

Lexington Convention and Visitors Bureau

Financial Statements

Year Ended June 30, 2017

Lexington Convention and Visitors Bureau

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June 30, 2017

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Independent Auditor's Report

To the Commission Members
Lexington Convention and Visitors Bureau

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activity of the Lexington Convention and Visitors Bureau, (Bureau), a component unit of Lexington-Fayette Urban County Government, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau as of June 30, 2017 and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on page 21 regarding the Bureau's participation in the County Employees' Retirement System, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

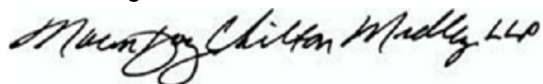
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bureau's basic financial statements. The Budgetary Comparison Schedule on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2017 on our consideration of the Bureau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Bureau's internal control over financial reporting and compliance.



Lexington, Kentucky
September 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion about the financial performance of the Lexington Convention and Visitors Bureau (Bureau) provides a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017. Readers are encouraged to consider this narrative with the financial statements that follow.

The Bureau is a component unit of the Lexington-Fayette Urban County Government and all activities are intended to recover costs through the generation of occupancy tax revenue. As such, the Bureau's financial reports are prepared following generally accepted accounting principles of a governmental unit engaged in business-type activity.

HIGHLIGHTS

Net Position The assets and deferred outflows of resources of the Bureau exceeded liabilities and deferred inflows of resources at fiscal year-end by \$5,476,699.81 (presented as Total Net Position). Of this amount, \$5,111,336.23 was reported as "unrestricted net position." This compares to the previous year when net position exceeded liabilities by \$5,685,034.34 and unrestricted net position was \$5,511,267.27. Unrestricted net position represents the amount available to meet ongoing obligations.

Change in Net Position Total net position decreased by \$208,334.53 during fiscal year 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This overview and analysis is intended to serve as an introduction to the Bureau's basic financial statements, which include three components: (1) the financial statements, (2) notes to the financial statements and (3) the required supplementary information. This report also contains other supplementary information, which is a budgetary comparison schedule. These components are described below.

FINANCIAL STATEMENTS

Because the Bureau reports as a business-type activity, it presents the statements required for that type of entity. The statements provide both short-term and long-term information about the Bureau's financial position. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting that is used in the private sector. These financial statements take into account all revenues and expenses related to the fiscal year regardless of whether the cash involved has been received or disbursed. The financial statements include three statements:

1. The Statement of Net Position (page 8) presents the Bureau's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two is reported as "Total Net Position." Over time, increases or decreases in the Bureau's net position serves as an indicator of whether the financial position of the Bureau is improving or deteriorating.
2. The Statement of Revenues, Expenses and Changes in Net Position (page 9) presents information regarding how net position changed during the fiscal year. All changes in net position are reported when the underlying event occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for items that will not result in cash transactions until future fiscal periods (such as uncollected revenues and earned, but not used, personal leave).
3. The Statement of Cash Flows (page 10) presents the cash receipts and cash payments occurring during the fiscal year. In this statement, changes in net position are reported when the cash transaction occurs, regardless of the timing of the underlying events. This report provides users with the information needed to assess the Bureau's ability to generate future cash flow and meet obligations as they come due and to identify operating versus investing activity.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements may be found immediately following the financial statements and preceding the supplementary information, pages 11 through 20.

SUPPLEMENTARY INFORMATION

Following the basic financial statements is supplementary information that is used to further explain and support the information in the financial statements. The supplementary information is the Budgetary Comparison Schedule, which can be found on page 22. The required supplementary information is the Schedule of Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and the Notes to the Schedules Related to the County Employees Retirement System of KRS Information found on page 21.

FINANCIAL ANALYSIS OF THE BUREAU

The condensed information below was derived from the Bureau's Statement of Net Position at June 30, 2017 and June 30, 2016. The net position at June 30, 2017 is \$5,476,699.81, a decrease of \$208,334.53 over fiscal year 2016's net position of \$5,685,034.34.

