

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas

Accountants' Report and Financial Statements

December 31, 2005



Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
December 31, 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Fayetteville Public Library
Fayetteville, Arkansas

We have audited the accompanying basic financial statements of Fayetteville Public Library, a component unit of the City of Fayetteville, Arkansas, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Library's management. 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. 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville Public Library as of December 31, 2005, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

January 25, 2006

Fayetteville Public Library

A Component Unit of City of Fayetteville

Management's Discussion and Analysis

Year Ended December 31, 2005

Introduction

As management of the Fayetteville Public Library (the "Government"), we offer readers of the Government's financial statements this narrative overview and analysis of the government's financial activities for the year ended December 31, 2005. It should be read in conjunction with the accompanying financial statements of the Government.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$27,996,113 (*net assets*). Of this amount, \$2,172,745 (*unrestricted net assets*) may be used to meet the Library's ongoing obligations and \$3,079,498 are available to meet Foundation obligations.
- The Library's net assets increased by \$190,376 or 0.80%. The Foundation's net assets increased by \$723,839 or 17%.
- As of the close of the current year, the Government's governmental fund reported ending fund balances of \$1,559,851 attributable to the Library and \$5,482,543 attributable to its Foundation, an increase of \$942,277 or 17% in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balances for the governmental fund were \$4,791,273, or 168% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation is \$1,559,851, or 57% of Library governmental fund expenditures.

Overview of Financial Statements

This annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements* and *required supplementary information* (Budgetary Comparison Schedule). The basic financial statements include information that presents two different views of the Government.

The Government's basic financial statements not only include the Library but also its blended component unit, Fayetteville Public Library Foundation (the "Foundation"). The Foundation, although a legal separate entity, is, in substance, part of the Government's operations since its primary function is to raise funds for the benefit of the Library. The effect of the transactions between the Library and Foundation is eliminated in the basic financial statements.

The *governmental fund* column of the financial statements includes information on the Government's General Fund (which includes the Library and Foundation) under the modified accrual basis of accounting using the current resource method. The governmental fund is used to account for essentially the same functions reported as in the government-wide financial statements (statement of net assets and statement of activities columns on pages 7 and 8, respectively).

However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

The adjustment column of the financial statements represents adjustments necessary to convert the governmental fund financial statements to the government-wide financial statements under the full accrual method of accounting. The adjustments columns provide reconciliations to facilitate the comparison between the governmental fund and government-wide financial statements.

The third column presents the Government's *government-wide financial statements* which are designed to provide readers with a broad overview of the Government's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Government's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Government is improving or deteriorating.

The *statement of activities* presents information showing how the Government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Government's near-term financing decisions.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Government, assets exceeded liabilities by \$28,910,328 at the close of the most recent fiscal year.

A portion of the government's net assets (20%) may be used to meet the government's ongoing obligations to citizens and creditors.

Statement of Net Assets

	Library		Foundation		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 2,686,325	\$ 2,691,928	\$ 5,482,543	\$ 4,975,931	\$ 8,168,868	\$ 7,667,859
Capital Assets, net	<u>21,429,418</u>	<u>21,535,473</u>	<u>641</u>	<u>2,294</u>	<u>21,430,059</u>	<u>21,537,767</u>
Total Assets	<u>24,115,743</u>	<u>24,227,401</u>	<u>5,483,184</u>	<u>4,978,225</u>	<u>29,598,927</u>	<u>29,205,626</u>
Current and Other Liabilities	<u>217,149</u>	<u>519,183</u>	<u>471,450</u>	<u>690,330</u>	<u>688,599</u>	<u>1,209,513</u>
Total Liabilities	<u>217,149</u>	<u>519,183</u>	<u>471,450</u>	<u>690,330</u>	<u>688,599</u>	<u>1,209,513</u>
Net Assets						
Invested in Capital Assets	21,429,418	21,535,473	641	2,294	21,430,059	21,537,767
Restricted	-	-	1,679,328	1,206,103	1,679,328	1,206,103
Unrestricted	<u>2,469,176</u>	<u>2,172,745</u>	<u>3,331,765</u>	<u>3,079,498</u>	<u>5,800,941</u>	<u>5,252,243</u>
Total Net Assets	<u>\$ 23,898,594</u>	<u>\$ 23,708,218</u>	<u>\$ 5,011,734</u>	<u>\$ 4,287,895</u>	<u>\$ 28,910,328</u>	<u>\$ 27,996,113</u>

