

LEXINGTON PUBLIC LIBRARY
Lexington, Kentucky

Financial Statements
June 30, 2010

CONTENTS

PAGE

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
Government - Wide Financial Statements	
Statement of Net Asset	11-12
Statement of Activities	14-15
Fund Financial Statements	
Balance Sheet - Governmental Funds	17
Statement of Support, Revenue, Expenses and Changes in Fund Balances	
Governmental Funds	19-20
Reconciliation of the Statement of Support, Revenue, Expenses and Changes	
in Fund Balances of Governmental Funds to the Statement of Activities	22
Balance Sheet - Proprietary Funds	24
Statement of Activities - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	28
Notes to Financial Statements	29-39
Supplemental Information	
Required Supplemental Information - Budgetary Comparison Schedule	41-42
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</i>	
<i>Auditing Standards</i>	43-44



Mountjoy
Chilton
Medley

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the Lexington Public Library, a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2010 as listed in the table of contents. The prior year comparative information has been derived from the Library's 2009 financial statements and, in our report dated October 7, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the Lexington Public Library as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2010 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

150 Flynn Avenue, Suite 100
P.O. Box 5630
Frankfort, KY 40602

502.227.9000 Phone
502.227.9400 Fax
www.mcmcpa.com

Louisville
Lexington
Covington
Frankfort
Bowling Green

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

The Management's Discussion and Analysis on pages 3 through 9 and the budgetary comparison on page 39 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Mountjoy Chilton Medley LLP

Mountjoy Chilton Medley, LLP

September 8, 2010

Management's Discussion and Analysis
June 30, 2010

FINANCIAL HIGHLIGHTS

- The Library made capital investments during the fiscal year for equipment and building improvements.
- The Library allocated 10% of its tax revenues for library materials.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE STATEMENTS

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the Library into three kinds of activities.

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2010
(Continued)**

GOVERNMENT-WIDE STATEMENTS (Continued)

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

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

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

FUND FINANCIAL STATEMENTS

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

The Library has three kinds of funds:

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

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

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

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

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

Lexington Public Library
 Management's Discussion and Analysis
 June 30, 2010
 (Continued)

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF NET ASSETS

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

Condensed Statement of Net Assets

	Total	
	2010	2009
Assets		
Current and other assets	\$ 5,342,835	\$ 4,251,416
Long-term investments		336,690
Net Capital Assets	21,443,112	22,249,450
Total Assets	<u>\$ 26,785,947</u>	<u>\$ 26,837,556</u>
Liabilities		
Current Liabilities	\$ 1,639,666	\$ 1,647,007
Long-term Liabilities	7,760,141	8,094,618
Total Liabilities	<u>\$ 9,399,807</u>	<u>\$ 9,741,625</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 13,198,791	\$ 13,696,168
Restricted		40,524
Unrestricted	4,187,349	3,359,239
Total Net Assets (restated)	<u>\$ 17,386,140</u>	<u>\$ 17,095,931</u>
Total liabilities and net assets (restated)	<u>\$ 26,785,947</u>	<u>\$ 26,837,556</u>

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

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

Lexington Public Library
Management's Discussion and Analysis
June 30, 2010
(Continued)

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF ACTIVITIES

TABLE A-2 STATEMENT OF ACTIVITIES

Condensed Statement of Activities

	Total				
	2010	2009	Change	Percent Change	Percent of total
Revenues					
LFUCG tax revenue	\$ 13,324,095	\$ 13,065,890	\$ 258,205	2%	92%
Interest and investment earnings	71,120	66,474	4,646	7%	0%
Capital grants and contributions	105,000	105,000		0%	1%
Operating grants and contributions	282,742	267,263	15,479	6%	3%
Charges for services	678,626	681,196	(2,570)	0%	4%
Other revenues	9,724	1,105,339	(1,095,615)	-99%	0%
Total Revenue	14,471,307	15,291,162	(819,855)	-5%	100%
Expenses					
Personnel	8,350,789	8,316,316	34,473	0%	59%
Operating expenses	2,076,587	2,249,425	(172,838)	-8%	15%
Grant-foundation	91,163		91,163	100%	1%
Books & materials	1,350,596	1,422,530	(71,934)	-5%	10%
Enterprise	489,920	500,924	(11,004)	-2%	3%
Depreciation and amortization -general fund	1,034,563	1,083,099	(48,536)	-4%	6%
Carnegie Payment	55,000	65,000	(10,000)	-15%	0%
Library corporation	288,660	291,140	(2,480)	-1%	2%
Transfer to/(from) component unit	219,315	(788)	220,103	-27932%	2%
Interest expense	224,505	245,753	(21,248)	-9%	2%
Total Expenses	14,181,098	14,173,399	7,699	0%	100%
Change In Net Assets	290,209	1,117,763	(827,554)	-74%	
Net Assets - Beginning (Restated)	17,095,931	15,978,168	1,117,763	7%	
Net Assets - Ending	\$ 17,386,140	\$ 17,095,931	\$ 290,209	2%	

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2010
(Continued)**

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE (Continued)

STATEMENT OF ACTIVITIES

While the Statement of Net Assets shows the financial position of the Library, the Statement of Activities provides answers as to the nature and source of these changes. The Library's main source of revenue, property tax, is approximately 92% of the Library's total revenue. The property tax revenue source increased 2%.

The personnel expense represents approximately 59% of total expenses.

BUDGET HIGHLIGHTS

The Library adopts an annual Operating Budget following budget workshops with the Board of Trustees and a vote of the entire Board of Trustees. The operating budget includes proposed expenses and the means of financing them. The Library's operating budget is amended during the year if unusual events occurred. A fiscal year 2010 budget comparison for the current month and year to date is presented to management and the Board of Trustees as interim financial statements; however, they are not reported on nor shown on the financial statements section of this report.

The Library's actual expenditures, overall, were less than the approved budget. A 2010 budget comparison and analysis is presented in Table A-3 on page 8.

