

LEXINGTON PUBLIC LIBRARY
Lexington, Kentucky

Financial Statements
June 30, 2018

Lexington Public Library

Table of Contents

June 30, 2018

| | <u>PAGE</u> |
|---|--------------------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-9 |
| Basic Financial Statements | |
| Government - Wide Financial Statements | |
| Statement of Net Position | 11 |
| Statement of Activities | 13-14 |
| Fund Financial Statements | |
| Balance Sheet - Governmental Funds | 16-17 |
| Statement of Support, Revenue, Expenses and Changes in Fund Balances Governmental Funds | 19 |
| Reconciliation of the Statement of Support, Revenue, Expenses and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 21 |
| Statement of Net Position - Proprietary Funds | 23 |
| Statement of Revenues, Expenses, and Change in Net Position - Proprietary Funds | 25 |
| Statement of Cash Flows - Proprietary Funds | 27 |
| Notes to Financial Statements | 29-49 |
| Required Supplemental Information | |
| Budgetary Comparison Schedules | |
| Required Supplemental Information - General Fund | |
| Schedule of Revenue and Expenditures - Budget and Actual | 51 |
| Required Supplemental Information - Library Collections Materials Fund | |
| Schedule of Revenue and Expenditures - Budget and Actual | 52 |
| Schedule of Lexington Public Library's Net Pension Liability and Related Ratios Based on Participation in the County Employees Retirement System | 53 |
| Schedule of Lexington Public Library's Contributions Based on Participation in the County Employees Retirement System | 54 |
| Notes to Schedules Related to County Employees Retirement System | 55 |
| Schedule of Lexington Public Library's Proportionate Share of the Collective Net OPEB Liability in the County Employees Retirement System Insurance Fund | 56 |
| Schedule of Lexington Public Library's Contributions in the County Employees Retirement System Insurance Fund | 57 |
| Notes to Schedules Related to the County Employees Retirement System Insurance Fund | 58 |
| 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 <i>Government Auditing Standards</i> | 59-60 |



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Lexington Public Library, a component unit of the Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Lexington Public Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Kentucky
Indiana
Ohio

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Lexington Public Library, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, budgetary comparison schedules on pages 51 and 52, the Schedule of Lexington Public Library's Net Pension Liability and Related Ratios Based on Participation in the County Employees Retirement System on page 53, the Schedule of Lexington Public Library's Contributions Based on Participation in the County Employees Retirement System on page 54, the Schedule of Lexington Public Library's Proportionate Share of the Collective Net OPEB Liability in the County Employees Retirement System Insurance Fund on page 56, and the Schedule of Lexington Public Library's Contributions in the County Employees Retirement System Insurance Fund on page 57, 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 7, 2018 on our consideration of the Lexington Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lexington Public Library's internal control over financial reporting and compliance.



Lexington, Kentucky
September 7, 2018

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2018**

FINANCIAL HIGHLIGHTS

- The Lexington Public Library's (the Library) net position decreased \$616,020 during fiscal year 2018. Current Assets increased by \$1,389,367 and Bonds Payable decreased \$597,986 both improving the Library's net position. The net value of Capital Assets decreased \$1,083,480 and the pension obligation net of deferred outflows and pension contributions increased \$848,140.
- The Library made capital investments during the fiscal year for equipment and building improvements and construction. The most significant investments were made in computer and technology improvements and the addition of a collaborative space at the Beaumont Branch. The Library allocated 12% of its tax revenues for library books and materials.
- The Lexington Public Library Foundation raised \$324,208 in fiscal year 2018, including \$88,445 in grants and other designated gifts to further Library programming and services.
- The Library's business-type activities had an increase in net position of \$57,257 for fiscal year 2018.
- The Friends of the Lexington Public Library contributed \$50,000 to the Library.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE STATEMENTS

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

**Lexington Public Library
Management's Discussion and Analysis (Continued)
June 30, 2018**

GOVERNMENT-WIDE STATEMENTS (Continued)

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

In the Statement of Net Position and the Statement of Activities, the Library is displayed as two kinds of activities:

- Governmental activities - Most of the Library's basic services are reported here. Property taxes, grants, and other income finance most of these activities.
- Business-type activities - The Library reports fees for service activities in this fund; this includes video rentals, copiers and other machines, and garage activity.

FUND FINANCIAL STATEMENTS

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

The Library has two kinds of funds:

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

**Lexington Public Library
Management's Discussion and Analysis (Continued)
June 30, 2018**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

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

STATEMENT OF NET POSITION

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

Condensed Statement of Net Position

| | Total | | Change | Percent Change |
|--|----------------------|----------------------|---------------------|-----------------------|
| | 2018 | 2017 | | |
| Assets | | | | |
| Current assets | \$ 12,205,885 | \$ 10,816,518 | \$ 1,389,367 | 13% |
| Net noncurrent assets | 25,355,406 | 26,438,886 | (1,083,480) | -4% |
| Total Assets | 37,561,291 | 37,255,404 | 305,887 | 1% |
| Deferred Outflows of Resources | | | | |
| | 5,677,972 | 2,779,103 | 2,898,869 | 104% |
| Total Assets and Deferred Outflows of Resources | <u>\$ 43,239,263</u> | <u>\$ 40,034,507</u> | <u>\$ 3,204,756</u> | <u>8%</u> |
| Liabilities | | | | |
| Current liabilities | \$ 1,664,744 | \$ 1,735,981 | \$ (71,237) | -4% |
| Long-term liabilities | 26,053,931 | 20,676,530 | 5,377,401 | 26% |
| Total Liabilities | 27,718,675 | 22,412,511 | 5,306,164 | 24% |
| Deferred Inflows of Resources | | | | |
| | 1,749,379 | 27,719 | 1,721,660 | 6211% |
| Total Liabilities and Deferred Inflows of Resources | <u>29,468,054</u> | <u>22,440,230</u> | <u>7,027,824</u> | <u>31%</u> |
| Net Position | | | | |
| Net investment in capital assets | 16,107,156 | 16,601,816 | (494,660) | -3% |
| Restricted | 390,932 | 425,267 | (34,335) | -8% |
| Unrestricted | (2,726,879) | 567,194 | (3,294,073) | -581% |
| Total Net Position | 13,771,209 | 17,594,277 | (3,823,068) | -22% |
| Total Liabilities and Deferred Inflows of Resources and Net Position | <u>\$ 43,239,263</u> | <u>\$ 40,034,507</u> | <u>\$ 3,204,756</u> | <u>8%</u> |
| Restatement due to application of GASB 75 | | | | |
| Net position prior to restatement | \$ 13,771,209 | \$ 17,594,277 | \$ (3,823,068) | -22% |
| Restatement | - | (3,207,048) | 3,207,048 | -100% |
| Restated net position | \$ 13,771,209 | \$ 14,387,229 | \$ (616,020) | -4% |

**Lexington Public Library
Management's Discussion and Analysis (Continued)
June 30, 2018**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