	Net Position as of		Amount	%
	June 30, 2017	June 30, 2016	Change	Change
Current Assets	\$ 2,094,277.68	\$ 4,894,930.80	\$ (2,800,653.12)	-57%
Capital Assets	365,363.58	173,767.07	191,596.51	110%
Other Assets	5,354,337.38	2,376,734.81	2,977,602.57	125%
Deferred Outflows	650,427.77	444,733.77	205,694.00	46%
Total Assets and Deferred Outflows	\$ 8,464,406.41	\$ 7,890,166.45	\$ 574,239.96	7%
Current Liabilities	616,176.60	229,042.11	387,134.49	169%
Noncurrent Liabilities	2,371,530.00	1,976,090.00	395,440.00	20%
Total Liabilities and Deferred Inflows	\$ 2,987,706.60	\$ 2,205,132.11	\$ 782,574.49	35%
Invested in Capital Assets	365,363.58	173,767.07	191,596.51	110%
Unrestricted Net Position	5,111,336.23	5,511,267.27	(399,931.04)	-7%
Total Net Position	\$ 5,476,699.81	\$ 5,685,034.34	\$ (208,334.53)	-4%

Current Assets accounts for cash, cash equivalents, accounts receivable, inventory and prepaid expenses. Current assets at June 30, 2017 decreased by \$2,800,653.12 or 57% when compared to 2016. This decrease was primarily in cash and cash equivalents and is directly attributed to the commission unanimously voting to increase designated investments.

Capital Assets accounts for the Bureau's investment in capital assets including furniture and fixtures, leasehold improvements, office furniture, equipment, software applications and trademarks. During 2017, the Bureau invested in computer equipment, furniture and fixtures, leasehold improvement related to a new visitors center, trademarks and a tradeshow booth. The total cost of these items was \$287,007.18. After applying depreciation, total capital assets increased by \$191,596.51.

Other Assets accounts for the employee cafeteria plan and the Commission designated investments. At June 30, 2017, the balance of the employee cafeteria plan was \$3,247.38, an increase of \$1,512.57 from 2016. At June 30, 2017, the balance of the Commission designated investments was \$5,351,090, an increase of \$2,976,090 from 2016. During 2017, the Bureau designated \$1,000,000 for capital purchases and \$1,976,090 for the pension liability. The Bureau elected not to purchase additional investments due to current market conditions and interest rates. Amounts available to purchase investments are being retained in a fully collateralized account.

Current Liabilities, which includes accounts payable, accrued wages and benefits, the employee cafeteria plan payable and compensated absences payable, increased by 169% or \$387,134.49 for the year. Of this amount, \$256,482.64 was an increase in accounts payable, primarily related to payments due to the advertising agency, and a \$132,195.05 increase in accrued payroll. The increase in accrued payroll was related to the adoption of an incentive program.

The financial statements include deferred outflows totaling \$650,427.77. This is a result of \$190,394.77 being attributable to contributions paid subsequent to June 30, 2016. The balance remaining is actuarially determined.

Noncurrent liabilities include the Bureau's pension liability. Fiscal 2017 activity resulted in an increase of 20% or \$395,440.00.

The larger component of the Bureau's net position is the Unrestricted Net Position, which are the resources that may be used at the Bureau's discretion to meet ongoing obligations. Unrestricted Net Position decreased by \$208,334.53 at June 30, 2017.

The remaining net position balance represents the Bureau's investment in capital assets such as furniture and fixtures, leasehold improvements, office equipment, software, tradeshow booths and trademarks. The Bureau uses these assets to provide services to visitors and clients to promote the Lexington brand; these assets are not available for future spending. After netting capital asset acquisitions with the related depreciation, Net Position Invested in Capital Assets increased by \$191,596.51 or 110%.

The following condensed financial information was derived from the Bureau's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2017, and June 30, 2016. Line items from the statement have been re-categorized into the major functions to summarize the Bureau's operations for the two fiscal years and show the changes in the Bureau's Total Net Position.

	Statement of Changes in Net Position		Amount Change	% Change
	for Fiscal Year Ending June 30, 2017	June 30, 2016		
REVENUES				
Occupancy Tax	\$ 7,297,047.24	\$ 7,238,764.15	\$ 58,283.09	1%
Matching Funds	330,787.45	331,856.55	(1,069.10)	0%
Miscellaneous	30,458.45	18,839.64	11,618.81	62%
Interest and Investment Income	6,597.82	7,359.22	(761.40)	-10%
Total Revenues	<u>7,664,890.96</u>	<u>7,596,819.56</u>	<u>68,071.40</u>	<u>1%</u>
EXPENSES				
Personnel	2,239,788.34	1,929,480.68	310,307.66	16%
Professional Services	129,776.05	154,013.73	(24,237.68)	-16%
Office Expense	383,110.41	385,851.35	(2,740.94)	-1%
Media	230,338.65	224,366.75	5,971.90	3%
Printing	218,974.17	141,361.13	77,613.04	55%
Promotion	1,378,297.35	698,678.40	679,618.95	97%
Advertising	2,506,225.26	2,023,958.42	482,266.84	24%
Research	172,715.88	25,550.00	147,165.88	576%
Staff Development	34,103.47	51,055.51	(16,952.04)	-33%
Lexington Center Contribution	448,000.00	548,000.00	(100,000.00)	-18%
LFUCG Collection Fee	36,485.24	36,193.57	291.67	1%
Depreciation	95,410.67	82,240.87	13,169.80	16%
Total Expenses	<u>7,873,225.49</u>	<u>6,300,750.41</u>	<u>1,572,475.08</u>	<u>25%</u>
Increase in Net Assets	(208,334.53)	1,296,069.15	(1,504,403.68)	-116%
Net Position - Beginning	5,685,034.34	4,388,965.19	1,296,069.15	30%
Net Position - Ending	<u>\$ 5,476,699.81</u>	<u>\$ 5,685,034.34</u>	<u>\$ (208,334.53)</u>	<u>-4%</u>