Lexington Public Library
Management's Discussion and Analysis
June 30, 2010
(Continued)

BUDGET HIGHLIGHTS (Continued)

BUDGET TO ACTUAL - 2010

TABLE A-3 2010 BUDGET TO ACTUAL

	Budget	Actual	(Over) Under Budget
SUPPORT AND REVENUES			
KY Dept. of Libraries and Archives	\$ 153,025	\$ 150,484	\$ (2,541)
Grants, other	130,000	198,985	68,985
LFUCG tax revenue	13,065,900	13,324,095	258,195
Contributions	111,931	39,372	(72,559)
Enterprise fund revenue	377,000	396,587	19,587
Fines and lost books	284,000	286,463	2,463
Interest income	80,000	83,292	3,292
Miscellaneous	20,000	6,025	(13,975)
Total support and revenues	14,221,856	14,485,303	263,447
EXPENSES			
Personnel	8,483,046	8,350,789	132,257
Operating expenses	2,358,663	2,076,587	282,076
Library materials	1,383,611	1,350,596	33,015
Foundation donation/expense	195,588	184,944	10,644
Grant Expenses	25,000	23,686	1,314
Carnegie transfer	55,000	55,000	-
Depreciation/interest- enterprise	317,500	305,243	12,257
Enterprise expenses	135,800	184,677	(48,877)
Capital purchases	295,546	390,935	(95,389)
Other expenditures/expenses	291,264	288,660	2,604
Debt service	457,458	448,172	9,286
Friends donation	86,931	67,477	19,454
Total expenses	14,085,407	13,726,766	358,641
Changes in fund balances	136,449	758,537	622,088
Fund balances- beginning of year	3,154,970	3,486,041	
FUND BALANCES-END OF YEAR	<u>\$ 3,291,419</u>	<u>\$ 4,244,578</u>	<u>\$ 622,088</u>

**Lexington Public Library
Management's Discussion and Analysis
June 30, 2010
(Continued)**

CAPITAL ASSETS

The Library invested a total of \$390,934 in capital assets purchased and in building improvements. The Library will continue to invest in new technology and replace capital assets and study expansion plans in accordance with the Library's strategic plan.

DEBT ADMINISTRATION

Business-Type Long-Term Debt

The Library maintains cash and investments in the Public Library Corporation in order to retire its long-term debt in a timely manner. The Library's outstanding long-term debt held by the Public Library Corporation at June 30, 2010 amounted to \$3,155,452. This debt had an original principal balance of \$3,515,000. The debt was used to purchase the parking garage (\$3,001,000) and provide cash (\$514,000) for the renovation of the garage. This garage debt will be repaid through the operation of the parking garage.

Governmental Long-Term Debt

In September 2007, the Library closed on financing for the Northside branch with the Kentucky League of Cities. Financing consists of two notes. The first note is a twenty-year loan for \$5,200,000 at a fixed rate of 3.94%. The second note is a twenty-year loan for \$1,500,000 with a variable rate. The total balance of both loans was \$4,934,166 at June 30, 2010. During the past fiscal year the Library transferred \$288,660 to the Public Library Corporation to pay current debt service.

CONTACTING THE LIBRARY FINANCIAL MANAGER

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

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET ASSETS

June 30, 2010
(With Comparative Totals As Of June 30, 2009)

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NETS ASSETS
June 30, 2010
(With Comparative Totals As Of June 30, 2009)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Government
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,382,456	\$ 2,070	\$ 2,384,526
Short-term investments	2,187,046		2,187,046
Accounts receivable			
Due from enterprise fund	298,918		298,918
Due from component unit	18,311		18,311
Due from general fund		169,189	169,189
Other	55,082	9,947	65,029
Prepaid expenses	182,776	37,040	219,816
Total Current Assets	<u>5,124,589</u>	<u>218,246</u>	<u>5,342,835</u>
Noncurrent Assets:			
Long-term investments			
Unamortized bond issuance cost	105,589	49,114	154,703
Capital assets			
Nondepreciable	4,000,745		4,000,745
Depreciable, net	14,110,920	3,176,744	17,287,664
Total Noncurrent Assets	<u>18,217,254</u>	<u>3,225,858</u>	<u>21,443,112</u>
Total Assets	<u>\$ 23,341,843</u>	<u>\$ 3,444,104</u>	<u>\$ 26,785,947</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	293,873	8	293,881
Accrued payroll	177,305		177,305
Accrued vacation	325,033		325,033
Payroll liabilities	35,711		35,711
Unearned revenue		501	501
Accrued interest payable	116	9,535	9,651
Due to enterprise fund	169,189		169,189
Due to general fund		298,918	298,918
Current portion of long-term debt	254,285	75,192	329,477
Total Current Liabilities	<u>1,255,512</u>	<u>384,154</u>	<u>1,639,666</u>
Noncurrent Liabilities:			
Bonds payable	4,679,881	3,080,260	7,760,141
Total Noncurrent Liabilities	<u>4,679,881</u>	<u>3,080,260</u>	<u>7,760,141</u>
Total Liabilities	<u>5,935,393</u>	<u>3,464,414</u>	<u>9,399,807</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,177,499	21,292	13,198,791
Restricted For:			
Projects and programs			
Construction			
Unrestricted	4,228,951	(41,602)	4,187,349
Total Net Assets	<u>\$ 17,406,450</u>	<u>\$ (20,310)</u>	<u>\$ 17,386,140</u>

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

LEXINGTON PUBLIC LIBRARY
 STATEMENT OF NET ASSETS
 June 30, 2010
 (With Comparative Totals As Of June 30, 2009)
 (Continued)

Component Unit - Foundation	2010 Totals	2009 Totals
\$ 102,786	\$ 2,487,312	\$ 1,779,183
162,051	2,349,097	2,076,305
	298,918	234,679
	18,311	87,564
	169,189	127,865
	65,029	55,692
	219,816	158,410
264,837	5,607,672	4,519,698
		336,693
	154,703	162,759
	4,000,745	4,000,745
	17,287,664	18,085,946
	21,443,112	22,586,143
\$ 264,837	\$ 27,050,784	\$ 27,105,841
	293,881	510,720
	177,305	162,547
	325,033	336,477
	35,711	29,363
	501	501
	9,651	36,514
	169,189	127,865
18,311	317,229	322,243
	329,477	295,905
18,311	1,657,977	1,822,135
	7,760,141	8,094,618
	7,760,141	8,094,618
18,311	9,418,118	9,916,753
	13,198,791	13,696,168
246,526	246,526	93,157
		(52,633)
	4,187,349	3,452,396
\$ 246,526	\$ 17,632,666	\$ 17,189,088

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

LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2010
(With Comparative Totals For the Year Ended June 30, 2009)

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2010
(With Comparative Totals For The Year Ended June 30, 2009)**

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Personnel	\$ 8,350,789	\$ 50	\$	\$
Operating expenses	2,076,587		92,730	
Grant expenses	23,686		39,371	
Friends program support	67,477			105,000
Construction				
Books and materials	1,350,596	286,463	150,641	
Depreciation/Amortization	1,034,563			
Interest expense	224,505			
Library Corporation payments	288,660			
Total Governmental Activities	<u>13,416,863</u>	<u>286,513</u>	<u>282,742</u>	<u>105,000</u>
Business-type Activities:				
Video rentals and purchases	83,903	40,774		
Parking revenue		271,987		
Operating expenses	100,774	79,352		
Interest expense	142,537			
Depreciation/Amortization	162,706			
Total Business-type Activities	<u>489,920</u>	<u>392,113</u>		
Total Primary Government	<u>\$ 13,906,783</u>	<u>\$ 678,626</u>	<u>\$ 282,742</u>	<u>\$ 105,000</u>
Component Unit				
Foundation	184,944		106,255	
Total Primary Government and Component Unit	<u>\$ 14,091,727</u>	<u>\$ 678,626</u>	<u>\$ 388,997</u>	<u>\$ 105,000</u>