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

TABLE A-2 STATEMENT OF ACTIVITIES

| | <u>Condensed Statement of Activities</u> | | | | |
|------------------------------------|--|------------------------|---------------------|-----------------------|-------------------------|
| | <u>2018</u> | <u>2017 (Restated)</u> | <u>Change</u> | <u>Percent Change</u> | <u>Percent of Total</u> |
| Revenues | | | | | |
| LFUCG tax revenue | \$ 15,786,567 | \$ 15,051,980 | \$ 734,587 | 5% | 91% |
| Interest and investment earnings | 97,436 | 74,432 | 23,004 | 31% | 1% |
| Capital grants and contributions | 105,000 | 105,000 | - | 0% | 1% |
| Operating grants and contributions | 701,880 | 785,709 | (83,829) | -11% | 4% |
| Charges for services | 623,663 | 728,190 | (104,527) | -14% | 4% |
| Gain on disposal of equipment | 3,238 | (29,155) | 45,245 | 100% | 0% |
| E-rate revenue | 57,200 | 56,485 | | | |
| Other revenues | 16,090 | 10,826 | 5,264 | 49% | 0% |
| Total Revenue | <u>17,391,074</u> | <u>16,783,467</u> | <u>607,607</u> | <u>4%</u> | <u>100%</u> |
| Expenses | | | | | |
| Personnel | 10,818,596 | 9,977,308 | 841,288 | 8% | 60% |
| Operating expenses | 2,343,938 | 2,313,442 | 30,496 | 1% | 13% |
| Grant and foundation | 386,775 | 363,687 | 23,088 | 6% | 2% |
| Books and materials | 2,067,328 | 1,941,309 | 126,019 | 6% | 11% |
| Enterprise | 429,803 | 421,413 | 8,390 | 2% | 2% |
| Depreciation and amortization | 1,468,393 | 1,440,231 | 28,162 | 2% | 8% |
| Library corporation | 253,580 | 256,427 | (2,847) | -1% | 1% |
| Interest expense | 238,681 | 298,974 | (60,293) | -20% | 1% |
| Total Expenses | <u>18,007,094</u> | <u>17,012,791</u> | <u>994,303</u> | <u>6%</u> | <u>100%</u> |
| Change In Net Position | <u>(616,020)</u> | <u>(229,324)</u> | <u>(386,696)</u> | <u>169%</u> | |
| Net Position - Beginning | <u>14,387,229</u> | <u>17,823,601</u> | <u>(3,436,372)</u> | <u>-19%</u> | |
| Restatement | <u>-</u> | <u>(3,207,048)</u> | <u>3,207,048</u> | <u>-100%</u> | |
| Net Position - Ending | <u>\$ 13,771,209</u> | <u>\$ 14,387,229</u> | <u>\$ (616,020)</u> | <u>-4%</u> | |

**Lexington Public Library
Management's Discussion and Analysis (Continued)
June 30, 2018**

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 5% due to increased property values and growth in Fayette County.

The personnel expense represents approximately 60% of total expenses. Personnel expenses reflect pension and other postemployment benefits expense in excess of contributions of \$1,591,129.

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 2018 budget comparison for the current month and year to date is presented to management and the Board of Trustees as interim financial statements; however, they are not reported on nor shown on the financial statements section of this report.

The net change in the Library's fund balance was \$1,648,181, which was \$1,638,375 better than budget. The Library's actual expenses, overall, were under budget by \$1,566,128. A 2018 budget comparison and analysis is presented in Table A-3 on page 8. Personnel expenditures were under budget due to retirements and turnover in key positions as well as general turnover. Enterprise expenses account for the largest part of expenses under budget, which was due to the delay of major capital projects to the parking garage. These improvements are anticipated to be completed in fiscal year 2019. Operating expenses were under budget due to maintenance savings, utility cost savings at the Central Branch, and lower than planned marketing expenditures.

**Lexington Public Library
Management's Discussion and Analysis (Continued)
June 30, 2018**

BUDGET HIGHLIGHTS (Continued)

BUDGET TO ACTUAL - 2018

TABLE A-3 2018 BUDGET TO ACTUAL

| | Budget | Actual | Budget - Positive (Negative) |
|--|---------------------|----------------------|---|
| SUPPORT AND REVENUES | | | |
| KY Dept. of Libraries and Archives | \$ 110,791 | \$ 110,546 | \$ (245) |
| Grants, other | 155,000 | 105,000 | (50,000) |
| LFUCG tax revenue | 15,786,567 | 15,786,567 | - |
| Contributions | 206,000 | 374,208 | 168,208 |
| Enterprise fund revenue | 466,200 | 472,136 | 5,936 |
| Fines and lost books | 257,800 | 141,702 | (116,098) |
| Interest income | 50,000 | 97,436 | 47,436 |
| Rental income | - | 9,825 | 9,825 |
| Miscellaneous | 98,000 | 73,290 | (24,710) |
| Total support and revenues | <u>17,130,358</u> | <u>17,170,710</u> | <u>40,352</u> |
| EXPENSES | | | |
| Personnel | 9,594,164 | 9,227,503 | 366,661 |
| Operating expenses | 2,575,161 | 2,337,689 | 237,472 |
| Library materials | 2,075,169 | 2,067,348 | 7,821 |
| Grant Expenses/foundation gift | 25,000 | 58,487 | (33,487) |
| Depreciation/interest- enterprise | 247,194 | 242,743 | 4,451 |
| Enterprise expenses | 976,800 | 187,060 | 789,740 |
| Capital purchases | 771,573 | 447,400 | 324,173 |
| Library corporation | 253,580 | 253,580 | - |
| Debt service | 601,911 | 728,899 | (126,988) |
| Friends donation | - | 3,715 | (3,715) |
| Total expenses | <u>17,120,552</u> | <u>15,554,424</u> | <u>1,566,128</u> |
| Expenditures Over Support and Revenues | 9,806 | 1,616,286 | 1,606,480 |
| Other Financing/Capital | | | |
| Proceeds from sale of fixed assets | - | 31,895 | 31,895 |
| Other Financing/Capital | | 31,895 | 31,895 |
| Changes in fund balances | 9,806 | 1,648,181 | 1,638,375 |
| Fund balances- | | | |
| beginning of year | <u>9,758,410</u> | <u>9,758,410</u> | <u>-</u> |
| FUND BALANCES-END OF YEAR | <u>\$ 9,768,216</u> | <u>\$ 11,406,591</u> | <u>\$ 1,638,375</u> |

**Lexington Public Library
Management's Discussion and Analysis (Continued)
June 30, 2018**

CAPITAL ASSETS

The Library invested a total of \$479,295 in capital assets purchased. 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, 2018 amounted to \$2,418,000. This debt had an original principal balance of \$3,515,000. The debt was used to purchase the parking garage (\$3,001,000) and provide cash (\$514,000) for the renovation of the garage. This garage debt will be repaid through the operation of the parking garage.

Governmental Long-term Debt

In September 2008, the Library closed on financing for the Northside branch with the Kentucky League of Cities. Financing consists of two notes. The first note is a twenty-year loan for \$5,200,000 at a fixed rate of 3.89%. The second note is a twenty-year loan for \$1,500,000 with a variable rate. The total balance of both loans was \$3,045,523 at June 30, 2018.

On March 29, 2012, the Library closed on financing for the Energy Project with the Kentucky League of Cities. Financing program revenue bonds, 2014 Series A were 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 \$791,667 at June 30, 2018.

On December 30, 2014, the Library closed on financing for the relocation project related to the Eagle Creek Branch with Kentucky Bank. The construction lease has a borrowing capacity of \$5,500,000. As of June 30, 2015, \$2,145,929 was drawn on the construction lease. During fiscal year 2017, the remaining amount of \$3,354,071 was drawn on the lease to total \$5,500,000. The construction lease has a fixed rate of 2.78%. The principal balance as of June 30, 2018, was \$2,993,060.

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, 2018

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION
For the Year Ended June 30, 2018