An additional portion of the net assets (74%) reflect its investment in capital assets (e.g., land, buildings and furniture and equipment). The Government uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. The remaining balance of net assets (6%) represents resources that are subject to external restrictions on how they may be used. The Foundation's restricted net assets increased significantly in 2005 due to a gift of \$450,000 that is permanently restricted for the benefit of the Children's Library.

Statement of Activities

	Library		Foundation		Eliminations		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues								
Grants and contributions	\$ 2,179,577	\$ 23,950,531	\$ 1,046,637	\$ 2,656,872	\$ (374,598)	\$ (894,287)	\$ 2,851,616	\$ 25,713,116
Local property taxes	909,783	825,004	-	-	-	-	909,783	825,004
Fines and fees	109,846	73,613	-	-	-	-	109,846	73,613
Investment earnings	45,464	12,567	186,603	126,916	-	-	232,067	139,483
Miscellaneous	<u>37,279</u>	<u>17,731</u>	<u>2,731</u>	<u>31,229</u>	<u>-</u>	<u>-</u>	<u>40,010</u>	<u>48,960</u>
Total Revenues	<u>3,281,949</u>	<u>24,879,446</u>	<u>1,235,971</u>	<u>2,815,017</u>	<u>(374,598)</u>	<u>(894,287)</u>	<u>4,143,322</u>	<u>26,800,176</u>
Expenses	<u>3,091,573</u>	<u>3,129,245</u>	<u>512,132</u>	<u>1,046,475</u>	<u>(374,598)</u>	<u>(894,287)</u>	<u>3,229,107</u>	<u>3,281,433</u>
Change in Net Assets	190,376	21,750,201	723,839	1,768,542	-	-	914,215	23,518,743
Net Assets, Beginning of Year	<u>23,708,218</u>	<u>1,958,017</u>	<u>4,287,895</u>	<u>2,519,353</u>	<u>-</u>	<u>-</u>	<u>27,996,113</u>	<u>4,477,370</u>
Net Assets, End of Year	<u>\$ 23,898,594</u>	<u>\$ 23,708,218</u>	<u>\$ 5,011,734</u>	<u>\$ 4,287,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,910,328</u>	<u>\$ 27,996,113</u>

In 2004, the Library's grants and contributions revenue reflects the contribution of the new Blair Library facility with a cost of \$21,497,768 received from the City of Fayetteville (the "City") as the construction project was maintained on the books of the City and transferred to the Library once construction was substantially completed in 2004. The capital project was funded mostly by sales tax revenues dedicated to the library construction which were received by the City.

The reduction in the Foundation's grants and contributions revenue from 2004 to 2005 is an indicator of the winding down of the capital campaign, which officially ended in 2005. Campaign gifts continue as pledges are received, but not at the 2004 levels. The reduction of expenses of the Foundation is also reflective of the completion of the building. Although, there continued to be building costs paid in 2005, they, too, were not at 2004 levels.

Financial Analysis of the Governmental Fund

As noted earlier, the focus of the Government's governmental fund is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the Government's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available at the end of the fiscal year.

As of the end of the current fiscal year, the governmental fund reported ending fund balances of \$1,559,851 and \$4,910,750 for the Library and Foundation, respectively. 100% and 66% of these amounts constitutes unreserved fund balances, which are available for spending at the Library's and Foundation's discretion, respectively. The remainder of the fund balances are reserved for other purposes.

The fund balances of the governmental fund increased by \$942,277 (\$220,373 and \$721,904 attributed to the Library and Foundation, respectively) during the current fiscal year. A key factor in this increase is the local support received from a donor in the form of a Children's library endowment gift received which was noted earlier in the analysis of the government-wide financial statements.