General Revenues:

Property taxes for general purposes
Interest and investment earnings
Miscellaneous
Gain on sale of Northside branch
Transfer from general fund
Transfers to Carnegie Literacy Center, Inc.
Total General Revenues
Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

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

LEXINGTON PUBLIC LIBRARY
 STATEMENT OF ACTIVITIES
 For The Year Ended June 30, 2010
 (With Comparative Totals For The Year Ended June 30, 2009)
 (Continued)

Net (Expenses) Revenues and Changes in Net Assets					
Primary Government					
Governmental Activities	Business-Type Activities	Total	Component Unit	2010 Totals	2009 Totals
\$ (8,350,789)	\$	\$ (8,350,789)	\$	\$ (8,350,789)	\$ (8,355,423)
(2,076,537)		(2,076,537)		(2,076,537)	(2,248,710)
69,044		69,044		69,044	(6,456)
(28,106)		(28,106)		(28,106)	91,985
105,000		105,000		105,000	105,000
(913,492)		(913,492)		(913,492)	(979,834)
(1,034,563)		(1,034,563)		(1,034,563)	(1,083,099)
(224,505)		(224,505)		(224,505)	(245,753)
(288,660)		(288,660)		(288,660)	(291,140)
(12,742,608)		(12,742,608)		(12,742,608)	(13,013,430)
	(43,129)	(43,129)		(43,129)	18,575
	271,987	271,987		271,987	275,071
	(21,422)	(21,422)		(21,422)	(73,027)
	(142,537)	(142,537)		(142,537)	(151,342)
	(162,706)	(162,706)		(162,706)	(162,388)
	(97,807)	(97,807)		(97,807)	(93,111)
(12,742,608)	(97,807)	(12,840,415)			
			(78,689)	(78,689)	(75,730)
			(78,689)	(12,919,104)	(13,182,271)
13,324,095		13,324,095		13,324,095	13,065,890
70,395	725	71,120	12,743	83,863	66,474
5,975	3,749	9,724		9,724	7,817
					1,097,522
(219,315)		(219,315)	219,315		
(55,000)		(55,000)		(55,000)	(65,000)
13,126,150	4,474	13,130,624	232,058	13,362,682	14,172,703
383,542	(93,333)	290,209	153,369	443,578	990,432
17,022,908	73,023	17,095,931	93,157	17,189,088	16,198,656
\$ 17,406,450	\$ (20,310)	\$ 17,386,140	\$ 246,526	\$ 17,632,666	\$ 17,189,088

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

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

June 30, 2010
(With Comparative Totals As Of June 30, 2009)

LEXINGTON PUBLIC LIBRARY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010 (With Comparative Totals As Of June 30, 2009)

	General Fund	Library Collection Materials Fund	Construction Fund	2010 Total Governmental Funds	2009 Total Governmental Funds
ASSETS					
Current Assets					
Cash and cash equivalents					
Unrestricted	\$ 2,379,886	\$	\$	\$ 2,379,886	\$ 1,739,876
Restricted			2,570	2,570	2,563
Short-term investments	2,187,046			2,187,046	1,930,258
Construction bond fund					336,693
Accounts receivable - other	55,082			55,082	41,232
Due from other funds	87,175	270,401		357,576	486,070
Due from enterprise fund	298,918			298,918	234,679
Prepaid expenses					37,875
Other assets	182,776			182,776	94,964
Total assets	<u>\$ 5,190,883</u>	<u>\$ 270,401</u>	<u>\$ 2,570</u>	<u>\$ 5,463,854</u>	<u>\$ 4,904,210</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable	\$ 293,873	\$	\$	\$ 293,873	\$ 510,720
Accrued payroll	177,305			177,305	162,547
Accrued vacation	325,033			325,033	336,477
Accrued interest	116			116	18,873
Payroll liabilities	35,711			35,711	29,363
Due to other funds	439,590		68,864	508,454	613,935
Total current liabilities	<u>1,271,628</u>		<u>68,864</u>	<u>1,340,492</u>	<u>1,671,915</u>
Fund balances:					
Unreserved					
Special Revenue Fund		270,401		270,401	237,056
General	3,919,255			3,919,255	3,030,438
Reserved			(66,294)	(66,294)	52,367
Total Fund Balances (Restated)	<u>3,919,255</u>	<u>270,401</u>	<u>(66,294)</u>	<u>4,123,362</u>	<u>3,319,861</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,190,883</u>	<u>\$ 270,401</u>	<u>\$ 2,570</u>	<u>\$ 5,463,854</u>	<u>\$ 4,991,776</u>

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

Total Fund Balances	\$ 4,123,362
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Governmental Funds.	18,111,665
Unamortized Bond Issuance Cost	105,589
Short-term and Long-term Debt Is Not Due and Payable in the Current Period and,	
Therefore, Is Not Reported in the Governmental Funds.	
Bonds debt	(4,934,166)
Net Assets Of Governmental Activities	<u>\$ 17,406,450</u>

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

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

For The Year Ended June 30, 2010
(With Comparative Totals For The Year Ended June 30, 2009)

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

For The Year Ended June 30, 2010 (With Comparative Totals For The Year Ended June 30, 2009)

	General Fund	Library Collection Materials Fund	Construction Fund
SUPPORT			
Grants			
Ky Dept. of Libraries and Archives	\$ 150,484	\$	\$ 105,000
Construction grant			
Grants, other	92,730		
LFUCG appropriation			
Unrestricted	11,940,484		
Restricted		1,383,611	
Donations			
Friends (unrestricted)	39,372		
Total support	<u>12,223,070</u>	<u>1,383,611</u>	<u>105,000</u>
REVENUE			
Fines and lost books	286,463		
Investment income			
Unrestricted	70,213		
Restricted		330	6
Rental income	50		
Miscellaneous	5,975		
Total revenue	<u>362,701</u>	<u>330</u>	<u>6</u>
Total support and revenue	<u>12,585,771</u>	<u>1,383,941</u>	<u>105,006</u>
EXPENDITURES			
Salaries and employee benefits	8,350,789		
Operating expenditures	2,076,587		
Construction	118,908		
Books and materials		1,350,596	
Operating sublease expenditures	288,660		
Friends program support	67,477		
Grant expenditures	23,686		
Debt services	224,505		223,667
Total Expenditures	<u>11,150,612</u>	<u>1,350,596</u>	<u>223,667</u>
Support and revenue over (under) expenditures	<u>1,435,159</u>	<u>33,345</u>	<u>(118,661)</u>
Other Financing Sources (Uses)			
Proceeds from Northside sale			
Payment to Carnegie Literacy Center, Inc.	(55,000)		
Purchase of property and equipment	(272,027)		
Interfund transfer	(219,315)		
Net other financing sources (uses)	<u>(546,342)</u>		
Net change in Fund Balances	888,817	33,345	(118,661)
Fund Balances - Beginning (Restated)	<u>3,030,438</u>	<u>237,056</u>	<u>52,367</u>
Fund Balances - Ending	<u>\$ 3,919,255</u>	<u>\$ 270,401</u>	<u>\$ (66,294)</u>