Occupancy tax is the 4% transient room tax levied on occupancy of hotels and motels located in Fayette County that is received by the Bureau. Occupancy tax revenue increased during the year with total receipts at \$7,297,047.24, a 1% increase from the previous fiscal year.

Miscellaneous income increased \$11,618.81 or 62% from 2016. This increase was the result of a concerted effort with the retail initiative.

Personnel expense increased by 16% or \$310,307.66 from fiscal year 2016. The increase is directly related to the new incentive program and the GASB 68 entries that increased the pension liability.

Printing increased by 55% or \$77,613.04 related to increased printing of the Beyond Grits publication and Brewgrass Trail passports.

In November 2016 the Commission elected to amend the budget and increase spending by \$800,000.00. This increase resulted in increased spending and large variances from fiscal year 2016 in advertising, promotion and research.

Research expenses increased \$147,165.88 to \$172,715.88 in 2016. The Bureau had not made significant investments in research for several years. During 2017 several research projects were initiated to garner more insight into visitors and their travel patterns.

Lexington Center Contributions decreased 18% or \$100,000.00. Beginning in fiscal year 2013, contributions decrease \$100,000.00 per year until the amount is extinguished.

Several other line items had variances for fiscal year 2017. These variances were the result of budget amendments to allocate existing or additional resources to accommodate changes in priorities and needs during the year.

BUDGETARY HIGHLIGHTS

The Bureau's Board of Commissioners approves the annual budget prior to the beginning of the fiscal year. Budget amendments, which included expense re-alignments, were approved on November 16, 2016.

Bureau management strives to reduce expenses and pursue cost saving techniques without sacrificing visitor and client services or staff resources. During fiscal year 2017 we continued to explore opportunities to further reduce expenses. We have initiated and continued the following cost saving techniques which will continue in future fiscal years:

- Continued to improve the monitoring of occupancy tax collections for timely payment and collections, resulting in a slight increase in revenue and timely payments.
- Developed strategies to identify and educate AirBnB hosts about occupancy tax and hosting.
- Expanded relationships with the media to increase the advertising equivalency which expands overall advertising reach without significantly increasing costs.
- Expanded the use of the CRM to automate processes to reduce manual tasks and improve efficiency.
- Introduced a shared calendar system.
- Introduced an expense report platform to provide an efficient method for submission that incorporates workflow.
- Introduced a human resource platform that provides efficient management of employee management.
- Introduced an image management platform that provides electronic management and distribution of digital assets.
- Printed select materials in-house, resulting in reduced printing costs.
- Utilized document scanning to eliminate or reduce photocopying, physical storage and supplies expense.
- Utilized electronic distribution tools for sales and marketing materials, resulting in reduced production and distribution costs.

- Utilized social media technologies to expand low cost sales and marketing opportunities.

ECONOMIC CONDITION AND OUTLOOK

The Bureau experienced a relatively flat financial year in regard to revenues during 2017. Current year revenue projections were slightly more than budget. While the budget was amended to increase current year spending from prior year excess revenues, initiatives continued to control expenses when possible, and where appropriate.

For fiscal year 2018, due to uncertainties with the convention center project, the Bureau prepared a conservative operating budget with no increase in occupancy tax collections.

Both occupancy and rate have been relatively stable since December 2015. All indications are that the pattern will continue or improve through fiscal 2018.

Revenues will be closely monitored and, if appropriate, the 2018 budget will be amended.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the finances of the Lexington Convention and Visitors Bureau to interested individuals. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Lexington Convention and Visitors Bureau, Attention: Vice President, Finance and Operations, 250 West Main Street, Suite 2100, Lexington, KY 40507, (859) 233-1221.