Budgetary Highlights

Differences between the final budget and the actual results (budgetary basis) can be briefly summarized as follows:

- An increase of \$177,198 is primarily due to an increase of support provided by the Friends organization.
- An increase in property tax revenues of \$139,313 is due to the budget which is based upon the prior year's property tax receipts. The majority of the Library's property tax revenues are received late in the fiscal year and are expended in the following year's budget. Therefore, the Library's property tax revenue budget reflects the revenue collected in the prior year.
- The increase in materials and supplies expenditure is mainly due to funds for books and materials being provided by the Friends group and the restocking of supplies that were allowed to decrease prior to the library's move.
- The capital outlay expenditure increase of \$131,439 was due to continuing payments for the new library building.

Capital Assets

At the end of 2005, the Government had \$21,430,059 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements, a decrease of \$107,708. The decrease is primarily due to:

- 2005 depreciation expense of capital assets in the amount of \$523,175
- Less capital outlay additions of \$185,157 for new equipment
- Less the donation of an art sculpture with an estimated fair value of \$150,000
- Less the City's contribution of \$80,933 of building improvements to the Library facility

Economic Factors and Next Year's Budgets and Rates

In October 2005, the Fayetteville Public Library moved into the Blair Library Building which is nearly three times the size of the previous site. The move will result in increased costs for cleaning, utilities, technology and staffing needs, etc. Although property tax assessments are increasing at a dependable 5% annually, it is not enough to offset the added expenses of a bigger Library facility. The Foundation successfully launched an annual giving campaign in 2005, and by all projections will meet 2006 goals. The Foundation will also begin to solicit corporate dollars through targeted sponsorships in 2006.

Contacting the Government's Financial Management

This financial report is designed to provide a general overview of the Government's finances for all those with an interest in them. Questions concerning any of the information provided in this report or requests for additional financial information should be mailed to the following address:

Office of the Manager of Financial Services
Fayetteville Public Library
401 W. Mountain
Fayetteville, AR 72701

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Governmental Fund Balance Sheet/Statement of Net Assets
December 31, 2005

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2004 (Memorandum Only)
Assets				
Cash	\$ 2,593,335	\$ —	\$ 2,593,335	\$ 4,685,458
Investments	2,277,193	—	2,277,193	89,285
Property taxes receivable	947,546	—	947,546	833,267
Pledges receivable	585,793	—	585,793	750,152
Accrued interest receivable	6,309	—	6,309	4,827
Other	—	—	—	63,594
Prepaid expense	79,364	—	79,364	—
Restricted				
Cash and cash equivalents	360,627	—	360,627	—
Investments	1,314,586	—	1,314,586	1,201,276
Accrued interest receivable	4,115	—	4,115	—
Land held for sale	—	—	—	40,000
Capital assets, net of accumulated depreciation	<u>—</u>	<u>21,430,059</u>	<u>21,430,059</u>	<u>21,537,767</u>
Total assets	<u>\$ 8,168,868</u>	<u>21,430,059</u>	<u>29,598,927</u>	<u>29,205,626</u>
Liabilities				
Accounts payable	\$ 79,408	—	79,408	108,110
Accrued expenses	137,741	—	137,741	132,933
Due to primary government	—	—	—	319,411
Deferred revenue	<u>1,481,118</u>	<u>(1,009,668)</u>	<u>471,450</u>	<u>649,059</u>
Total liabilities	<u>1,698,267</u>	<u>(1,009,668)</u>	<u>688,599</u>	<u>1,209,513</u>
Fund Balances/Net Assets				
Fund balances				
Reserved				
Capital assets	685,540	(685,540)	—	—
Children's library	993,788	(993,788)	—	—
Unreserved	<u>4,791,273</u>	<u>(4,791,273)</u>	<u>—</u>	<u>—</u>
Total fund balances	<u>6,470,601</u>	<u>(6,470,601)</u>	<u>0</u>	<u>0</u>
Total liabilities and fund balances	<u>\$ 8,168,868</u>			
Net assets				
Invested in capital assets		21,430,059	21,430,059	21,537,767
Restricted for capital assets				
Expendable		185,540	185,540	148,737
Nonexpendable		500,000	500,000	500,000
Restricted for children's library				
Expendable		43,788	43,788	57,366
Nonexpendable		950,000	950,000	500,000
Unrestricted		<u>5,800,941</u>	<u>5,800,941</u>	<u>5,252,243</u>
Total net assets		<u>\$ 28,910,328</u>	<u>\$ 28,910,328</u>	<u>\$ 27,996,113</u>