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

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

For The Year Ended June 30, 2010 (With Comparative Totals For The Year Ended June 30, 2009)

	2010 Totals	2009 Totals
	Governmental Funds	Governmental Funds
SUPPORT		
Grants		
Ky Dept of Libraries and Archives	\$ 150,484	\$ 170,028
Construction grant	105,000	105,000
Grants, other	92,730	71
LFUCG appropriation		
Unrestricted	11,940,484	11,582,289
Restricted	1,383,611	1,483,611
Donations		
Friends (unrestricted)	39,372	99,968
Total support	<u>13,711,681</u>	<u>13,440,967</u>
REVENUE		
Fines and lost books	286,463	272,667
Investment income		
Unrestricted	70,213	80,574
Restricted	336	36,163
Rental income	50	715
Miscellaneous	5,975	7,817
Total revenue	<u>363,037</u>	<u>397,936</u>
Total support and revenue	<u>14,074,718</u>	<u>13,838,903</u>
EXPENDITURES		
Salaries and employee benefits	8,350,789	8,355,423
Operating expenditures	2,076,587	2,248,264
Construction	118,908	2,307,317
Books and materials	1,350,596	1,422,530
Operating sublease expenditures	288,660	291,140
Friends program support	67,477	7,983
Grant expenditures	23,686	6,527
Debt services	448,172	1,659,742
Total Expenditures	<u>12,724,875</u>	<u>16,298,926</u>
Support and revenue over (under) expenditures	<u>1,349,843</u>	<u>(2,460,023)</u>
Other Financing Sources (Uses)		
Proceeds from Northside sale		1,200,000
Payment to Carnegie Literacy Center, Inc.	(55,000)	(65,000)
Purchase of property and equipment	(272,027)	(451,346)
Interfund transfer	(219,315)	788
Net other financing sources (uses)	<u>(546,342)</u>	<u>684,442</u>
Net change in Fund Balances	<u>803,501</u>	<u>(1,775,581)</u>
Fund Balances - Beginning (Restated)	3,319,861	5,095,442
Fund Balances - Ending	<u>\$ 4,123,362</u>	<u>\$ 3,319,861</u>

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

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

For The Year Ended June 30, 2010

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

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 803,501
--	------------

Amounts Reported for Governmental Activities in the Statement of
Activities Are Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However,
in the Statement of Activities the Cost of Those Assets Is Allocated Over
Their Estimated Useful Lives and Reported as Depreciation Expense.

Depreciable assets	390,937
Depreciation Expense	(1,028,552)
Amortization Expense	(6,011)
Bond Debt Principal Payments	<u>223,667</u>

Change in Net Assets of Governmental Activities	<u>\$ 383,542</u>
---	-------------------

**LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET ASSETS - PROPRIETARY FUND**

**June 30, 2010
(With Comparative Totals As Of June 30, 2009)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF NET ASSETS - PROPRIETARY FUND

June 30, 2010 (With Comparative Totals As of June 30, 2009)

	Enterprise Fund	Parking Fund	2010 Total Proprietary Fund	2009 Total Proprietary Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,070	\$ 1,000	\$ 2,070	\$ 2,070
Accounts receivables		9,947	9,947	14,460
Due from general fund	169,189		169,189	127,865
Prepaid expenses		37,040	37,040	25,572
Total current assets	170,259	47,987	218,246	169,967
Noncurrent assets				
Unamortized bond issuance cost		49,114	49,114	51,160
Capital assets, net of depreciation	144,476	3,032,268	3,176,744	3,337,407
Total noncurrent assets	144,476	3,081,382	3,225,858	3,388,567
TOTAL ASSETS	<u>\$ 314,735</u>	<u>\$ 3,129,369</u>	<u>\$ 3,444,104</u>	<u>\$ 3,558,534</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 8	\$ 9,535	\$ 8	\$ 17,641
Accrued interest payable		501	501	501
Unearned revenue		298,918	298,918	234,679
Due to general fund		75,192	75,192	72,238
Current portion of long-term debt				
Total current liabilities	8	384,146	384,154	325,059
Long-term debt		3,080,260	3,080,260	3,160,452
Total liabilities	8	3,464,406	3,464,414	3,485,511
Net assets				
Invested in capital assets, net of related debt	144,476	(123,184)	21,292	104,717
Unrestricted	170,251	(211,853)	(41,602)	(31,694)
Total net assets	314,727	(335,037)	(20,310)	73,023
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 314,735</u>	<u>\$ 3,129,369</u>	<u>\$ 3,444,104</u>	<u>\$ 3,558,534</u>

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

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

For The Year Ended June 30, 2010
With Comparative Totals For The Year Ended June 30, 2009)

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

For The Year Ended June 30, 2010 (With Comparative Totals For The Year Ended June 30, 2009)

	Enterprise Fund	Parking Fund	2010 Total Proprietary Fund	2009 Total Proprietary Fund
Operating revenues				
Video rentals and fines	\$ 40,774	\$	\$ 40,774	\$ 64,751
Copy sales	79,352		79,352	67,991
Parking revenue		271,987	271,987	275,071
Miscellaneous revenue	3,749		3,749	
Total operating revenues	<u>123,875</u>	<u>271,987</u>	<u>395,862</u>	<u>407,813</u>
Operating expenses				
Operating expenses	83,911	100,766	184,677	187,194
Depreciation/Amortization	77,402	85,304	162,706	162,388
Total operating expenses	<u>161,313</u>	<u>186,070</u>	<u>347,383</u>	<u>349,582</u>
Total operating income (loss)	<u>(37,438)</u>	<u>85,917</u>	<u>48,479</u>	<u>58,231</u>
Nonoperating revenues and (expenses)				
Interest income	600	125	725	550
Interest expense		(142,537)	(142,537)	(151,342)
Total nonoperating revenues (expenses)	<u>600</u>	<u>(142,412)</u>	<u>(141,812)</u>	<u>(150,792)</u>
Change in net assets	<u>(36,838)</u>	<u>(56,495)</u>	<u>(93,333)</u>	<u>(92,561)</u>
Total net assets-beginning	<u>351,565</u>	<u>(278,542)</u>	<u>73,023</u>	<u>165,584</u>
TOTAL NET ASSETS-ENDING	<u>\$ 314,727</u>	<u>\$ (335,037)</u>	<u>\$ (20,310)</u>	<u>\$ 73,023</u>