| | <u>Governmental</u> <u>Activities</u> | <u>Business-Type</u> <u>Activities</u> | <u>Total</u> |
|--|--|---|----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 6,793,564 | \$ 2,070 | \$ 6,795,634 |
| Short-term investments - unrestricted | 5,265,415 | - | 5,265,415 |
| Accounts receivable | | | |
| Other | 4,685 | 12,847 | 17,532 |
| Interfund balances | (230,122) | 230,122 | - |
| Prepaid expenses | 127,304 | - | 127,304 |
| Total Current Assets | <u>11,960,846</u> | <u>245,039</u> | <u>12,205,885</u> |
| Noncurrent Assets: | | | |
| Capital assets | | | |
| Nondepreciable | 4,786,335 | 58,280 | 4,844,615 |
| Depreciable, net | 18,022,217 | 2,488,574 | 20,510,791 |
| Total Noncurrent Assets | <u>22,808,552</u> | <u>2,546,854</u> | <u>25,355,406</u> |
| Total Assets | <u>34,769,398</u> | <u>2,791,893</u> | <u>37,561,291</u> |
| Deferred Outflows of Resources | | | |
| Actuarially determined outflow - pension | 3,607,236 | - | 3,607,236 |
| Actuarially determined outflow - OPEB | 968,124 | - | 968,124 |
| Contributions - pension | 791,368 | - | 791,368 |
| Contributions - OPEB | 311,244 | - | 311,244 |
| Total Deferred Outflows of Resources | <u>5,677,972</u> | <u>-</u> | <u>5,677,972</u> |
| Total Assets and Deferred Outflows of Resources | <u>40,447,370</u> | <u>2,791,893</u> | <u>43,239,263</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 259,578 | - | 259,578 |
| Accrued payroll | 138,899 | - | 138,899 |
| Accrued vacation | 311,312 | - | 311,312 |
| Payroll liabilities | 40,288 | - | 40,288 |
| Loss contingency | 316,253 | - | 316,253 |
| Unearned revenue | - | 501 | 501 |
| Current portion of long-term debt | 488,060 | 109,853 | 597,913 |
| Total Current Liabilities | <u>1,554,390</u> | <u>110,354</u> | <u>1,664,744</u> |
| Noncurrent Liabilities: | | | |
| Net pension obligation | 12,954,365 | - | 12,954,365 |
| Net OPEB liability | 4,449,229 | - | 4,449,229 |
| Bonds payable | 6,342,190 | 2,308,147 | 8,650,337 |
| Total Noncurrent Liabilities | <u>23,745,784</u> | <u>2,308,147</u> | <u>26,053,931</u> |
| Total Liabilities | <u>25,300,174</u> | <u>2,418,501</u> | <u>27,718,675</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows - pension | 1,516,429 | - | 1,516,429 |
| Deferred inflows - OPEB | 232,950 | - | 232,950 |
| Total Deferred Inflows of Resources | <u>1,749,379</u> | <u>-</u> | <u>1,749,379</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>27,049,553</u> | <u>2,418,501</u> | <u>29,468,054</u> |
| NET POSITION | | | |
| Net investment in | | | |
| Capital assets | 15,978,302 | 128,854 | 16,107,156 |
| Restricted For: | | | |
| Grants and bond | 390,932 | - | 390,932 |
| Unrestricted | (2,971,417) | 244,538 | (2,726,879) |
| Total Net Position | <u>\$ 13,397,817</u> | <u>\$ 373,392</u> | <u>\$ 13,771,209</u> |

See accompanying notes.

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2018

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

| Functions/Programs | Program Revenues Received | | | |
|---------------------------------|----------------------------------|-----------------------------|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Personnel | \$ 10,818,596 | \$ - | \$ - | \$ - |
| Operating expenses | 2,343,938 | - | - | - |
| Foundation | 323,387 | - | 541,334 | - |
| Grant expenses | 59,681 | - | - | - |
| Friends program support | 3,707 | - | 50,000 | - |
| Books and materials | 2,067,328 | 151,527 | 110,546 | 105,000 |
| Depreciation/Amortization | 1,468,393 | - | - | - |
| Interest expense | 238,681 | - | - | - |
| Library Corporation payments | 253,580 | - | - | - |
| Total Governmental Activities | 17,577,291 | 151,527 | 701,880 | 105,000 |
| Business-type Activities: | | | | |
| Printing charges and purchases | 47,521 | 100,179 | - | - |
| Parking charges | 139,539 | 371,957 | - | - |
| Interest expense | 118,738 | - | - | - |
| Depreciation/Amortization | 124,005 | - | - | - |
| Total Business-type Activities | 429,803 | 472,136 | - | - |
| Total Primary Government | \$ 18,007,094 | \$ 623,663 | \$ 701,880 | \$ 105,000 |

General Revenues:

Property taxes for general purposes
Interest and investment earnings
Gain on disposal of equipment
E-rate revenue
Miscellaneous
Total General Revenues
Change in Net Position
Net Position - Beginning (Restated - Note 14)

Net Position - Ending

See accompanying notes.

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES (Continued)
For the Year Ended June 30, 2018

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

| Governmental Activities | Business-Type Activities | Total |
|------------------------------------|-------------------------------------|----------------------|
| \$ (10,818,596) | \$ - | \$ (10,818,596) |
| (2,343,938) | - | (2,343,938) |
| 217,947 | - | 217,947 |
| (59,681) | - | (59,681) |
| 46,293 | - | 46,293 |
| (1,700,255) | - | (1,700,255) |
| (1,468,393) | - | (1,468,393) |
| (238,681) | - | (238,681) |
| (253,580) | - | (253,580) |
| <u>(16,618,884)</u> | <u>-</u> | <u>(16,618,884)</u> |
| - | 52,658 | 52,658 |
| - | 232,418 | 232,418 |
| - | (118,738) | (118,738) |
| - | (124,005) | (124,005) |
| <u>-</u> | <u>42,333</u> | <u>42,333</u> |
| <u>(16,618,884)</u> | <u>42,333</u> | <u>(16,576,551)</u> |
| 15,786,567 | - | 15,786,567 |
| 96,536 | 900 | 97,436 |
| 3,238 | - | 3,238 |
| 57,200 | - | 57,200 |
| 2,066 | 14,024 | 16,090 |
| <u>15,945,607</u> | <u>14,924</u> | <u>15,960,531</u> |
| (673,277) | 57,257 | (616,020) |
| <u>14,071,094</u> | <u>316,135</u> | <u>14,387,229</u> |
| <u>\$ 13,397,817</u> | <u>\$ 373,392</u> | <u>\$ 13,771,209</u> |

See accompanying notes.

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

June 30, 2018

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

| ASSETS | General Fund | Library Collection Materials Fund | Construction Fund | 2018 Total Governmental Funds |
|--|-------------------------|--|------------------------------|--|
| Current Assets | | | | |
| Cash and cash equivalents | | | | |
| Unrestricted | \$ 6,548,137 | \$ - | \$ - | \$ 6,548,137 |
| Restricted | 212,838 | - | 32,589 | 245,427 |
| Short-term investments - Unrestricted | 5,087,321 | - | - | 5,087,321 |
| Short-term investments - Restricted | 178,094 | - | - | 178,094 |
| Accounts receivable - other | 4,685 | 88 | - | 4,773 |
| Due from other funds | (483,933) | 483,933 | - | - |
| Due from proprietary funds | 189,810 | - | - | 189,810 |
| Prepaid expenses | 127,304 | - | - | 127,304 |
| | <u>11,864,256</u> | <u>484,021</u> | <u>32,589</u> | <u>12,380,866</u> |
| Total assets | <u>\$ 11,864,256</u> | <u>\$ 484,021</u> | <u>\$ 32,589</u> | <u>\$ 12,380,866</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 259,578 | \$ - | \$ - | \$ 259,578 |
| Accrued payroll | 138,899 | - | - | 138,899 |
| Accrued vacation | 311,312 | - | - | 311,312 |
| Payroll liabilities | 40,376 | - | - | 40,376 |
| Loss contingency | 316,253 | - | - | 316,253 |
| Due to proprietary funds | 419,932 | - | - | 419,932 |
| Total current liabilities | <u>\$ 1,486,350</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,486,350</u> |
| FUND BALANCES: | | | | |
| Restricted for: | | | | |
| Foundation expenditures | \$ 390,932 | \$ - | \$ - | \$ 390,932 |
| Committed for: | | | | |
| Buildings, renewal, and replacement | 3,000,000 | - | - | 3,000,000 |
| New branch | 3,000,000 | - | - | 3,000,000 |
| Emergency fund | 500,000 | - | - | 500,000 |
| Garage refurbishment fund | 866,000 | - | - | 866,000 |
| Assigned for: | | | | |
| Book purchases | - | 484,021 | - | 484,021 |
| Capital construction | - | - | 32,589 | 32,589 |
| Unassigned | 2,620,974 | - | - | 2,620,974 |
| Total Fund Balances | <u>10,377,906</u> | <u>484,021</u> | <u>32,589</u> | <u>10,894,516</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 11,864,256</u> | <u>\$ 484,021</u> | <u>\$ 32,589</u> | <u>\$ 12,380,866</u> |

See accompanying notes.