Lexington Convention Visitors Bureau
Statement of Net Position
June 30, 2017

Assets

Current Assets:

Cash and Cash Equivalents	\$ 274,225.73
Accounts Receivable	1,588,390.97
Inventory	103,398.73
Prepaid Expenses	128,262.25
Total Current Assets	<u>2,094,277.68</u>

Noncurrent Assets:

Restricted Cash	3,247.38
Commission Designated Investments	5,351,090.00
Capital Assets, Net of Accumulated Depreciation	365,363.58
Total Noncurrent Assets	<u>5,719,700.96</u>

Deferred Outflows of Resources	<u>650,427.77</u>
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Total Assets and Deferred Outflows of Resources	<u><u>\$ 8,464,406.41</u></u>
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Liabilities

Current Liabilities:

Accounts Payable	\$ 337,518.69
Accrued Wages and Benefits	208,431.61
Compensated Absences Payable	66,978.92
Employee Cafeteria Plan Payable	3,247.38
Total Current Liabilities	<u>616,176.60</u>

Noncurrent Liabilities:

Net Pension Liability	<u>2,371,530.00</u>
Total Noncurrent Liabilities	<u>2,371,530.00</u>

Total Liabilities and Deferred Inflows of Resources	<u>2,987,706.60</u>
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Net Position

Invested in Capital Assets	365,363.58
Unrestricted	5,111,336.23
Total Net Position	<u>5,476,699.81</u>

Total Liabilities and Net Position	<u><u>\$ 8,464,406.41</u></u>
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Lexington Convention and Visitors Bureau
Statement of Revenues, Expenses and Changes in Net Position
For the Period Ended June 30, 2017

Revenues

Occupancy Tax Receipts	\$ 7,297,047.24
Matching Funds Revenue	330,787.45
Other Income	30,458.45
Total Operating Revenues	7,658,293.14

Operating Expenses

Personnel Expense	\$ 2,239,788.34
Lexington Center Corporation	448,000.00
Professional Services	129,776.05
Office Expense	274,890.78
Industry Associations and Subscriptions	108,219.63
Industry Programs and Relation	74,905.08
Promotional Travel	38,004.21
Advertising	2,506,225.26
Fulfillment	46,360.98
Sales Efforts	113,084.92
Conventions and Meetings	396,486.43
Promotional Items	44,222.30
Printing	218,974.17
Media Relations and Support	230,338.65
Website	123,591.31
Research	172,715.88
Staff Development	34,103.47
Development Programs	541,642.12
LFUCG Collection Fee	36,485.24
Depreciation Expense	95,410.67
Total Operating Expenses	7,873,225.49
Operating Loss	\$ (214,932.35)

Nonoperating Revenues (Expenses)

Interest and Investment Income	6,597.82
Total Nonoperating Revenues	6,597.82

Change in Net Position	(208,334.53)
Total Net Position - Beginning	5,685,034.34
Total Net Position - Ending	\$ 5,476,699.81

Lexington Convention and Visitors Bureau
Statement of Cash Flows
For the Year Ended June 30, 2017

	Unrestricted Cash	Restricted Cash	Total Cash
Cash Flows from Operating Activities			
Receipts from Taxpayers	\$ 7,233,665.54	\$ -	\$ 7,233,665.54
Receipts from State Matching Funds	284,713.74	-	284,713.74
Receipts from Cafeteria Plan Participants	-	9,587.61	9,587.61
Receipts from Others	44,771.65	-	44,771.65
Payments to Vendors	(5,344,029.19)	-	(5,344,029.19)
Payments to Employees	(1,924,925.63)	-	(1,924,925.63)
Payments to Cafeteria Plan Participants	-	(8,075.04)	(8,075.04)
Net Cash Provided by Operating Activities	<u>294,196.11</u>	<u>1,512.57</u>	<u>295,708.68</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of Capital Assets	(287,007.18)	-	(287,007.18)
Net Cash Used by Capital and Related Financing Activities	<u>(287,007.18)</u>	<u>-</u>	<u>(287,007.18)</u>
Cash Flows from Investing Activities			
Proceeds from the Sale and Maturity of Investments	512,201.65	-	512,201.65
Purchase of Investments and Securities	(512,201.65)	-	(512,201.65)
Interest and Dividends	6,597.82	-	6,597.82
Net Cash Provided by Investing Activities	<u>6,597.82</u>	<u>-</u>	<u>6,597.82</u>
Net Increase in Cash and Cash Equivalents	13,786.75	1,512.57	15,299.32
Balances - Beginning of the Year	5,611,528.98	1,734.81	5,613,263.79
Balances - End of the Year	<u>\$ 5,625,315.73</u>	<u>\$ 3,247.38</u>	<u>\$ 5,628,563.11</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Loss	\$ (214,932.35)		
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	95,410.67		
Change in Assets and Liabilities:			
Increase in Accounts Receivable	(97,652.21)		
Increase in Inventory	(20,086.89)		
Increase in Prepaid Expense	(43,911.03)		
Increase in Account Payable	257,995.21		
Increase in Accrued Wages and Benefits	132,195.05		
Decrease in Compensated Absences	(545.77)		
Decrease in Deferred Revenue	(2,510.00)		
Increase in Net Pension Liability	395,440.00		
Decrease in Deferred Inflows and Outflows	(205,694.00)		
Net Cash Provided by Operating Activities	<u>\$ 295,708.68</u>		

LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Lexington Convention and Visitors Bureau (Bureau) has prepared supplementary information titled *Management's Discussion and Analysis*, which precedes the financial statements and the *Budgetary Comparison Schedule*. The Bureau has also prepared required supplementary information titled *Schedule of Proportionate Share of the Net Pension Liability and Related Ratios*, *Schedule of Employer Contributions*, and *Notes to the Schedules Related to the County Employee Retirement System of KRS Information*. Other reports included in the accompanying financial statements are the *Independent Auditor's 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 Governmental Auditing Standards*.

The accompanying financial statements present the financial position of the Bureau as of and for the year ended June 30, 2017.

a. Reporting Entity

The Bureau was established by the Lexington-Fayette Urban County Government (LFUCG), under the authority of KRS 91A.350, for the purpose of promoting recreational, convention and tourist activity in Fayette County.

Because the Bureau is a component unit of the LFUCG, its financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by GASB.

b. Measurement Focus, Basis of Accounting and Basis of Presentation

The Bureau is considered a special purpose government and reports as a business-type activity, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses result from providing services in connection with ongoing operations. Items not meeting the criteria of operating transactions are recorded as nonoperating.

c. 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 deferred outflows of resources and liabilities and deferred inflows of resources 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.

d. Budgetary Data

The annual budget for fiscal year 2017 was prepared using the accrual basis of accounting. The Bureau's Commission approves the budget and any subsequent revisions.

**LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

e. Capital Assets

Capital assets, which include leasehold improvements, office equipment, furniture, and software, are reported on the Statement of Net Assets. The Bureau defines capital assets as assets that have a cost of \$1,000.00 or more at the date of acquisition and have an expected useful life of more than one year.

Capital assets are depreciated using the straight-line method over the assets' estimated useful lives.

f. Business-Type Activity Accounting and Financial Reporting

The Bureau's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

g. Basis for Cash Restriction

The Bureau classifies cash into two categories, restricted and unrestricted. Restricted cash balances are cash amounts administered by the Bureau, but the principal balance neither belongs to nor is controlled by the Bureau. Restricted cash balances reported in the financial statements includes the balance of the employee cafeteria plan. All other cash held by the Bureau is considered unrestricted for reporting purposes.

h. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Bureau's participation in the County Employees Retirement System of the Kentucky Retirement Systems (KRS) have been determined on the same basis (CERS) as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized with due and payable on accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2016.

NOTE 2 CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS

Cash and Cash Equivalents are assets with a maturity of 16 months or less and can be readily converted into cash.

As of June 30, 2017 the Bureau had the following cash, investments and securities:

<u>Deposit Type</u>	<u>Fair Value</u>
Cash	
Demand	\$ 160,543.75
Commission Designated Investments	5,351,090.00
Certificates of Deposit	<u>512,201.65</u>
Total	\$ 6,023,835.40
Net Withdrawals and Deposits in Transit	<u>(395,272.29)</u>
Total Cash and Investments	<u><u>\$ 5,628,563.11</u></u>

**LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Bureau's deposits may not be returned to it. The Bureau's policy requires banking institutions to provide collateralization for funds on deposit in excess of the FDIC limit. As of June 30, 2017 none of the Bureau's bank deposits were exposed to custodial credit risk.

Interest Rate Risk. Interest rate risk is a means of limiting its exposure to fair value losses arising from interest rates. The Bureau's investment policy limits investments with maturities of more than 36 months. As of June 30, 2017 the Bureau had no investments with a maturity greater than one year.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable have been aggregated and presented in the financial statements. Detailed information is presented below:

Occupancy Tax	\$ 1,369,791.45
KY Department of Travel	214,613.54
Other	<u>3,985.98</u>
Accounts Receivable, June 30, 2017	<u><u>\$ 1,588,390.97</u></u>

NOTE 4 INVENTORY

The Bureau's investment in inventory as of June 30, 2017 amounts to \$103,398.73. This investment in inventory includes apparel and merchandise for retail. Inventory activity for the year ended June 30, 2017 is summarized below:

	Beginning Balance	Increases	Decreases	Ending Balance
Apparel	\$ 25,992.05	\$ 15,689.43	\$ (15,930.18)	\$ 25,751.30
Home Goods	57,319.78	85,343.83	(65,016.18)	77,647.43
Inventory, June 30, 2016	<u>\$ 83,311.83</u>	<u>\$ 101,033.26</u>	<u>\$ (80,946.36)</u>	<u>\$ 103,398.73</u>

NOTE 5 CAPITAL ASSETS

The Bureau's investment in capital assets as of June 30, 2017 amounts to \$365,363.58 (net of accumulated depreciation). This investment in capital assets includes the leasehold improvements, furniture, office equipment and software. Capital asset activity for the year ended June 30, 2017 is summarized below:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Furniture and Fixtures	\$ 196,627.33	\$ 70,572.17	\$ -	\$ 267,199.50
Leasehold Improvements	201,672.85	206,250.00	-	407,922.85
Office Equipment	74,590.35	9,885.01	-	84,475.36
Software	49,605.65	-	-	49,605.65
Trademarks	21,877.00	300.00	-	22,177.00
Total Capital Assets	<u>544,373.18</u>	<u>287,007.18</u>	<u>-</u>	<u>831,380.36</u>
Less Accumulated Depreciation				
Furniture and Fixtures	\$ 98,886.52	\$ 47,772.36	\$ -	\$ 146,658.88
Leasehold Improvements	166,348.95	35,323.93	-	201,672.88
Office Equipment	55,764.99	12,314.38	-	68,079.37
Software	49,605.65	-	-	49,605.65
Total Accumulated Depreciation	<u>370,606.11</u>	<u>95,410.67</u>	<u>-</u>	<u>466,016.78</u>
Capital Assets, June 30, 2017	<u><u>\$ 173,767.07</u></u>	<u><u>\$ 191,596.51</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 365,363.58</u></u>

**LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 ACCOUNTS PAYABLE

Accounts payable have been aggregated and presented in the financial statements. Detailed information is presented below:

Taxes	\$ 327.42
Vendors	<u>337,191.27</u>
Accounts Payable, June 30, 2017	<u><u>\$ 337,518.69</u></u>

NOTE 7 ACCRUED WAGES AND BENEFITS

Accrued wages and benefits have been aggregated and presented in the financial statements. Detailed information is presented below:

Wages	\$ 160,161.01
Benefits	37,043.93
Taxes	<u>11,226.67</u>
Accrued Wages and Benefits, June 30, 2017	<u><u>\$ 208,431.61</u></u>

NOTE 8 OPERATING LEASES

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2017:

Year Ending June 30	Office Space
2018	\$ 179,498.10
2019	88,212.00
2020	88,212.00
2021	88,212.00
2022 & Beyond	<u>156,821.00</u>
Future Minimum Payments	<u><u>\$ 600,955.10</u></u>

The following schedule shows the composition of total rental expenditures for all operating leases:

Minimum Rentals:	
Copier	\$ 5,280.00
Office Space	<u>140,545.20</u>
Total, June 30, 2017	<u><u>\$ 145,825.20</u></u>

NOTE 9 OCCUPANCY TAX RECEIPTS

Pursuant to KRS 153.450 and local Ordinance, a transient room tax of 4% is levied on room occupancy for hotels, motels and like businesses located in Fayette County, Kentucky. This tax is collected by the LFUCG. The LFUCG retains 1/2% for collection expenses. The remainder is forwarded to the Bureau on a monthly basis.

**LEXINGTON CONVENTION AND VISITORS BUREAU
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The Bureau recognizes occupancy tax revenue when it becomes measurable and available. Occasionally, taxpayers may become delinquent on remitting the tax to the LFUCG. The Bureau does not recognize these revenues until they are received unless the LFUCG Department of Law has a fully executed promissory note for the collection of the tax revenue, interest and penalty.

NOTE 10 CONTRIBUTIONS TO LEXINGTON CENTER CORPORATION

The Bureau has pledged a portion of its occupancy tax receipts to the Lexington Center Corporation (LCC) to support the growth and expansion of the arena and convention facilities. The Bureau pledged \$448,000.00 to the LCC for fiscal year 2017 and has agreed to provide financial assistance through fiscal year 2021. As of June 30, 2017 no amount was due to the LCC.

The Bureau's remaining obligations as of June 30, 2017 are as follows:

Fiscal Year		
2018	\$	348,000.00
2019		248,000.00
2020		148,000.00
2021		<u>48,000.00</u>
 Total Remaining Obligations	 \$	 <u><u>792,000.00</u></u>

NOTE 11 NET PENSION LIABILITY

General Information about the Pension Plan

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

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

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

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

Contributions Contributions for employees established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were a plan member prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The Bureau makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2017, employer contributions for the Bureau were \$254,954.63 based on a rate of 18.68% of covered payroll. By law, employer contributions are required to be paid. The KRS may intercept the Bureau's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of the unfunded liability.