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

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

**For The Year Ended June 30, 2010
(With Comparative Totals As Of June 30, 2009)**

LEXINGTON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For The Year Ended June 30, 2010
(With Comparative Totals As Of June 30, 2009)

	Enterprise Fund	Parking Fund	2010 Total Proprietary Fund	2009 Total Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 124,635	\$ 256,174	\$ 380,809	\$ 383,18
Payroll payments		(29,241)	(29,241)	(15,56
Payments to suppliers	(83,911)	(71,525)	(155,436)	(171,62
Net cash provided by operating activities	40,724	155,408	196,132	195,98
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer from (to) general fund	(41,324)	64,242	22,918	27,53
Bond principal debt paid		(77,238)	(77,238)	(74,65
Interest paid on capital debt		(142,537)	(142,537)	(151,34
Net cash (used) by capital and related financing activities	(41,324)	(155,533)	(196,857)	(198,46
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	600	125	725	55
Net cash provided by financing activities	600	125	725	55
Net (decrease) in cash and cash equivalents				(1,92
Balances-beginning of year	1,070	1,000	2,070	3,99
BALANCES-END OF THE YEAR	<u>\$ 1,070</u>	<u>\$ 1,000</u>	<u>\$ 2,070</u>	<u>\$ 2,07</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ (37,438)	\$ 85,917	\$ 48,479	\$ 58,23
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	77,402	85,304	162,706	162,38
Changes in asset and liabilities				
Accounts receivable		4,513	4,513	1,36
Prepaid expenses	752	(12,220)	(11,468)	(24,96
Accounts payable	8		8	(4,88
Interest payable		(8,106)	(8,106)	4,38
Deposits				50
Unearned revenue				(1,02
Net cash provided by operating activities	<u>\$ 40,724</u>	<u>\$ 155,408</u>	<u>\$ 196,132</u>	<u>\$ 195,98</u>
Supplemental disclosures of cash flow information:				
Noncash capital and related financing activities:				
Amortization of bond issue cost	<u>\$</u>	<u>\$ 2,046</u>	<u>\$ 2,046</u>	<u>\$ 1,72</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies	30
Note 2. Cash and Investments	33
Note 3. Deposits	33
Note 4. Lexington-Fayette Urban County Government Agreements	34
Note 5. Capital Assets	34
Note 6. Retirement Plan	35
Note 7. Interfund Transactions	35
Note 8. Risk Management	36
Note 9. Long-Term Liabilities	36
Note 10. Accrued Vacation	38
Note 11. The Lexington Public Library Foundation	38
Note 12. Subsequent Events	38
Note 13. Restatement of Fund Balance	38

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

Nature of Organization

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

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

Basis of Presentation

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

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

Basic Financial Statements

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

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

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

**LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

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

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

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

The primary government has no non-major funds.

Special Revenue Funds

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

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary funds:

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

Parking Income Fund - This fund is used to account for revenues and expenses related to the parking garage that the Library owns.

Discretely Presented Component Unit

The financial data of the Lexington Public Library Foundation, Inc., is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Library's primary government. The Foundation collects restricted donations made to the Library. The primary source of revenue for the Foundation is from library patronages. The major expense for the Foundation is salaries.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Short-Term Investment

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

Capital Assets

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

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), Accounting for Uncertainty in Income Taxes, to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of Interpretation 48 for the year ending June 30, 2009. The Foundation evaluates its uncertain tax positions using the provisions of FASB Statement 5, Accounting for Contingencies. Accordingly, a loss contingency is recognized when it is probably that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

Cash and Cash Equivalents

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

Estimates

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

Subsequent Events

The Library evaluated events occurring between the end of its most recent fiscal year and September 15, 2010, the date the financial statements were issued. See Note 12 for subsequent events noted.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, entitled The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FASB Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Foundation adopted the ASC upon issuance, with no material impact to the financial statements.

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, 2010 was \$2,487,312. The carrying amount of the Library's short-term investments at June 30, 2010 was \$2,349,097.

Note 3. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Lexington-Fayette Urban County Government Agreements

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

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

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Governmental Activities				
Depreciable capital assets				
Land improvements	\$ 70,279	\$	\$	\$ 70,279
Village branch construction	708,402			708,402
Buildings and improvements	20,240,272	75,000		20,315,272
Furniture/equipment	7,267,046	315,934		7,582,980
	<u>28,285,999</u>	<u>390,934</u>		<u>28,676,933</u>
Totals at Cost	13,537,461	1,028,552		14,566,013
Less: accumulated depreciation:				
Depreciable capital assets, net	<u>\$ 14,748,538</u>	<u>\$ (637,618)</u>	<u>\$</u>	<u>\$ 14,110,920</u>
Nondepreciable capital assets				
Land	\$ 3,539,842	\$	\$	\$ 3,539,842
Artistic clock	460,903			460,903
Total Nondepreciable capital assets	<u>\$ 4,000,745</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,000,745</u>
Business-Type Activities:				
Furniture/equipment	\$ 682,312	\$	\$	\$ 682,312
Parking garage & improvements	3,465,758			3,465,758
	<u>4,148,070</u>	<u>-</u>		<u>4,148,070</u>
Totals at cost	810,663	160,663		971,326
Less: accumulated depreciation				
Capital assets net	<u>\$ 3,337,407</u>	<u>\$ (160,663)</u>	<u>\$</u>	<u>\$ 3,176,744</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 5. Capital Assets (Continued)

Depreciation expense was charged as follows:

Governmental Activities:

Total Depreciation Expense - Governmental Activities	<u>\$ 1,028,552</u>
--	---------------------

Business-Type Activities

Total Depreciation Expense - Business-Type Activities	<u>\$ 160,663</u>
---	-------------------

Note 6. Retirement Plan

The Library has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent. The Library's contribution for the year ended June 30, 2010 was \$850,228 and the employees contributed \$267,189.