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS (Continued)
June 30, 2018

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

| | |
|--|-----------------------------|
| Total Fund Balances | \$ 10,894,516 |
| Amounts Reported For Governmental Activities In The Statement Of Net Position Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds. | 22,808,552 |
| Deferred Outflows of Resources Are Amortized Over Time and, Therefore, Are Not Reported in the Governmental Funds. | 5,677,972 |
| Net Pension Obligation Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Governmental Funds. | (12,954,365) |
| Net OPEB Liability Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Governmental Funds. | (4,449,229) |
| Deferred Inflows of Resources Are Not Due and Payable in the Current Period and, Therefore, Are Not Reported in the Governmental Funds. | (1,749,379) |
| Short-term and Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Governmental Funds. | <u>(6,830,250)</u> |
| Net Position Of Governmental Activities | <u><u>\$ 13,397,817</u></u> |

See accompanying notes.

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

For the Year Ended June 30, 2018

LEXINGTON PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

| | General Fund | Library Collection Materials Fund | Construction Fund | 2018 Totals Governmental Funds |
|--|----------------------|--------------------------------------|----------------------|-----------------------------------|
| SUPPORT | | | | |
| Grants | | | | |
| Ky Dept. of Libraries and Archives | \$ 110,546 | \$ - | \$ - | \$ 110,546 |
| State Aid Grant | 105,000 | - | - | 105,000 |
| LFUCG appropriation | | | | |
| Unrestricted | 13,711,409 | - | - | 13,711,409 |
| Restricted | - | 2,075,158 | - | 2,075,158 |
| Donations | | | | |
| Foundation (restricted) | 324,208 | - | - | 324,208 |
| Friends (unrestricted) | 50,000 | - | - | 50,000 |
| Total support | <u>14,301,163</u> | <u>2,075,158</u> | <u>-</u> | <u>16,376,321</u> |
| REVENUE | | | | |
| Fines and lost books | 141,702 | - | - | 141,702 |
| Investment income | | | | |
| Unrestricted | 96,181 | - | - | 96,181 |
| Restricted | - | - | 355 | 355 |
| Rental income | 9,825 | - | - | 9,825 |
| Miscellaneous | 59,266 | - | - | 59,266 |
| Total revenue | <u>306,974</u> | <u>-</u> | <u>355</u> | <u>307,329</u> |
| Total support and revenue | <u>14,608,137</u> | <u>2,075,158</u> | <u>355</u> | <u>16,683,650</u> |
| EXPENDITURES | | | | |
| Salaries and employee benefits | 9,227,503 | - | - | 9,227,503 |
| Operating expenditures | 2,314,092 | 23,597 | - | 2,337,689 |
| Books and materials | - | 2,067,348 | - | 2,067,348 |
| Library Corporation payments | 253,580 | - | - | 253,580 |
| Friends program support | 3,715 | - | - | 3,715 |
| Grant expenditures/foundation gifts | 58,487 | - | - | 58,487 |
| Foundation expenditures | 106,788 | - | - | 106,788 |
| Debt service | 256,865 | - | - | 256,865 |
| Total Expenditures | <u>12,221,030</u> | <u>2,090,945</u> | <u>-</u> | <u>14,311,975</u> |
| Support and revenue over expenditures | <u>2,387,107</u> | <u>(15,787)</u> | <u>355</u> | <u>2,371,675</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers | (2,247,170) | - | 2,247,170 | - |
| Principal payments on debt | (80,000) | - | (392,034) | (472,034) |
| Purchase of property and equipment | (479,295) | - | - | (479,295) |
| Proceeds from the sale of fixed assets | 31,895 | - | - | 31,895 |
| Net other financing uses | <u>(2,774,570)</u> | <u>-</u> | <u>1,855,136</u> | <u>(919,434)</u> |
| Net change in Fund Balances | (387,463) | (15,787) | 1,855,491 | 1,452,241 |
| Fund Balances - Beginning | <u>10,765,369</u> | <u>499,808</u> | <u>(1,822,902)</u> | <u>9,442,275</u> |
| Fund Balances - Ending | <u>\$ 10,377,906</u> | <u>\$ 484,021</u> | <u>\$ 32,589</u> | <u>\$ 10,894,516</u> |

See accompanying notes.

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

For the Year Ended June 30, 2018

LEXINGTON PUBLIC LIBRARY
RECONCILIATION OF THE STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Reconciliation to the Statement of Activities:

| | | |
|--|----|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 1,452,241 |
| 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. | | |
| Purchase of capital assets | | 479,295 |
| Depreciation expense | | (1,468,394) |
| Difference between proceeds and accounting gain | | (28,657) |
| Pension expense related to long-term Net Pension Obligations that is not included in the Governmental Funds | | (1,395,366) |
| OPEB expense related to long-term Net OPEB Liability that is not included in the Governmental Funds | | (195,763) |
| The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net position. | | |
| Bond Proceeds Less Bond Issuance Costs | | |
| Bond principal payments | | <u>483,367</u> |
| Change in Net Position of Governmental Activities | \$ | <u>(673,277)</u> |

See accompanying notes.

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

June 30, 2018

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2018

| | Enterprise Fund | Parking Fund | 2018 Total Proprietary Fund |
|---|--------------------|---------------------|-----------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 1,070 | \$ 1,000 | \$ 2,070 |
| Accounts receivables | - | 12,847 | 12,847 |
| Due from general fund | 419,932 | - | 419,932 |
| Total current assets | 421,002 | 13,847 | 434,849 |
| Noncurrent assets | | | |
| Capital assets, net of depreciation | 23,914 | 2,522,940 | 2,546,854 |
| TOTAL ASSETS | \$ 444,916 | \$ 2,536,787 | \$ 2,981,703 |
| LIABILITIES AND NET POSITION | | | |
| Current liabilities | | | |
| Unearned revenue | \$ - | \$ 501 | \$ 501 |
| Due to general fund | - | 189,810 | 189,810 |
| Current portion of long-term debt | - | 109,853 | 109,853 |
| Total current liabilities | - | 300,164 | 300,164 |
| Long-term debt | - | 2,308,147 | 2,308,147 |
| Total liabilities | - | 2,608,311 | 2,608,311 |
| Net position | | | |
| Invested in capital assets, net of related debt | 23,914 | 104,940 | 128,854 |
| Unrestricted | 421,002 | (176,464) | 244,538 |
| Total net position | 444,916 | (71,524) | 373,392 |
| TOTAL LIABILITIES AND NET POSITION | \$ 444,916 | \$ 2,536,787 | \$ 2,981,703 |

See accompanying notes.

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

For the Year Ended June 30, 2018

LEXINGTON PUBLIC LIBRARY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
For the Year Ended June 30, 2018

| | Enterprise Fund | Parking Fund | 2018 Total Proprietary Fund |
|---|--------------------|--------------------|-----------------------------------|
| Operating revenues | | | |
| Copy sales | \$ 100,179 | \$ - | \$ 100,179 |
| Parking garage | - | 371,957 | 371,957 |
| Miscellaneous revenue | 13,944 | 80 | 14,024 |
| Total operating revenues | <u>114,123</u> | <u>372,037</u> | <u>486,160</u> |
| Operating expenses | | | |
| Operating expenses | 47,521 | 139,539 | 187,060 |
| Depreciation | 31,885 | 92,120 | 124,005 |
| Total operating expenses | <u>79,406</u> | <u>231,659</u> | <u>311,065</u> |
| Total operating income | <u>34,717</u> | <u>140,378</u> | <u>175,095</u> |
| Nonoperation revenues and (expenses) | | | |
| Interest income | 600 | 300 | 900 |
| Interest expense | - | (118,738) | (118,738) |
| Total nonoperation revenues (expenses) | <u>600</u> | <u>(118,438)</u> | <u>(117,838)</u> |
| Change in net position | 35,317 | 21,940 | 57,257 |
| Total net position-beginning | <u>409,599</u> | <u>(93,464)</u> | <u>316,135</u> |
| TOTAL NET POSITION-ENDING | <u>\$ 444,916</u> | <u>\$ (71,524)</u> | <u>\$ 373,392</u> |

See accompanying notes.

