change in Net Assets of Governmental Activities	\$	<u>819,391</u>
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**LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION - PROPRIETARY FUND**

**June 30, 2013
(With Comparative Totals As Of June 30, 2012)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION - PROPRIETARY FUND

June 30, 2013 (With Comparative Totals As of June 30, 2012)

	Enterprise Fund	Parking Fund	2013 Total Proprietary Fund	2012 Total Proprietary Fund (Restated)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,070	\$ 1,000	\$ 2,070	\$ 2,070
Accounts receivables		16,512	16,512	25,286
Due from general fund	254,796		254,796	218,122
Prepaid expenses		7,824	7,824	
Total current assets	255,866	25,336	281,202	245,478
Noncurrent assets				
Capital assets, net of depreciation		2,782,495	2,782,495	2,865,752
Total noncurrent assets		2,782,495	2,782,495	2,865,752
TOTAL ASSETS	\$ 255,866	\$ 2,807,831	\$ 3,063,697	\$ 3,111,230
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 8		\$ 8	\$ 8
Accrued interest payable				9,076
Unearned revenue		501	501	501
Due to general fund		231,670	231,670	224,218
Current portion of long-term debt		73,090	73,090	81,717
Total current liabilities	8	305,261	305,269	315,520
Long-term debt		2,812,404	2,812,404	2,910,494
Total liabilities	8	3,117,665	3,117,673	3,226,014
Net position				
Invested in capital assets, net of related debt		(102,999)	(102,999)	(126,459)
Unrestricted	255,858	(206,835)	49,023	11,677
Total net position	255,858	(309,834)	(53,976)	(114,782)
TOTAL LIABILITIES AND NET POSITION	\$ 255,866	\$ 2,807,831	\$ 3,063,697	\$ 3,111,232

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

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

**For The Year Ended June 30, 2013
With Comparative Totals For The Year Ended June 30, 2012)**

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

For The Year Ended June 30, 2013 (With Comparative Totals For The Year Ended June 30, 2012)

	Enterprise Fund	Parking Fund	2013 Total Proprietary Fund	2012 Total Proprietary Fund (Restated)
Operating revenues				
Video rentals and fines	\$ 1,243	\$	\$ 1,243	\$ 47,932
Copy sales	87,312		87,312	82,804
Parking garage		452,682	452,682	363,904
Miscellaneous revenue	1,043	290	1,333	5,790
Total operating revenues	<u>89,598</u>	<u>452,972</u>	<u>542,570</u>	<u>500,430</u>
Operating expenses				
Operating expenses	53,524	209,663	263,187	195,392
Depreciation		83,257	83,257	150,332
Total operating expenses	<u>53,524</u>	<u>292,920</u>	<u>346,444</u>	<u>345,724</u>
Total operating income	<u>36,074</u>	<u>160,052</u>	<u>196,126</u>	<u>154,706</u>
Nonoperation revenues and (expenses)				
Interest income	600	300	900	900
Interest expense		(136,220)	(136,220)	(140,275)
Total nonoperation revenues (expenses)	<u>600</u>	<u>(135,920)</u>	<u>(135,320)</u>	<u>(139,375)</u>
Change in net position	36,674	24,132	60,806	15,331
Total net position-beginning	<u>219,184</u>	<u>(333,966)</u>	<u>(114,782)</u>	<u>(130,113)</u>
TOTAL NET POSITION-ENDING	<u><u>\$ 255,858</u></u>	<u><u>\$ (309,834)</u></u>	<u><u>\$ (53,976)</u></u>	<u><u>\$ (114,782)</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, 2013
(With Comparative Totals As Of June 30, 2012)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For The Year Ended June 30, 2013
(With Comparative Totals As Of June 30, 2012)

	Enterprise Fund	Parking Fund	2013 Total Proprietary Fund	2012 Total Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 89,598	\$ 444,846	\$ 534,444	\$ 432,985
Payroll payments		(24,313)	(24,313)	(29,241)
Payments to suppliers	(53,524)	(185,350)	(238,874)	(166,151)
Net cash provided by operating activities	<u>36,074</u>	<u>235,183</u>	<u>271,257</u>	<u>237,593</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer (to) from general fund	(36,674)	7,454	(29,220)	(15,169)
Bond principal debt paid		(106,717)	(106,717)	(83,049)
Interest paid on capital debt		(136,220)	(136,220)	(140,275)
Net cash used by capital and related financing activities	<u>(36,674)</u>	<u>(235,483)</u>	<u>(272,157)</u>	<u>(238,493)</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 increase 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	\$ 36,074	\$ 160,052	\$ 196,126	\$ 152,632
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense		83,257	83,257	152,406
Changes in asset and liabilities				
Accounts receivable		8,774	8,774	(25,287)
Prepaid expenses		(7,824)		(41,919)
Accounts payable				8
Interest payable		(9,076)	(9,076)	(247)
Net cash provided by operating activities	<u>\$ 36,074</u>	<u>\$ 235,183</u>	<u>\$ 271,257</u>	<u>\$ 237,593</u>