Net Pension Liability

The Bureau's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions The total pension liability as of June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applies to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	4.00 percent, average, including inflation
Investment Rate of Return	7.50 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period of July 1, 2008 through June 30, 2013. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. The KRS Board of Directors lowered the three actuarial assumptions in May 2017. The inflation rate was lowered from 3.25% to 2.3%, the active member payroll growth was lowered from 4% to 0%, and the investment rate of return was lowered from 7.50% to 6.25%. These assumption changes will become effective for the actuarial valuation as of the June 30, 2017 measurement date.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by

LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

the investment consultant for each major asset class (see chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframes. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption or a fundamental change in the market that alters expected returns in future years.

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

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

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

Sensitivity of the Net Pension Liability to changes in the Discount Rate The following presents the net pension liability of the Bureau calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Lexington Convention and Visitors Bureau's Net Pension Liability	\$ 2,955,530.85	\$ 2,371,530.00	\$ 1,871,253.55

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

Pension Expense For the year ended June 30, 2017, the Bureau recognized pension expense of \$380,142.

LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources For the year ended June 30, 2017, the Bureau reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 10,354.00	\$ -
Difference between projected and actual investment earnings on plan investments	222,948.00	-
Change of assumptions	125,631.00	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	101,100.00	-
Contributions subsequent to the measurement date of June 30, 2016	190,394.77	-
Total	\$ 650,427.77	\$ -

Amounts reported as deferred outflows of resources related to pensions will be will be amortized as deferred outflows of resources as follows:

Year Ended June 30	
2018	\$ 121,693.00
2019	121,693.00
2020	160,942.00
2021	55,705.00
	\$ 460,033.00

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

Payable to the Pension Plan

At June 30, 2017, the Bureau reported a payable of \$29,627.26 (included in the Accrued Wages and Benefit amount on the Statement of Net Position) and for the outstanding amount of contributions to the pension plan required as of June 30, 2017.

**LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 RETIREMENT PLAN - VOLUNTARY

In addition to the above, employees may make voluntary contributions to a 457 or a Roth IRA plan sponsored by the Bureau. Under the 457 plan, employees may contribute up to \$18,000.00 pre-tax. Employee contributions to the plan for 2017 were \$48,211.24. Employees may contribute up to \$5,000.00 after-tax to the Roth IRA plan. There were no employee contributions to the plan for the year.

NOTE 13 RISK MANAGEMENT AND INSURANCE COVERAGE

Bureau employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial carriers. A commercial insurance carrier provides coverage for property exposure. There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2017. The Bureau does not participate in any risk pools.

NOTE 14 FUTURE ACCOUNTING PRONOUNCEMENT

In June 2016, the GASB issued Statement No. 75, Accounting and Reporting for Postemployment Other Than Pensions. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

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

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

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

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

The Bureau is currently evaluating the impact that will result from adopting GASB No. 75 and No. 87 and is therefore unable to disclose the impact that adopting these Standards will have on the Bureau's financial position and the results of its operations when the Statements are adopted.

NOTE 15 COMMISSION DESIGNATED FUNDS

Commission designated funds consist of \$2,000,000 reserved for capital purchases, \$725,000 reserved for catastrophic events, \$650,000 reserved for competitive development and \$1,976,090.00 for pension liability. The Commission reviews the designations on a monthly basis and has the ability to amend as needed in order to best serve the purposes of the Bureau.

LEXINGTON CONVENTION AND VISITORS BUREAU
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 16 RELATED PARTY TRANSACTIONS

Lease Agreements

The Bureau entered into lease agreements with the Lexington Financial Center (managed by the Webb Companies) and the Victorian Square during fiscal year 2012. Appointed commission members serve as representatives of both corporations. Those members recused themselves of all matters related to the lease agreements and did not receive any benefit, financial or otherwise, from the agreements.