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

For the Year Ended June 30, 2018

LEXINGTON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2018

| | Enterprise Fund | Parking Fund | 2018 Total Proprietary Fund |
|--|-------------------------|--------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 114,123 | \$ 371,357 | \$ 485,480 |
| Payments to employees | - | (31,540) | (31,540) |
| Payments to suppliers | (47,521) | (108,020) | (155,541) |
| Net cash provided by operating activities | <u>66,602</u> | <u>231,797</u> | <u>298,399</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchases of capital assets | - | (58,280) | (58,280) |
| Repayment of interfund liabilities | (67,202) | 50,374 | (16,828) |
| Bond principal debt paid | - | (105,453) | (105,453) |
| Interest paid on capital debt | - | (118,738) | (118,738) |
| Net cash used by capital and related financing activities | <u>(67,202)</u> | <u>(232,097)</u> | <u>(299,299)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest income | <u>600</u> | <u>300</u> | <u>900</u> |
| Net cash provided by financing activities | <u>600</u> | <u>300</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> |
| BALANCES-END OF THE YEAR | <u><u>\$ 1,070</u></u> | <u><u>\$ 1,000</u></u> | <u><u>\$ 2,070</u></u> |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | \$ 34,717 | \$ 140,378 | \$ 175,095 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense | 31,885 | 92,120 | 124,005 |
| Changes in asset and liabilities | | | |
| Accounts receivable | - | (680) | (680) |
| Accounts payable | - | (21) | (21) |
| Net cash provided by operating activities | <u><u>\$ 66,602</u></u> | <u><u>\$ 231,797</u></u> | <u><u>\$ 298,399</u></u> |

See accompanying notes.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

| | |
|--|----|
| Note 1. Summary of Significant Accounting Policies | 29 |
| Note 2. Cash and Investments | 32 |
| Note 3. Deposits | 32 |
| Note 4. Fair Value and Measurement – Investments | 33 |
| Note 5. Lexington-Fayette Urban County Government Agreements | 33 |
| Note 6. Capital Assets | 34 |
| Note 7. Retirement Plan | 35 |
| Note 8. Postemployment Benefits Other Than Pensions (OPEB) | 39 |
| Note 9. Interfund Transactions | 43 |
| Note 10. Risk Management | 44 |
| Note 11. Long-Term Liabilities | 44 |
| Note 12. Accrued Vacation | 47 |
| Note 13. Contingencies and Commitments | 47 |
| Note 14. Restatement of Beginning Net Position Related to Fiscal Year 2017 | 48 |
| Note 15. Future Accounting Pronouncements | 48 |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies

Nature of Organization

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

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

Basis of Presentation

The Library's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis-for State and Local Government."* Statement No. 34, which 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 resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

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

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

- General Fund - This is the primary operating fund of the Library. It accounts for all financial resources of the general government, except where the management requires that a separate fund be used for some function.
- Library Collection Materials Fund - This fund is used to account for library materials purchased and collections from late fees and fines. The primary source of revenue for this fund is transfers from the general fund for property taxes. The major expenditures for this fund are books and materials for the Library. This fund is presented as a special revenue fund.
- Construction Fund - This fund is for library construction. The primary source of income for this fund is debt incurred. The major expenditures for this fund are construction costs and interest costs from debt. This fund is presented as a debt service fund.

The government has no non-major governmental funds.

Proprietary Funds

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

The primary government reports the following major proprietary funds:

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

Blended Entity Component Unit

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

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

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 in the amount of \$5,087,321. Fair value approximates carrying amounts for certificates of deposit. In addition, the Foundation has investments of \$178,094, which consist of equities and mutual funds, which are carried at market value.

Capital Assets

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

Income Taxes

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Library's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) has been determined on the same basis as reported by the KRS for the CERS plan. For this purpose, benefits, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2017.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the Library's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms. The liability was measured at June 30, 2017.

Cash and Cash Equivalents

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

Estimates

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

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 an 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, 2018 was \$6,795,634. The carrying amount of the Library's short-term investments at June 30, 2018 was \$5,265,415.

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.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2018, the Library's bank balance was not fully collateralized by \$2,598.

Note 4. Fair Value and Measurement - Investments

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

- Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Library has the following recurring fair value measurements as of June 30, 2018:

- Certificate of deposits of \$5,061,406 and money market funds of \$29,088 are valued at face value plus interest accrued to the certificate (Level 1 inputs).
- Equities and mutual funds valued at \$51,830 and \$123,091 respectively are valued using quoted prices for similar assets in active markets (Level 2 inputs).
- The Library has no Level 3 inputs.

Note 5. Lexington-Fayette Urban County Government Agreements

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

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

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2018 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 |
| Buildings & improvements | 29,248,158 | 149,423 | - | 29,397,581 |
| Furniture/equipment | 10,273,831 | 329,872 | (302,985) | 10,300,718 |
| | <u>39,592,268</u> | <u>479,295</u> | <u>(302,985)</u> | <u>39,768,578</u> |
| Totals at Cost | | | | |
| Less: accumulated depreciation: | 20,552,296 | 1,468,393 | (274,328) | 21,746,361 |
| Depreciable capital assets, net | <u>\$ 19,039,972</u> | <u>\$ (989,098)</u> | <u>\$ (28,657)</u> | <u>\$ 18,022,217</u> |
| Nondepreciable capital assets | | | | |
| Land | \$ 4,295,424 | \$ - | \$ - | \$ 4,295,424 |
| Artistic clock | 490,911 | - | - | 490,911 |
| | <u>\$ 4,786,335</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,786,335</u> |
| Business-Type Activities: | | | | |
| Furniture/equipment | \$ 159,426 | \$ - | \$ - | \$ 159,426 |
| Parking garage & improvements | 3,598,680 | - | - | 3,598,680 |
| | <u>3,758,106</u> | <u>-</u> | <u>-</u> | <u>3,758,106</u> |
| Totals at cost | | | | |
| Less: accumulated depreciation | 1,145,527 | 124,005 | - | 1,269,532 |
| Depreciable capital assets, net | <u>\$ 2,612,579</u> | <u>\$ (124,005)</u> | <u>\$ -</u> | <u>\$ 2,488,574</u> |
| Nondepreciable capital assets | | | | |
| Construction in progress | \$ - | \$ 58,280 | \$ - | \$ 58,280 |
| | <u>\$ -</u> | <u>\$ 58,280</u> | <u>\$ -</u> | <u>\$ 58,280</u> |
| Capital assets net | <u>\$ 2,612,579</u> | <u>\$ (65,725)</u> | <u>\$ -</u> | <u>\$ 2,546,854</u> |

Depreciation expense was charged as follows:

| | | |
|---|--|---------------------|
| <u>Governmental Activities:</u> | | |
| Total Depreciation Expense - Governmental Activities | | <u>\$ 1,468,393</u> |
| <u>Business-Type Activities</u> | | |
| Total Depreciation Expense - Business-Type Activities | | <u>\$ 124,005</u> |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 7. Retirement Plan

General Information about the Pension Plan

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

Benefits provided. KRS Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute, there are currently three benefit Tiers. Tier 1 members are those participating in the plan before September 1, 2008, Tier 2 are those that began participation September 1, 2008 through December 31, 2013 and Tier 3 are those members that began participation on or after January 1, 2014.

Tier 1 Non-Hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

The Kentucky General Assembly has the authority to increase, suspend or reduce Cost of Living Adjustments. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. Employees that entered the plan after September 1, 2008 are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The Library makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, employer contributions for the Library were \$1,048,235 (\$791,368 pension and \$256,867 insurance) based on a rate of 19.18% (14.48% pension and 4.70% insurance) of covered payroll. By law, employer contributions are required to be paid. The KRS may intercept the Library's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 7. Retirement Plan (Continued)

Net Pension Liability

The Library's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|-----------------------|
| Inflation | 3.25 percent |
| Salary increases | 4.00 percent, average |
| Investment rate of return | 7.50 percent |

The mortality table used for active and healthy retired members, and beneficiaries is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years.)

At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively, this will be reviewed again when the next experience investigation is conducted.