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2005

	Governmental Fund	Adjustments	Statement of Activities	2004 (Memorandum Only)
Revenues				
Contributions				
From primary government	\$ 1,623,813	\$ 80,933	\$ 1,704,746	\$ 22,961,246
Other	885,649	193,588	1,079,237	2,702,872
Property taxes	833,725	76,058	909,783	825,004
Investment earnings	232,067	—	232,067	139,483
Fines and fees	109,846	—	109,846	73,613
State aid	67,633	—	67,633	48,998
Miscellaneous	40,010	—	40,010	48,960
	<u>3,792,743</u>	<u>350,579</u>	<u>4,143,322</u>	<u>26,800,176</u>
Total revenues				
Expenditures/Expenses				
Current				
Personnel services	1,619,578	—	1,619,578	1,402,926
Materials and supplies	731,921	—	731,921	1,418,335
Services and charges	200,290	—	200,290	270,743
Maintenance	120,447	—	120,447	34,197
Library contributions	—	—	—	—
Depreciation	—	523,175	523,175	155,232
Loss on capital assets	—	33,696	33,696	—
Capital outlay	185,157	(185,157)	—	—
	<u>2,857,393</u>	<u>371,714</u>	<u>3,229,107</u>	<u>3,281,433</u>
Total expenditures/expenses				
Excess Revenues Over				
Expenditures/Expenses	935,350	(21,135)	914,215	23,518,743
Other Financing Source				
Sale of land	6,927	(6,927)	—	—
	<u>942,277</u>	<u>(28,062)</u>	<u>914,215</u>	<u>23,518,743</u>
Change in Net Assets				
Fund Balances/Net Assets				
Beginning of the year	5,528,324	22,467,789	27,996,113	4,477,370
End of year	<u>\$ 6,470,601</u>	<u>\$ 22,439,727</u>	<u>\$ 28,910,328</u>	<u>\$ 27,996,113</u>

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Fayetteville Public Library (Library) is a Library located in Fayetteville, Arkansas. The Library is a component unit of the City of Fayetteville, Arkansas (City). The Mayor of the City appoints all seven members of the Library's Board of Trustees and the City controls a major portion of the Library's budget. The accompanying financial statements present the Library and its component unit, an entity for which the Library is considered to be financially accountable. Blended component units, although legal separate entities, are, in substance, part of the Library's operations.

Blended Component Unit. The Fayetteville Public Library Foundation (Foundation) provides fundraising for the Library and is governed by a board comprised of members appointed by the Board of Trustees of the Library. The Foundation is reported with the Library's general fund. Complete financial statements of the Foundation may be obtained from its Director of Development's office at 401 W. Mountain, Fayetteville, AR.

Measurement Focus, Basis of Accounting and Presentation

The Library has one fund, the General Fund, which is the Library's operating fund.

The General Fund is accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In addition to presenting information for the General Fund, the statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2005

Property Taxes

Property taxes are assessed in October and are due and payable after February 1 of the next year and become delinquent after October 10 of the following year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Pledges Receivable

Pledges receivable consists of unconditional promises to give made by donors. Pledges receivable is recorded net of estimated uncollectible amounts and discounted to present value for pledges due in more than one year.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Library:

Buildings and improvements	50 years
Furniture and equipment	5 – 10 years

Collections

All collections of works of art, historical treasures and similar assets are capitalized. Items added to the collections are capitalized at cost if purchased, or at estimated fair value on the acquisition date if donated. Collection items sold or removed are reported as unrestricted or temporarily restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Compensated Absences

Library policies permit most employees to accumulate leave with pay benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as accrued leave benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability is included in accrued expenses on the statement of net assets.

Deferred Revenue

Deferred revenue represents unearned contributions for which the Library has not met all of the applicable eligibility requirements.