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

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

Note 7. Interfund Transactions

Interfund loans on the fund statements at June 30, 2010 consist of the following receivables and payables:

Fund	Receivables	Payable
General Fund	\$ 386,093	\$ 439,590
Collection Materials	270,401	
Construction		68,864
Proprietary Funds	169,189	298,918
Foundation		18,311
	<u>\$ 825,683</u>	<u>\$ 825,683</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 8. Risk Management

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

Note 9. Long-Term Liabilities

A. Parking Garage Debt

The Library purchased the Park Plaza Garage on April 29, 2005 through a competitive bid process for \$3,001,000. The Library's Board of Trustees determined that in the long-term interest of the Lexington Public Library the purchase and operation of the parking garage was required. It was also determined that an additional \$514,000 would be required to repair and improve the facility. The Library borrowed \$3,515,000 from the Kentucky League of Cities for a term of 29 years. The debt was broken down into a fixed rate loan of \$2,970,000 with a rate of 4.28% and a variable rate loan of \$545,000. The final maturity of the debt is April 21, 2034. The variable rate is based on an assumed rate that is established at the beginning of each fiscal year. The effective rate at June 30, 2010 was 3.09%.

Fiscal Year Ended June 30	Business-Type Activities		
	Principal	Interest	Total
2011	75,192	151,159	226,351
2012	78,049	147,836	225,885
2013	81,717	143,666	225,383
2014	73,090	151,298	224,388
2015	96,400	127,988	224,388
2016-2020	642,148	486,275	1,128,423
2021-2025	680,394	459,604	1,139,998
2026-2030	736,865	279,419	1,016,284
2031-2034	691,597	201,920	893,517
Totals	<u>\$ 3,155,452</u>	<u>\$ 2,149,165</u>	<u>\$ 5,304,617</u>

Bond issue costs in the amount of \$58,988 were incurred in relation to the borrowings. These costs are being amortized over the life of the bonds. Amortization for the year amounted to \$2,046.

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, 2010 the effective rate was 2.81%.

LEXINGTON PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010
 (Continued)

Note 9. Long-Term Liabilities (Continued)

B. Northside Branch Debt (Continued)

Fiscal Year Ended June 30	Governmental Activities		
	Principal	Interest	Total
2011	254,285	207,820	462,105
2012	244,964	217,713	462,677
2013	257,448	206,258	463,706
2014	213,109	194,633	407,742
2015	218,512	184,494	403,006
2016-2020	1,259,691	755,339	2,015,030
2021-2025	1,592,314	422,716	2,015,030
2026-2028	893,843	80,087	973,930
Totals	<u>\$ 4,934,166</u>	<u>\$ 2,269,060</u>	<u>\$ 7,203,226</u>

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

C. Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Debt Obligations	<u>\$ 5,157,833</u>	<u>\$</u>	<u>\$ 223,667</u>	<u>\$ 5,157,833</u>	<u>\$ 254,285</u>
Governmental Activities Long-term Liabilities	<u>\$ 5,157,833</u>	<u>\$</u>	<u>\$ 223,667</u>	<u>\$ 5,157,833</u>	<u>\$ 254,285</u>

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

C. Changes in Long-Term Liabilities (continued)

Long-term liability activity for the business-type activities for the year ended June 30, 2010, was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Additional principal payment</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Debt Obligations	\$ 3,232,690	\$ 72,238	\$ 5,000	\$ 3,155,452	\$ 75,192
Business-Type Activities Long-term Liabilities	<u>\$ 3,232,690</u>	<u>\$ 72,238</u>	<u>\$ 5,000</u>	<u>\$ 3,155,452</u>	<u>\$ 75,192</u>

Note 10. Accrued Vacation

When an employee terminates employment with the Library they are paid for their vacation time remaining, up to 150 hours. A current liability is recorded on the Statement of Net Assets and the Balance Sheet for the total amount of vacation earned, not exceeding 150 hours for each employee. The amount of accrued vacation as of June 30, 2010 was \$325,033.

Note 11. The Lexington Public Library Foundation

The Lexington Public Library and the Lexington Public Library Foundation entered into an agreement on 12/09/2008 in which the Foundation agreed to be responsible for their own cash management, accounting and financial reporting. The Foundation Board and its Executive Director agreed to manage the proceeds of the Foundation, ensuring that all funds not needed for operating expenses and budgeted appropriations are used to further the mission of the Library. The Foundation must make a request in writing for any financial support from the Library as part of the Library's annual budget planning and any said contributions must be approved by the Board of Trustees of the Lexington Public Library. The Foundation will present a monthly report, including a financial statement, at the Library's Board meeting. Furthermore, the Foundation Executive Director will serve under the direction of the Foundation Board of Directors.

Note 12. Subsequent Events

The Tates Creek Branch building has sustained structural problems; it is estimated that repairs totaling over \$300,000 will be incurred during the 2011 fiscal year. It is anticipated that the repairs will be paid from the general fund.

The former executive director has filed a suit against the Lexington Public Library seeking in excess of \$5,000,000 for damages. Due to the fact that the case is in a preliminary stage, no evaluation of outcome or estimate of loss could be reasonably estimated.

LEXINGTON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 13. Restatement of Fund Balance

The Foundation was presented as a blended component unit in the financial statements of prior years. However, it was determined that the appropriate presentation of the Foundation is that of a discretely presented component unit. As a result of the difference in presentation, the fund balance as of June 30, 2009 on the fund statements was restated to make it comparative to 2010. The net effect was to decrease the fund balance by \$93,155, which was the fund balance for the component unit at June 30, 2009. The restated fund balance for June 30, 2009 is \$3,310,861 and was previously stated at \$3,413,016.

**LEXINGTON PUBLIC LIBRARY
SUPPLEMENTARY INFORMATION**

For The Year Ended June 30, 2010

LEXINGTON PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
For The Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	(Over) Under Budget
Support				
Grants				
KY Dept. of Libraries and Archives	\$ 153,025	\$ 153,025	\$ 150,484	\$ (2,541)
Grants, other	25,000	25,000	92,730	67,730
LFUCG appropriation				
Unrestricted	11,871,846	11,682,289	11,940,484	258,195
Donations				
Unrestricted	86,931	86,931	39,372	(47,559)
Restricted	25,000	25,000	-	(25,000)
Total support	12,161,802	11,972,245	12,223,070	250,825
REVENUE				
Fines and lost books	284,000	284,000	286,463	2,463
Interest earned				
Unrestricted	80,000	80,000	70,213	(9,787)
Miscellaneous	20,000	20,000	6,025	(13,975)
Total revenue	384,000	384,000	362,701	(21,299)
Total support and revenue	12,545,802	12,356,245	12,585,771	229,526
EXPENDITURES				
Salaries wages and employee benefits	8,732,196	8,549,046	8,350,789	198,257
Operating expenses	2,061,148	2,292,663	2,076,587	216,076
Transfer to LPL Corporation	291,264	291,264	288,660	2,604
Grant Expenses	25,000	25,000	23,686	1,314
Debt Service	352,458	352,458	343,413	9,045
Friends program support	86,931	86,931	67,477	19,454
Total expenses	11,548,997	11,597,362	11,150,612	446,750
SUPPORT AND REVENUE OVER EXPENSES	996,805	758,883	1,435,159	676,276
Other changes				
Payments to Carnegie Literacy Center, Inc.	(45,000)	(55,000)	(55,000)	
Purchases of property & equipment	(560,378)	(295,546)	(272,027)	(23,519)
Transfer to Foundation	(170,588)	(170,588)	(219,315)	48,727
Net increase in fund balances	220,839	237,749	888,817	651,068
Fund balances- beginning of year	3,030,438	3,030,438	3,030,438	
FUND BALANCES-END OF YEAR	<u>\$ 3,251,277</u>	<u>\$ 3,268,187</u>	<u>\$ 3,919,255</u>	<u>\$ 651,068</u>