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

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 7. Retirement Plan (Continued)

Net Pension Liability (Continued)

| Asset Class | Long-Term Expected Real Rate of Return | Target Allocation |
|----------------------|---|------------------------------|
| U.S. Equity | 5.97% | 17.50% |
| International Equity | 7.85% | 17.50% |
| Global Bonds | 2.63% | 4.00% |
| Global Credit | 3.63% | 2.00% |
| High yield | 5.75% | 7.00% |
| Emerging Market Debt | 5.50% | 5.00% |
| Private Credit | 8.75% | 10.00% |
| Real Estate | 7.63% | 5.00% |
| Absolute Return | 5.63% | 10.00% |
| Real Return | 6.13% | 10.00% |
| Private Equity | 8.25% | 10.00% |
| Cash | 1.88% | 2.00% |
| | 6.56% | 100.00% |

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

Discount rate. The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Library will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the Library calculated using the discount rate of 6.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

| | 1% Decrease (5.25%) | Discount Rate (6.25%) | 1% Increase (7.25%) |
|---|--------------------------------|----------------------------------|--------------------------------|
| Lexington Library's net pension liability | \$ 16,338,254 | \$ 12,954,365 | \$ 10,123,767 |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 7. Retirement Plan (Continued)

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

Pension expense. For the year ended June 30, 2018, the Library recognized pension expense of \$2,187,712.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction to net pension liability in the following measurement period.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Liability Experience | \$ 16,068 | \$ 328,837 |
| Investment experience | 1,025,970 | 865,740 |
| Change of assumptions | 2,390,431 | - |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | 174,767 | 321,852 |
| Contributions subsequent to the measurement date of June 30, 2017 | <u>791,368</u> | <u>-</u> |
| Total | <u><u>\$ 4,398,604</u></u> | <u><u>\$ 1,516,429</u></u> |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 7. Retirement Plan (Continued)

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

| | Recognition of Existing Deferred Outflows (Inflows) of Resources for Future Years Ending June 30, |
|------|--|
| 2018 | \$ 979,751 |
| 2019 | 905,325 |
| 2020 | 372,072 |
| 2021 | (166,341) |
| | <u>\$ 2,090,807</u> |

In the table shown above, deferred inflows of resources amounts will decrease pension expense while deferred outflows of resources amounts will increase pension expense.

Payable to the Pension Plan

At June 30, 2018, the Library reported a payable of \$58,712 (included in payroll liabilities amount on the Statement of Net Position and on the Balance Sheet - Governmental Funds) and for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Note 8. Postemployment Benefits Other Than Pensions (OPEB)

General Information about the Pension Plan

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

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 8. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employees earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The Library's contractually required contribution rate for the year ended June 30, 2018 was 4.70% of covered payroll. Contributions to the Insurance Fund from the Library were \$256,867 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Library reported a liability of \$4,449,229 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The Library's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2017, the Library's proportion was .221317%.

For the year ended June 30, 2018, the Library recognized OPEB expense of \$507,007. At June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 8. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Liability Experience | \$ - | \$ 12,358 |
| Investment experience | - | 210,268 |
| Change of assumptions | 968,124 | - |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | - | 10,324 |
| Contributions subsequent to the measurement date of June 30, 2017 | <u>311,244</u> | <u>-</u> |
| Total | <u>\$ 1,279,368</u> | <u>\$ 232,950</u> |

Of the total amount reported as deferred outflows of resources related to OPEB, \$311,244 resulting from Library contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Library's OPEB expense as follows:

| | Recognition of Existing Deferred Outflows (Inflows) of Resources for Future Years Ending June 30, | |
|------------|--|----------------|
| 2018 | \$ | 126,494 |
| 2019 | | 126,494 |
| 2020 | | 126,494 |
| 2021 | | 126,494 |
| 2022 | | 179,061 |
| Thereafter | | <u>50,137</u> |
| | <u>\$</u> | <u>735,174</u> |

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

| | |
|--|---|
| Inflation | 3.25 percent |
| Salary increases | 4.00 percent, average |
| Investment rate of return | 7.50 percent |
| Healthcare cost trend rates (Pre-65) | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Healthcare cost trend rates (Post-65) | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 8. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of July 1, 2008 through June 30, 2013.

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

| Asset Class | Long-Term Expected Real Rate of Return | Target Allocation |
|----------------------|---|------------------------------|
| U.S. Equity | 5.97% | 17.50% |
| International Equity | 7.85% | 17.50% |
| Global Bonds | 2.63% | 4.00% |
| Global Credit | 3.63% | 2.00% |
| High yield | 5.75% | 7.00% |
| Emerging Market Debt | 5.50% | 5.00% |
| Private Credit | 8.75% | 10.00% |
| Real Estate | 7.63% | 5.00% |
| Absolute Return | 5.63% | 10.00% |
| Real Return | 6.13% | 10.00% |
| Private Equity | 8.25% | 10.00% |
| Cash | 1.88% | 2.00% |
| | 6.56% | 100.00% |

Discount rate. The discount rate used to measure the total OPEB liability was 5.84%. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017).

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 8. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Sensitivity of the Library's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the Library's proportionate share of the collective net OPEB liability as well as what the Library's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.84%) or 1 percentage point higher (6.84%) than the current discount rate:

| | <u>1% Decrease (4.84%)</u> | <u>Current Discount Rate (5.84%)</u> | <u>1% Increase (6.84%)</u> |
|--|--------------------------------|--|--------------------------------|
| Lexington Library's net OPEB liability | \$ 5,661,397 | \$ 4,449,229 | \$ 3,440,514 |

Sensitivity of the Library's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following presents the Library's proportionate share of the collective net OPEB liability, as well as what the Library's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

| | <u>1% Decrease</u> | <u>Current Healthcare Trend Rate</u> | <u>1% Increase</u> |
|--|--------------------|--|--------------------|
| Lexington Library's net OPEB liability | \$ 3,412,787 | \$ 4,449,229 | \$ 5,796,541 |

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

Payables to the OPEB Plan. At June 30, 2018, the Library reported a payable of \$19,907 (included in payroll liabilities amount on the Statement of Net Position and on the Balance Sheet Governmental Funds) and for the outstanding amount of contributions to the OPEB plan required at the year ended June 30, 2018.

Note 9. Interfund Transactions

Interfund loans on the fund statements at June 30, 2018 consist of the following receivables and payables:

| <u>Fund</u> | <u>Receivables</u> | <u>Payable</u> |
|----------------------|---------------------|---------------------|
| General Fund | \$ 189,810 | \$ 903,865 |
| Collection Materials | 483,933 | - |
| Proprietary Funds | 419,932 | 189,810 |
| | <u>\$ 1,093,675</u> | <u>\$ 1,093,675</u> |

Transfers were used to 1) repay prior year advances for construction and 2) to move receipts for debt service to the construction fund as debt payments come due. Interfund transfers on the fund statements at June 30, 2018 consist of the following:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------|---------------------|----------------------|
| General Fund | \$ - | \$ 2,247,170 |
| Construction Fund | 2,247,170 | - |
| | <u>\$ 2,247,170</u> | <u>\$ 2,247,170</u> |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 10. 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 11. Long-Term Liabilities

A. Parking Garage Debt

The Library purchased the Park Plaza Garage on April 29, 2005 through a competitive bid process for \$3,001,000. The Library's Board of Trustees determined that in the long-term interest of the Lexington Public Library the purchase and operation of the parking garage was required. It was also determined that an additional \$514,000 would be required to repair and improve the facility. The Library borrowed \$3,515,000 from the Kentucky League of Cities for a term of 29 years. The debt was broken down into a fixed rate loan of \$2,970,000 with a rate of 4.28% and a variable rate loan of \$545,000. The final maturity of the debt is May 21, 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, 2018 was 2.82%. The outstanding balance was \$2,418,000.

| Fiscal Year Ended June 30 | Business-Type Activities | | |
|------------------------------|--------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2019 | \$ 109,853 | \$ 98,273 | \$ 208,126 |
| 2020 | 114,291 | 88,537 | 202,828 |
| 2021 | 119,458 | 83,877 | 203,335 |
| 2022 | 124,411 | 79,460 | 203,871 |
| 2023 | 129,784 | 78,679 | 208,463 |
| 2024-2028 | 739,286 | 306,485 | 1,045,771 |
| 2029-2033 | 905,568 | 135,136 | 1,040,704 |
| 2034 | 175,349 | 3,683 | 179,032 |
| Totals | <u>\$ 2,418,000</u> | <u>\$ 874,130</u> | <u>\$ 3,292,130</u> |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 11. Long-Term Liabilities (Continued)