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, 2013

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 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. GASB 61 was implemented during fiscal year 2013 (See Note 12) which resulted in the Foundation being considered a blended component unit of the Lexington Public Library. Therefore, the Foundation is included in the governmental 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 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, 2013
(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.

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, 2013
(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 2009 - 2013 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, 2013
(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, 2013 was \$4,019,483. The carrying amount of the Library's short-term investments at June 30, 2013 was \$6,281,820.

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, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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, 2013 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	708,946	4,905		713,851
Buildings and improvements	20,801,241	1,798,639		22,599,880
Furniture/equipment	8,435,435	240,256		8,675,691
Totals at Cost	30,015,901	2,043,800		32,059,701
Less: accumulated depreciation:	16,749,260	1,152,079		17,901,339
Depreciable capital assets, net	\$ 13,266,641	\$ 891,721	\$	\$ 14,158,362
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
	\$ 4,638,152	\$	\$ (621,129)	\$ 4,017,023
Business-Type Activities:				
Furniture/equipment	\$ 682,312	\$	\$	\$ 682,312
Parking garage & improvements	3,465,758			3,465,758
Totals at cost	4,148,070			4,148,070
Less: accumulated depreciation	1,282,318	83,257		1,365,575
Capital assets net	\$ 2,865,752	\$ 83,257	\$	\$ 2,782,495

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

Note 5. Capital Assets (Continued)

Depreciation expense was charged as follows:

Governmental Activities:

Total Depreciation Expense - Governmental Activities	<u>\$ 1,152,079</u>
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Business-Type Activities

Total Depreciation Expense - Business-Type Activities	<u>\$ 83,257</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 or 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent. The Library's contribution for the year ended June 30, 2013 was \$941,962 and the employees contributed \$240,616.

On June 27, 2008 House Bill 1, the Pension Reform legislation, was signed into law. This legislation significantly impacts retirement benefits for employees who began participating in KERS on or after September 1, 2008. The law also has provisions that affected employees and retirees covered by KERS prior to September 1, 2008. Employees who began participation in CERS on or after September 1, 2008 are required to contribute 6% of their annual covered salary. Employers, including the Library, continue to be required to contribute at an actuarially determined rate. House Bill 1 contained a provision expressing the intent of the General Assembly to gradually increase the employer contributions to the CERS beginning July 1, 2012. If in the future the General Assembly adheres to this schedule, all participating agencies will be required to pay the full employer contribution by 2025. The financial impact to the Library in these future years is not yet known.

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.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

Note 7. Interfund Transactions

Interfund loans on the fund statements at June 30, 2013 consist of the following receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payable</u>
General Fund	\$ 751,926	\$ 733,098
Collection Materials	478,302	0
Construction		520,256
Proprietary Funds	254,796	231,670
	<u>\$ 1,485,024</u>	<u>\$ 1,485,024</u>

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, 2013 was 3.49%, and the outstanding balance was \$2,885,494.

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	108,585	118,881	227,466
2019-2023	683,563	429,028	1,112,591
2024-2028	713,512	421,190	1,134,702
2029-2033	811,095	267,623	1,078,718
2034	174,249	5,631	179,880
Totals	<u>\$ 2,885,494</u>	<u>\$ 1,706,504</u>	<u>\$ 4,591,998</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

Note 9. Long-Term Liabilities (Continued)

B. Northside Branch Debt (Continued)

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, 2013 the effective rate was 3.21%, and the outstanding balance was \$4,197,438.

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
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	251,433	151,572	403,005
2019-2023	1,449,859	565,171	2,015,030
2024-2028	1,575,874	204,069	1,779,943
Totals	<u>\$ 4,197,438</u>	<u>\$ 1,637,268</u>	<u>\$ 5,834,706</u>

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, 2013 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 \$1,119,500 at June 30, 2013.