LEXINGTON PUBLIC LIBRARY
 REQUIRED SUPPLEMENTARY INFORMATION - LIBRARY COLLECTION MATERIALS FUND
 SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
 For The Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	(Over) Under Budget
Support				
LFUCG appropriations	\$ 1,520,701	\$ 1,383,611	\$ 1,383,611	\$
Total support	1,520,701	1,383,611	1,383,611	-
REVENUE				
Interest earned				
Restricted			330	330
Total revenue	-	-	330	330
Total support and revenue	1,520,701	1,383,611	1,383,941	330
EXPENSES				
Books and materials	1,520,701	1,383,611	1,350,596	33,015
Total expenses	1,520,701	1,383,611	1,350,596	33,015
SUPPORT AND REVENUE OVER EXPENSES	-	-	33,345	33,345
Net increase in fund balances	-	-	33,345	33,345
Fund balances-				
beginning of year	173,700	173,700	237,056	
FUND BALANCES-END OF YEAR	\$ 173,700	\$ 173,700	\$ 270,401	\$ 33,345



Mountjoy
Chilton
Medley

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

To the Board of Directors
Lexington Public Library
Lexington, Kentucky

We have audited the financial statements of the Lexington Public Library as of and for the year ended June 30, 2010, and have issued our report thereon dated September 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

150 Flynn Avenue, Suite 100
P.O. Box 5630
Frankfort, KY 40602

502.227.9000 Phone
502.227.9400 Fax
www.mcmcpa.com

Louisville
Lexington
Covington
Frankfort
Bowling Green

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

Compliance And Other Matters

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

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

Respectfully submitted,

Mountjoy Chilton Medley LLP

Mountjoy Chilton Medley, LLP

September 8, 2010



Mountjoy
Chilton
Medley

AUDITOR'S COMMUNICATION

LEXINGTON PUBLIC LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2010

Firm Address:

150 Flynn Avenue
P.O. Box 5630
Frankfort, KY 40602

Contact:

Mark Schmitt, Partner, CPA
502.227.9000
Mark.schmitt@mcmcpa.com



Mountjoy
Chilton
Medley

September 8, 2010

To The Board of Directors of the Lexington Public Library "Library"

We have audited the financial statements of the Library for the year ended June 30, 2010 and have prepared our report, enclosed herein, and dated September 8, 2010.

Please note the contact information with respect to the personnel that worked on the year ended June 30, 2010 audit engagement:

Name	Title	Phone	Email
Mark Schmitt	Engagement Partner	502-227-9000	mark.schmitt@mcmcpa.com
Lee Ann Watters	Principal	502-227-9000	leeann.watters@mcmcpa.com
Randy Davis	Independent Partner	502-227-9000	randy.davis@mcmcpa.com
Jackie Bales	Auditor	502-227-9000	jackie.bales@mcmcpa.com

We are required by Statement of Auditing Standards (SAS) No. 114, "The Auditor's Communication With Those Charged With Governance," to communicate certain matters related to the conduct of our audit to those charged with governance. In keeping with the spirit of this standard, we have provided the attached items to communicate such matters.

This information is intended solely for the information and use of the Board of Directors and management of the Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mountjoy Chilton Medley, LLP

Mountjoy Chilton Medley, LLP
Frankfort, Kentucky

150 Flynn Avenue, Suite 100
P.O. Box 5630
Frankfort, KY 40602

502.227.9000 Phone
502.227.9400 Fax
www.mcmcpa.com

Louisville
Lexington
Covington
Frankfort
Bowling Green

TABLE OF CONTENTS

Required Communications..... 1-4

Appendix I

Significant Accounting Policies and Plan Description..... 6-8

Appendix II

Management Representation Letter..... 9-11

REQUIRED COMMUNICATIONS

Statement of Auditing Standards (SAS) No. 114 and other professional standards require the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications.

For purposes of this statement "those charged with governance" means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, which includes overseeing the financial reporting process.

Area	Comments
<p>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)</p> <p>As stated in our engagement letter dated April 29, 2010, our responsibilities under generally accepted auditing standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.</p>	<p>The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS and <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States of America (GAGAS), which provides for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing and extent of testing performed. We are responsible for communicating significant matters related to the financial statement audit that is, in our professional judgment, relevant to the responsibilities of those overseeing the financial reporting process. (See our opinion provided in conjunction with the audit.)</p>
<p>Planned Scope and Timing of Audit</p> <p>We were engaged to audit the government-wide statement of net assets of the Library, balance sheet for governmental funds, and balance sheet for proprietary funds as of June 30, 2010 and the government-wide statement of activities, statement of support, revenues, and changes in fund balances, statement of activities for proprietary funds and statement of cash flows for proprietary funds for the year then ended.</p>	<p>The objective of our audit and overview of procedures are stated in our engagement letter dated April 29, 2010. We performed the audit according to the planned scope.</p>
<p>Qualitative Aspects of the Entity's Significant Accounting Practices</p> <p>The auditor should discuss with those charged with governance their view about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, financial statement disclosures and related matters.</p>	<p>Generally accepted accounting principles provide for the entity to make accounting estimates and judgments about accounting policies and financial statement disclosures.</p>

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Library are described in Note A to the financial statements. The application of existing policies was not changed during the year ended June 30, 2010 (see Appendix 1.) We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation expense, which is calculated based on estimates of useful life of capitalized property and equipment; and allowance for doubtful accounts.

We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Change in Component Unit Presentation

The Lexington Public Library Foundation, a component unit of the Library, was reported as a blended component unit in prior years' financial statements. However, it was determined that the appropriate presentation of the Foundation is that of a discretely presented component unit. As a result of the difference in presentation, the fund balance as of June 30, 2009 on the fund statements was restated to make it comparative to 2010. The net effect was to decrease the fund balance by \$93,157, which was the fund balance for the component unit at June 30, 2009.