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, 2018, the effective rate was 3.89%. The outstanding balance was \$3,045,523.

| Fiscal Year Ended June 30 | Governmental Activities | | |
|------------------------------|-------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2019 | \$ 263,496 | \$ 109,729 | \$ 373,225 |
| 2020 | 275,905 | 99,814 | 375,719 |
| 2021 | 289,511 | 88,890 | 378,401 |
| 2022 | 303,204 | 77,968 | 381,172 |
| 2023 | 317,743 | 66,350 | 384,093 |
| 2024-2028 | 1,595,664 | 139,255 | 1,734,919 |
| Totals | <u>\$ 3,045,523</u> | <u>\$ 582,006</u> | <u>\$ 3,627,529</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, 2014 Series A was issued in the amount of \$1,270,000 at variable interest rates varying from 2.5% to 4.0%. The final maturity of the debt is October 1, 2026. Bonds payments are due every February and August. The outstanding bond payable amount was \$791,667 at June 30, 2018.

| Fiscal Year Ended June 30 | Governmental Activities | | |
|------------------------------|-------------------------|-------------------|-------------------|
| | Principal | Interest | Total |
| 2019 | \$ 80,000 | \$ 28,313 | \$ 108,313 |
| 2020 | 85,000 | 25,913 | 110,913 |
| 2021 | 85,000 | 23,363 | 108,363 |
| 2022 | 90,000 | 20,813 | 110,813 |
| 2023 | 90,000 | 17,888 | 107,888 |
| 2024-2027 | 361,667 | 38,773 | 400,440 |
| Totals | <u>\$ 791,667</u> | <u>\$ 155,063</u> | <u>\$ 946,730</u> |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 11. Long-Term Liabilities (Continued)

C. Relocation of Eagle Creek Branch Debt

On December 30, 2014, the Library closed on financing for the relocation project related to the Eagle Creek Branch with Kentucky Bank. The construction lease has a borrowing capacity of \$5,500,000. As of June 30, 2015, \$2,145,929 was drawn on the construction lease. During fiscal year 2016, the remaining amount of \$3,354,071 was drawn on the lease to total \$5,500,000. The final maturity of the debt is December 30, 2024. The construction lease has a fixed rate of 2.78%. The principal balance as of June 30, 2017 was \$3,202,530, which was due to an additional principal payment of \$2,077,513 paid in fiscal year 2017 from the proceeds of the sale of the Eagle Creek Branch. The outstanding note payable amount was \$2,993,060 at June 30, 2018.

| Fiscal Year Ended June 30 | Governmental Activities | | |
|------------------------------|-------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2019 | \$ 144,564 | \$ 82,517 | \$ 227,081 |
| 2020 | 148,477 | 78,604 | 227,081 |
| 2021 | 152,932 | 74,149 | 227,081 |
| 2022 | 157,298 | 69,783 | 227,081 |
| 2023 | 161,790 | 65,291 | 227,081 |
| 2024-2025 | 2,227,999 | 89,635 | 2,317,634 |
| Totals | <u>\$ 2,993,060</u> | <u>\$ 459,979</u> | <u>\$ 3,453,039</u> |

D. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2018, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------|-------------------|---------------------|------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Debt Obligations | \$ 6,441,950 | \$ - | \$ 403,367 | \$ 6,038,583 | \$ 408,060 |
| Bond | 871,667 | - | 80,000 | 791,667 | 80,000 |
| Governmental Activities Long-term Liabilities | <u>\$ 7,313,617</u> | <u>\$ -</u> | <u>\$ 483,367</u> | <u>\$ 6,830,250</u> | <u>\$ 488,060</u> |
| <u>Business-Type Activities</u> | | | | | |
| Debt Obligations | \$ 2,523,453 | \$ - | \$ 105,453 | \$ 2,418,000 | \$ 109,853 |
| Business-Type Activities Long-term Liabilities | <u>\$ 2,523,453</u> | <u>\$ -</u> | <u>\$ 105,453</u> | <u>\$ 2,418,000</u> | <u>\$ 109,853</u> |

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 12. 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, 2018 was \$311,312.

Note 13. Contingencies and Commitments

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

On February 21, 2014, the Fayette Circuit Court ruled that the Arbitration Panel exceeded its authority on several issues and entered an Opinion and Order reducing the award to the Plaintiff to \$256,940, representing unpaid salary for the term of the contract. The plaintiff filed an appeal with the Kentucky Court of Appeals and the Library had filed a Cross-Appeal that the award of unpaid salary for the balance of the original term of the contract is in contravention of Kentucky law. On January 15, 2016, the Court of Appeals found that the Plaintiff waived her right to arbitrate when she initiated the lawsuit in Fayette Circuit Court. The Court of Appeals vacated the \$256,940 judgment and remanded to the Circuit Court for further proceedings. The Plaintiff then filed a Motion for Discretionary Review with the Kentucky Supreme Court. On August 18, 2016, the Kentucky Supreme Court denied the Motion for Discretionary Review. The case was remanded to the Fayette Circuit Court. Since remand, the Library filed two motions for summary judgement. On August 9, 2017, the Fayette Circuit Court granted both motions for summary judgement and held that the Plaintiff was not entitled to recover damages. The deadline for appeal has not passed. On September 5, 2017, the Plaintiff filed a Notice of Appeal. The parties have fully briefed the Court of Appeals and are awaiting the Court's decision.

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. During the fiscal year, the Library transferred \$253,580 to the Public Library Corporation to pay current debt service. As of June 30, 2018, the Library is committed to fund a total of \$519,632 through fiscal year 2020 for this purpose.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 14. Restatement of Beginning Net Position Related to Fiscal Year 2017

Beginning net position for governmental activities for fiscal year 2018 was restated to implement No. 75, *Accounting and Reporting for Postemployment Other Than Pensions*, and record the beginning net OPEB liability. The net position for June 30, 2016 was not restated as information was not available to allow the restatement of the 2016 financial statements as the retirement insurance plan did not measure the OPEB liability as of June 30, 2016, as such, only the liability has been restated as of June 30, 2017.

Statement of Net Position

| | |
|--|----------------------|
| Net position - Governmental Activities June 30, 2017, prior to restatement | \$ 17,278,142 |
| June 30, 2017 net OPEB liability | (3,207,048) |
| Net position - Governmental Activities June 30, 2017 (Restated) | <u>\$ 14,071,094</u> |

Note 15. Future Accounting Pronouncements

In January 2017, the GASB issued statement No. 84, *Fiduciary Activities*. The provisions of this statement are effective for fiscal years beginning after December 15, 2018. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

In June 2017, the GASB issued statement No. 87, *Leases*. The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2018

Note 15. Future Accounting Pronouncements (Continued)

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The provisions of this statement are effective for fiscal years beginning after June 15, 2018.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

In June 2018, the GASB issued statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The Lexington Public Library is currently evaluating the impact that will result from adopting these Standards and is therefore unable to disclose the impact that these Standards will have on the Lexington Public Library's financial position and the results of its operations when the Statements are adopted.

**LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2018

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION - GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>(Unfavorable) Favorable Budget</u> |
|--|------------------------|----------------------|----------------------|---|
| SUPPORT | | | | |
| Grants | | | | |
| KY Dept. of Libraries and Archives | \$ 110,791 | \$ 110,791 | \$ 110,546 | \$ (245) |
| Grants, other | 50,000 | 50,000 | 105,000 | (50,000) |
| LFUCG appropriation | | | | |
| Unrestricted | 13,280,501 | 13,711,398 | 13,711,409 | 11 |
| Donations | | | | |
| Unrestricted | 156,000 | 156,000 | 324,208 | 168,208 |
| Restricted | 50,000 | 50,000 | 50,000 | - |
| Total support | <u>13,647,292</u> | <u>14,078,189</u> | <u>14,301,163</u> | <u>222,974</u> |
| REVENUE | | | | |
| Fines and lost books | 257,800 | 257,800 | 141,702 | (116,098) |
| Interest earned | | | | |
| Unrestricted | 50,000 | 50,000 | 96,181 | 46,181 |
| Rental income | 10,000 | 10,000 | 9,825 | (175) |
| Miscellaneous | 98,000 | 98,000 | 59,266 | (38,734) |
| Total revenue | <u>415,800</u> | <u>415,800</u> | <u>306,974</u> | <u>(108,826)</u> |
| Total support and revenue | <u>14,063,092</u> | <u>14,493,989</u> | <u>14,608,137</u> | <u>114,148</u> |
| EXPENDITURES | | | | |
| Salaries wages and employee benefits | 9,594,164 | 9,594,164 | 9,227,503 | 366,661 |
| Operating expenses | 2,575,161 | 2,575,161 | 2,314,092 | 261,069 |
| Transfer to LPL Corporation | 253,580 | 253,580 | 253,580 | - |
| Grant expense | 25,000 | 25,000 | 58,487 | (33,487) |
| Foundation | 156,000 | 156,000 | 106,788 | 49,212 |
| Debt Service | 416,911 | 416,911 | 256,865 | 160,046 |
| Friends program support | - | - | 3,715 | (3,715) |
| Total expenses | <u>13,020,816</u> | <u>13,020,816</u> | <u>12,221,030</u> | <u>799,786</u> |
| Support and revenue over expenses | 1,042,276 | 1,473,173 | 2,387,107 | 913,934 |
| OTHER FINANCING SOURCES | | | | |
| Principal payment on debt | (80,000) | (80,000) | (80,000) | - |
| Purchases of property & equipment | (631,573) | (631,573) | (479,295) | 152,278 |
| Proceeds on sale of fixed assets | - | - | 31,895 | 31,895 |
| Transfers | - | - | (2,247,170) | (2,247,170) |
| Net (decrease) increase in fund balances | <u>330,703</u> | <u>761,600</u> | <u>(387,463)</u> | <u>(1,149,063)</u> |
| Fund balances- | | | | |
| beginning of year | <u>10,765,369</u> | <u>10,765,369</u> | <u>10,765,369</u> | <u>-</u> |
| FUND BALANCES-END OF YEAR | <u>\$ 11,096,072</u> | <u>\$ 11,526,969</u> | <u>\$ 10,377,906</u> | <u>\$ (1,149,063)</u> |

See independent auditor's report.

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION - LIBRARY COLLECTION MATERIALS FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL (Continued)
For the Year Ended June 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>(Unfavorable) Favorable Budget</u> |
|----------------------------------|------------------------|---------------------|-------------------|---|
| SUPPORT | | | | |
| LFUCG appropriations | \$ 2,010,769 | \$ 2,075,169 | \$ 2,075,158 | \$ (11) |
| Total support | <u>2,010,769</u> | <u>2,075,169</u> | <u>2,075,158</u> | <u>(11)</u> |
| Total support and revenue | <u>2,010,769</u> | <u>2,075,169</u> | <u>2,075,158</u> | <u>(11)</u> |
| EXPENSES | | | | |
| Operating expenses | - | - | 23,597 | (23,597) |
| Books and materials | 2,010,769 | 2,075,169 | 2,067,348 | 7,821 |
| Total expenses | <u>2,010,769</u> | <u>2,075,169</u> | <u>2,090,945</u> | <u>(15,776)</u> |
| Net decrease in fund balances | - | - | (15,787) | (15,787) |
| Fund balances- | | | | |
| beginning of year | <u>499,808</u> | <u>499,808</u> | <u>499,808</u> | <u>-</u> |
| FUND BALANCES-END OF YEAR | <u>\$ 499,808</u> | <u>\$ 499,808</u> | <u>\$ 484,021</u> | <u>\$ (15,787)</u> |

See independent auditor's report.

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

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|------------------|------------------|-------------------|-------------------|
| Total Net Pension Liability for County Employees Retirement Systems | \$ 3,244,377,000 | \$ 4,299,525,000 | \$ 4,923,618,237 | \$ 5,853,307,463 |
| Employer's Proportion (Percentage) of Net Pension Liability | 0.22275% | 0.22096% | 0.00232% | 0.22132% |
| Employer's Proportion (Amount) of Net Pension Liability | \$ 7,227,000 | \$ 9,500,354 | \$ 11,428,207 | \$ 12,954,365 |
| Employer's Covered-Employer payroll | \$ 5,110,035 | \$ 5,528,083 | \$ 5,381,520 | \$ 5,465,250 |
| Employer's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll | 141.43% | 171.86% | 212.36% | 237.03% |
| Total Pension Plan's Fiduciary Net Position | \$ 6,528,146 | \$ 6,440,800 | \$ 6,141,394,419 | \$ 6,687,237,000 |
| Total Pension's Plan Pension Liability | \$ 9,772,523 | \$ 10,740,325 | \$ 11,065,012,656 | \$ 12,540,545,000 |
| Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability | 66.80% | 59.97% | 55.50% | 53.30% |

Note: The above schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

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

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|----------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 653,251 | \$ 667,068 | \$ 750,722 | \$ 791,368 |
| Contributions in relation to the actuarially determined contribution | <u>653,251</u> | <u>667,068</u> | <u>750,722</u> | <u>791,368</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | 5,110,035 | 5,528,083 | 5,381,520 | 5,465,250 |
| Contributions as a percentage covered- employee payroll | 12.78% | 12.07% | 13.95% | 14.48% |

The above schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**LEXINGTON PUBLIC LIBRARY
 NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES
 RETIREMENT SYSTEM
 FISCAL YEAR ENDED JUNE 30, 2018**

Valuation date: Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

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

See independent auditor's report.

**LEXINGTON PUBLIC LIBRARY
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF LEXINGTON PUBLIC LIBRARY'S
 PROPORTIONATE SHARE OF THE COLLECTIVE NET OPEB LIABILITY
 IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND
 FISCAL YEAR ENDING JUNE 30**

| | <u>2018</u> |
|---|------------------|
| Total Net OPEB Liability for County Employees Retirement Systems | \$ 2,010,342,058 |
| Employer's Proportion (Percentage) of Net OPEB Liability | 0.221317% |
| Employer's Proportion (Amount) of Net OPEB Liability | \$ 4,449,229 |
| Employer's Covered-Employer payroll | \$ 5,465,250 |
| Employer's Proportionate Share (Amount) of the Net OPEB Liability As a Percentage of Employer's Covered-Employer Payroll | 81.41% |
| Total Pension Plan's Fiduciary Net Position | \$ 2,212,536 |
| Total Pension's Plan OPEB Liability | \$ 4,222,878 |
| Total Pension Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability | 52.40% |

The above schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

**LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF LEXINGTON PUBLIC LIBRARY'S CONTRIBUTIONS
IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND
FISCAL YEAR ENDING JUNE 30**

| | |
|--|----------------|
| | 2018 |
| Actuarially determined contribution | \$ 256,867 |
| Contributions in relation to the actuarially determined contribution | <u>256,867</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| | |
| Covered-employee payroll | 5,465,250 |
| | |
| Contributions as a percentage covered- employee payroll | 4.70% |

The above schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See independent auditor's report.

**LEXINGTON PUBLIC LIBRARY
NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES
RETIREMENT SYSTEM INSURANCE FUND
FISCAL YEAR ENDED JUNE 30, 2018**

Valuation date: Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

| | |
|--|---|
| Actuarial cost method | Entry Age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 27 years |
| Asset valuation | 5-year smoothed market |
| Inflation | 3.25 percent |
| Salary increases | 4.00 percent average, including inflation |
| Investment Rate of Return | 7.50 percent, net of investment expense, including inflation |
| Retirement age | 65 years or 27 years of service regardless of age |
| Healthcare cost trend rates (Pre-65) | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Healthcare cost trend rates (Post-65) | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |

See independent auditor's report.



**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on An Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Lexington Public Library

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Lexington Public Library as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Lexington Public Library's basic financial statements, and have issued our report thereon dated September 7, 2018.

Internal Control over Financial Reporting

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

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

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

Kentucky
Indiana
Ohio

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

Compliance and Other Matters

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



Lexington, Kentucky

September 7, 2018