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
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	80,000	30,712	110,712
2019-2023	430,000	113,248	543,248
2024-2027	395,000	41,814	436,814
Totals	<u>\$ 1,195,000</u>	<u>\$ 329,622</u>	<u>\$ 1,524,622</u>

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

Note 9. Long-Term Liabilities (Continued)

D. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2013, was as follows:

	Beginning Balance	Reductions	Additional principal payment	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Debt Obligations	\$ 4,454,886	\$ 257,448	\$	\$ 4,197,438	\$ 213,109
Bond	1,270,000	75,000		1,195,000	70,000
Governmental Activities Long-term Liabilities	<u>\$ 5,724,886</u>	<u>\$ 332,448</u>	<u>\$</u>	<u>\$ 5,392,438</u>	<u>\$ 283,109</u>
	Beginning Balance	Reductions	Additional principal payment	Ending Balance	Due Within One Year
<u>Business-Type Activities</u>					
Debt Obligations	\$ 2,992,211	\$ 81,717	\$ 25,000	\$ 2,885,494	\$ 73,090
Business-Type Activities Long-term Liabilities	<u>\$ 2,992,211</u>	<u>\$ 81,717</u>	<u>\$ 25,000</u>	<u>\$ 2,885,494</u>	<u>\$ 73,090</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 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, 2013 was \$311,312.

Note 11. 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 5/17/2013 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 Board of Director's legal counsel has presented arguments against the Order on Damages before the Fayette County District Court and is awaiting an opinion.

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.

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

Note 11. Contingencies and Commitments (Continued)

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. As of June 30, 2013 the Library is committed to fund a total of \$2,078,518 through fiscal year 2020 for this purpose.

Note 12. Blended Component Unit – Lexington Foundation

GASB 61: *The Financial Reporting Entity: Omnibus* was implemented during the fiscal year. 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 13. Implementation of GASB 63

In June 2012, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance relative to deferred outflows of resources, a consumption of net assets by the entity that is applicable to a future reporting period, and deferred inflows of resources, an acquisition of net assets by the entity that is applicable to a future reporting period. GASB Statement No. 63 incorporates deferred outflows and inflows of resources into the definitions of the required components of the residual measure, renaming such measure as net position, rather than net assets. The provisions of GASB Statement No. 63 are effective for fiscal periods beginning after December 15, 2012 (the fiscal year ended June 30, 2013 for the Library). The Library adopted GASB 63 for the year ended June 30, 2013, the adoption of this standard did not have an impact on the Library’s financial position, results of operations, and/or cash flows.

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

Note 14. Early Adoption of GASB 65

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Library elected to early implement the statement. The net result was a decrease of net position in the amount of \$169,350 due to the elimination of debt issuance costs. Bond issue costs in the amount of \$58,988, \$121,538, and \$30,817 were incurred in relation to the borrowings. These costs were being amortized over the life of the bonds; however the Library decided to early implement GASB 65, so the bonds were expensed in full during fiscal year 2013. The total amount of bond costs that were written off during the fiscal year was \$44,967, \$93,567, and \$30,816, which totaled \$169,350.

Note 15. Restatement of Beginning Net Position

Beginning net position related to Governmental Activities and beginning fund balance for the General Fund were restated to properly include \$184,615 of net position related to the Foundation. Under GASB 61, the Foundation was reported as a blended component unit; however, in prior year the Foundation was discretely presented.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

Note 15. Restatement of Beginning Net Position (Continued)

GASB 65 was also implemented, which resulted in a restatement of fiscal year 2012 beginning and ending balance.

The restatement of the net position for the general government on the Statement of Net Position included the following.

Statement of Net Position

Net position, July 1, 2011 prior to restatement	\$ 19,350,251
Eliminate bond costs	(146,618)
Net position, July 1, 2011 (Restated)	<u>\$ 19,203,633</u>
Net position, June 30, 2012, prior to restatement	\$ 21,008,004
Expense bond costs related to new debt	(30,817)
Eliminate bond costs	(146,618)
Add back amortization expense for bond costs	8,085
	<u>\$ 20,838,654</u>

The restatement of the net position for the proprietary and parking fund on the Statement of Net Position included the following.