<p>Significant Difficulties Encountered During the Audit</p> <p>The auditor should inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>We encountered no significant difficulties in dealing with management related to the performance of the audit.</p>
<p>Subsequent Event - Tates Creek Branch</p> <p>Subsequent Event - Litigation</p>	<p>The Tates Creek Branch building has sustained structural problems; it is estimated that repairs totaling over \$300,000 will be incurred during the 2011 fiscal year. It is anticipated that the repairs will be paid from the general fund.</p> <p>The former executive director has filed a suit against the Lexington Public Library seeking in excess of \$5,000,000 for damages. Due to the fact that the case is in a preliminary stage, no evaluation of outcome or estimate of loss could be reasonably estimated.</p>
<p>Audit Adjustments</p> <p>SAS No. 107, <i>Audit Risk and Materiality in Conducting an Audit</i>, requires the auditor to accumulate all known and likely misstatements identified in the audit, other than those that the auditor believes are trivial.</p>	<p>Several adjustments were made. The total effect of the adjustments was to increase net income by \$617,398. The main reasons for the amount of the adjusting entries were: 1) an adjusting entry for \$390,935 was made to capitalize expenditures per CFO asset listing; and 2) an adjustment to record the Foundation's activity had a net effect of an increase of \$83,193 on net income. The reclassification adjusting entries had no effect on net income. Management has agreed to record all audit adjustments per management representation letter.</p> <p>An unrecorded entry totaled \$5,385. If the adjustment were made, net assets would be increased by \$5,385. The net effect on net assets is below materiality and tolerable misstatement. The auditor will pass adjustment due to immateriality.</p>
<p>Disagreements with Management</p> <p>The auditor should discuss with those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or the auditor's report.</p>	<p>There were no disagreements with management about matters that could be significant to the financial statements or our reports thereon.</p>
<p>Management's Consultations with Other Accountants</p>	<p>We are not aware of any consultations concerning any significant accounting or auditing matters with other accountants related to the 2010 audit.</p>
<p>Other Significant Issues Discussed, or Subject to Correspondence, With Management</p>	<p>None</p>
<p>Fraud and Illegal Acts</p>	<p>During the conduct of our audit, we did not become aware of any fraud or illegal acts</p>

Internal Control Related Matters	During the course of the audit, we identified no deficiencies in internal control over financial reporting that we considered to be significant deficiencies. The Controller of Lexington Public Library has reviewed the disclosure checklist and we believe she has a sufficient understanding of the information presented in the financial statements to be able to prepare them herself; if desired.
----------------------------------	---

APPENDIX I

Note 1. Summary of Significant Accounting Policies

Nature of Organization

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

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

Basis of Presentation

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

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

Basic Financial Statements

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

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

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

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.

APPENDIX I

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The primary government has no non-major funds.

Special Revenue Funds

The Library Foundation, Library Collection Materials Fund, and Construction Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

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

Parking Income Fund – This fund is used to account for revenues and expenses related to the parking garage that the Library owns.

Discretely Presented Component Unit

The financial data of the Lexington Public Library Foundation, Inc. is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Library's primary government. The Foundation collects restricted donations made to the Library. The primary source of revenue for the Foundation is from library patronages. The major expense for the Foundation is salaries.

Short-Term Investment

Short-term investments consist of certificates of deposit with initial maturities greater than three months. Fair value approximates carrying amounts.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are stated at cost. Donated assets are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible capital assets is charged as an expense against their operations. The costs of books are expensed when purchased.

APPENDIX I

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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 Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), Accounting for Uncertainty in Income Taxes, to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of Interpretation 48 for the year ending June 30, 2010. The Foundation evaluates its uncertain tax positions using the provisions of FASB Statement 5, Accounting for Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

Cash and Cash Equivalents

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

Estimates

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

Change in Required Disclosures

The Library evaluated events occurring between the end of its most recent fiscal year and September 15, 2010, the date the financial statements were issued. See Note 12 for a subsequent events noted.

The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, entitled The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FASB Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Company adopted the ASC upon issuance, with no material impact to the financial statements.

APPENDIX II

MANAGEMENT REPRESENTATION LETTER

We are providing this letter in connection with your audit of the financial statements of the Lexington Public Library (the Library) as of June 30, 2010 for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Lexington Public Library and the changes in financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows of the proprietary fund types in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 15, 2010, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and account groups of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the Lexington Public Library or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted to the Library's accounts. We are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Library involving—
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Library received in communications from employees, former employees, analysts, regulators, or others.

APPENDIX II
MANAGEMENT REPRESENTATION LETTER
(Continued)

9. The Library has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Library is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Library vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
13. Except as made known to you, there are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting and amending budgets), provisions of contracts and agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of the Library equity that was not properly authorized and approved.
14. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
15. The Library has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

APPENDIX II
MANAGEMENT REPRESENTATION LETTER
(Continued)

16. The Library has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
17. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities.
20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
22. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
30. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements



Mountjoy
Chilton
Medley

MANAGEMENT LETTER

To the Board of Directors of
the Lexington Public Library

In planning and performing our audit of the financial statements of Lexington Public Library (the Library) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly we do not express an opinion on the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit we noted a matter involving internal control that is presented for your consideration. This letter does not effect our report dated September 15, 2010 on the financial statements of Lexington Public Library. We will review the status of this comment during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendations. Our comment is summarized as follows:

Comment 1: We noted that when the money from the coin operated copiers is collected; the funds are given to a clerk (if at the branch) but are not rung into the cash register.

Recommendation: We recommend that the funds collected from copiers at the branch locations be counted by two employees. We further recommend that these funds be rung into the cash register under a separate "key" so that there is a record of what is turned into the business office.

Management's Response:

The Library does not consider the amount of funds at risk material enough to merit the investment in time and cost of requiring the funds collected from copiers at the branch

150 Flynn Avenue, Suite 100
P.O. Box 5630
Frankfort, KY 40602

502.227.9000 Phone
502.227.9400 Fax
www.mcmcpa.com

Louisville
Lexington
Covington
Frankfort
Bowling Green

locations be counted by two employees and rung into the register. The money collected in bill form is counted by two employees in the Library's business office while the coins are counted by the bank at the time of deposit. The Library monitors coin operated copier receipts for consistency over time; receipts increased 16.7% for FY 2010 versus 2009.

We believe that the implementation of this recommendation will provide Lexington Public Library with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of this recommendation with you and assist in any way possible with its implementation

This communication is intended solely for the information and use of management, the Board of Directors and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Mountjoy Chilton Medley LLP

Mountjoy Chilton Medley, LLP
Frankfort, Kentucky
September 8, 2010