Supplementary Information

**LEXINGTON CONVENTION AND VISITORS BUREAU
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS

	Year Ended June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2016
Total Net Pension Liability for CERS	\$ 3,244,376,000.00	\$ 4,299,525,000.00	\$ 4,923,618,237.00
Employer's Proportionate (%) of Net Pension Liability	0.04325%	0.04596%	0.04817%
Employer's Proportionate (\$) of Net Pension Liability	\$ 1,403,000.00	\$ 1,976,090.00	\$ 2,371,530.00
Employer's Covered - Employer Payroll	\$ 1,005,599.50	\$ 1,160,742.61	\$ 1,364,853.00
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Employer's Covered Payroll	139.52%	170.24%	173.76%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,147,000.00	\$ 6,440,800,000.00	\$ 6,141,394,000.00
Total Pension Plan's Pension Liability	\$ 9,772,523,000.00	\$ 10,740,325,000.00	\$ 11,065,013,000.00
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%	59.97%	55.50%

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

The data provided in the schedule is as of the measurement date of KRS's net pension liability, which is June 30, 2016.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess/(Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 136,134.60	\$ 136,134.60	\$ -	\$ 1,067,722.35	12.75%
2016	\$ 141,531.77	\$ 141,531.77	\$ -	\$ 1,165,830.07	12.14%
2017	\$ 190,394.77	\$ 190,394.77	\$ -	\$ 1,364,853.00	13.95%

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

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS INFORMATION

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation	5-year smoothed market
Inflation	3.25 percent
Salary increases	4.00 percent
Investment Rate of Return	7.50 percent, net of investment expense, including inflation
Retirement age	65 years or 27 years of service regardless of age

Lexington Convention and Visitors Bureau
Budgetary Comparison Schedule
For the Year Ended June 30, 2017

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Occupancy Tax Receipts	\$ 7,000,000.00	\$ 7,800,000.00	\$ 7,297,047.24	\$ (502,952.76)
Matching Fund Revenue	330,000.00	330,000.00	330,787.45	787.45
Other Income	13,700.00	13,700.00	30,458.45	16,758.45
Total Operating Revenues	<u>7,343,700.00</u>	<u>8,143,700.00</u>	<u>7,658,293.14</u>	<u>(485,406.86)</u>
Operating Expenses				
Personnel Expense	\$ 2,200,000.00	\$ 2,200,000.00	\$ 2,239,788.34	\$ (39,788.34)
Lexington Center Corporation	448,000.00	448,000.00	448,000.00	-
Professional Services	110,000.00	126,500.00	129,776.05	(3,276.05)
Office Expense	325,000.00	328,500.00	274,890.78	53,609.22
Industry Associations and Subscriptions	100,000.00	105,000.00	108,219.63	(3,219.63)
Industry Programs and Relation	90,000.00	105,000.00	74,905.08	30,094.92
Promotional Travel	30,000.00	30,000.00	38,004.21	(8,004.21)
Advertising	1,950,000.00	2,322,800.00	2,506,225.26	(183,425.26)
Fulfillment	60,000.00	60,000.00	46,360.98	13,639.02
Sales Efforts	75,000.00	81,000.00	113,084.92	(32,084.92)
Conventions and Meetings	475,000.00	549,200.00	396,486.43	152,713.57
Promotional Items	50,000.00	50,000.00	44,222.30	5,777.70
Printing	250,000.00	253,000.00	218,974.17	34,025.83
Media Relations and Support	195,000.00	205,000.00	230,338.65	(25,338.65)
Website	130,000.00	130,000.00	123,591.31	6,408.69
Research	75,000.00	155,000.00	172,715.88	(17,715.88)
Staff Development	65,000.00	76,500.00	34,103.47	42,396.53
Development Programs	552,000.00	752,000.00	541,642.12	210,357.88
LFUCG Collection Fee	35,000.00	35,000.00	36,485.24	(1,485.24)
Depreciation Expense	135,000.00	137,500.00	95,410.67	42,089.33
Total Operating Expenses	<u>7,350,000.00</u>	<u>8,150,000.00</u>	<u>7,873,225.49</u>	<u>276,774.51</u>
Operating Income (Loss)	<u>\$ (6,300.00)</u>	<u>\$ (6,300.00)</u>	<u>\$ (214,932.35)</u>	<u>\$ (208,632.35)</u>
Nonoperating Revenues (Expenses)				
Interest and Investment Income	6,300.00	6,300.00	6,597.82	297.82
Total Nonoperating Revenues (Expenses)	<u>6,300.00</u>	<u>6,300.00</u>	<u>6,597.82</u>	<u>297.82</u>
Change in Net Position	-	-	(208,334.53)	(208,334.53)
Total Net Position - Beginning	5,685,034.34	5,685,034.34	5,685,034.34	5,685,034.34
Total Net Position - Ending	<u>\$ 5,685,034.34</u>	<u>\$ 5,685,034.34</u>	<u>\$ 5,476,699.81</u>	<u>\$ 5,476,699.81</u>

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



To the Commission Members
Lexington Convention and Visitors Bureau

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lexington Convention and Visitors Bureau (Bureau) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads 'Mountjoy Chilton Medley LLP'.

Lexington, Kentucky
September 29, 2017