Statement of Net Position - Proprietary funds

Net position, July 1, 2011 prior to restatement	\$ (83,073)
Eliminate bond costs	(47,040)
Net position, July 1, 2011 (Restated)	<u>\$ (130,113)</u>
Net position, June 30, 2012, prior to restatement	\$ (69,816)
Eliminate bond costs	(47,040)
Add back amortization expense for bond costs	2,074
	<u>\$ (114,782)</u>

Statement of Net Position - Parking fund

Net position, July 1, 2011 prior to restatement	\$ (339,054)
Eliminate bond costs	(47,040)
Net position, July 1, 2011 (Restated)	<u>\$ (386,094)</u>
Net position, June 30, 2012, prior to restatement	\$ (289,000)
Eliminate bond costs	(47,040)
Add back amortization expense for bond costs	2,074
	<u>\$ (333,966)</u>

**LEXINGTON PUBLIC LIBRARY
SUPPLEMENTARY INFORMATION**

For The Year Ended June 30, 2013

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION – GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Over) Under Budget</u>
Support				
Grants				
KY Dept. of Libraries and Archives	\$ 118,653	\$ 118,653	\$ 125,053	\$ 6,400
Grants, other	25,000	25,000	24,031	(969)
LFUCG appropriation				
Unrestricted	11,856,629	11,856,629	12,218,198	361,569
Donations				
Unrestricted	78,000	78,000	66,664	(11,336)
Restricted	110,000	110,000	61,693	(48,307)
Total support	<u>12,188,282</u>	<u>12,188,282</u>	<u>12,495,639</u>	<u>307,357</u>
REVENUE				
Fines and lost books	321,600	321,600	335,532	13,932
Interest earned				
Unrestricted	63,152	63,152	86,355	23,203
Miscellaneous	5,000	5,000	14,039	9,039
Total revenue	<u>389,752</u>	<u>389,752</u>	<u>435,926</u>	<u>46,174</u>
Total support and revenue	<u>12,578,034</u>	<u>12,578,034</u>	<u>12,931,565</u>	<u>353,531</u>
EXPENDITURES				
Salaries wages and employee benefits	8,169,664	8,169,664	7,894,685	274,979
Operating expenses	2,428,581	2,428,581	2,118,825	309,756
Construction				
Transfer to LPL Corporation	261,372	261,372	256,212	5,160
Grant expense/foundation gifts	135,000	135,000	91,749	43,251
Foundation	110,000	110,000	33,464	76,536
Debt Service	463,395	463,395	246,379	217,016
Loss from lawsuit settlement			316,253	(316,253)
Friends program support	78,000	78,000	71,490	6,510
Total expenses	<u>11,646,012</u>	<u>11,646,012</u>	<u>11,029,057</u>	<u>616,955</u>
SUPPORT AND REVENUE OVER EXPENSES	932,022	932,022	1,902,508	970,486
Other changes				
Principal payment on debt			(75,000)	(75,000)
Purchases of property & equipment	(569,046)	(788,156)	(1,422,671)	(634,515)
Net increase in fund balances	362,976	143,866	404,837	260,971
Fund balances-				
beginning of year (Restated)	<u>8,594,763</u>	<u>8,594,763</u>	<u>8,594,763</u>	
FUND BALANCES-END OF YEAR	<u>\$ 8,957,739</u>	<u>\$ 8,738,629</u>	<u>\$ 8,999,600</u>	<u>\$ 260,971</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>(Over) Under Budget</u>
Support				
LFUCG appropriations	\$ 1,528,611	\$ 1,528,611	\$ 1,528,611	\$
Total support	<u>1,528,611</u>	<u>1,528,611</u>	<u>1,528,611</u>	
REVENUE				
Interest earned				
Restricted				
Total revenue				
Total support and revenue	<u>1,528,611</u>	<u>1,528,611</u>	<u>1,528,611</u>	
EXPENSES				
Books and materials	<u>1,528,611</u>	<u>1,528,611</u>	1,564,649	(36,038)
Total expenses	<u>1,528,611</u>	<u>1,528,611</u>	<u>1,564,649</u>	<u>(36,038)</u>
Net increase in fund balances			(36,038)	(36,038)
Fund balances-				
beginning of year	<u>514,340</u>	<u>514,340</u>	<u>514,340</u>	
FUND BALANCES-END OF YEAR	<u>\$ 514,340</u>	<u>\$ 514,340</u>	<u>\$ 478,302</u>	<u>\$ (36,038)</u>

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 the 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, and each major fund of the Lexington Public Library ("the Library") as of and for the year ended June 30, 2013 and the related notes to the financial statements which collectively comprise the Library's basic financial statement and have issued our report thereon dated **September 15, 2013**.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Maureen Jay Chilton Malloy, LLP

Lexington, Kentucky
September 19, 2013