Net Assets

Net assets of the Library are classified in four components. Net assets invested in capital assets, consist of capital assets net of accumulated depreciation. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Library. Restricted nonexpendable net assets are noncapital assets whose restrictions are permanent in nature as specified by donors external to the Library. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, restricted expendable or restricted nonexpendable.

Note 2: Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances. The following are reconciliations of fund balances to net asset and the net change in fund balances to the net change in net assets:

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Total fund balances \$ 6,470,601

Amounts reported 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 funds. 21,430,059

Amounts reported as deferred revenue or not recognized at the fund level on the modified accrual basis are reported as revenues on the full accrual basis in the government-wide financial statements. 1,009,668

Total net assets \$ 28,910,328

Change in Fund Balances \$ 942,277

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, for government-wide statements, the cost of those assets is allocated over estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (338,018)

Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. 230,933

In the statement of activities, on the gain (loss) on the disposition of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net asset differs from the change in fund balance by the cost of the capital assets disposed. (40,623)

Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities 119,646

Change in net assets \$ 914,215

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it.

State law requires collateralization of all deposits of public funds with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Arkansas.

Library

The Library's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Foundation

The Foundation does not have a deposit policy.

At December 31, 2005, \$132,100 of the Foundation's bank balances of \$233,709 were uninsured and uncollateralized. The Foundation's book values of these deposits were \$241,572 as of December 31, 2005.

Investments

Library

The Library may legally invest in direct obligations of the U.S. Government and agencies, collateralized certificates of deposit, prerefunded municipal bonds, corporate bonds, collateralized repurchase agreements, Treasury money markets, local government trusts and savings accounts.

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

At December 31, 2005, the Library had the following investments and maturities:

Type	December 31, 2005				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury and agencies obligations	\$ 68,679	\$ —	\$ —	\$ 68,679	\$ —
Money market mutual funds	<u>888,197</u>	<u>888,197</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 956,876</u>	<u>\$ 888,197</u>	<u>\$ 0</u>	<u>\$ 68,679</u>	<u>\$ 0</u>

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Library’s investment policy is to attempt to match investment maturities with cash flow requirements. Money market mutual funds are used to meet the short term cash flow needs of the Library. Other investments are allowed within a range of maturities of ninety days to ten years and over. The Library’s investments have maturities over five years to maximize interest earnings.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Library’s policy to invest no more than 20% in corporate debt and securities of a management type investment company or investment trust. The corporate bonds must be rated as A- or better by both Moody’s Investor Service and Standard and Poor’s. Investment in Commercial Paper will be rated A-1/P-1.

Concentration of Credit Risk – The Library’s policy states that investments shall be diversified by limiting investments to avoid over concentration in securities from a specific issuer to 5% of the cost basis of the Library’s portfolio at the time of purchase.

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Foundation

At December 31, 2005, the Foundation had the following investments and maturities:

Type	December 31, 2005				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 981,495	\$ 520,978	\$ 247,125	\$ 213,392	\$ —
Corporate bonds	217,877	—	30,488	187,389	—
Money market mutual funds	1,121,654	<u>1,121,654</u>	—	—	—
		<u>\$ 1,642,632</u>	<u>\$ 277,613</u>	<u>\$ 400,781</u>	<u>\$ 0</u>
Mutual funds	179,821				
Unit trusts	310,855				
Corporate stocks	<u>1,833,052</u>				
	<u>\$ 4,644,754</u>				

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation’s investment policy limits its investment fixed income portfolio to maturities of no more than ten years or non-public in nature.

Credit Risk - It is the Foundation’s policy to limit its investments in corporate bonds to issues that are rated investment grade by Standard & Poor’s and Moody’s Investors Service and shall maintain an A+ rating overall. At December 31, 2005, the Foundation’s investments in corporate bonds were rated A2, A1, Aa3, Baa2, Ba2 and Baa1 by Moody’s Investors Service.

Concentration of Credit Risk – The Foundation’s policy dictates that except for U.S. Treasury or agency obligations, that investments shall be diversified by limiting investments to no more than 5% exposure to any one issuer.

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statement of net assets as follows:

Carrying value		
Library		
Deposits	\$	702,131
Cash on hand		408
Investments		956,876
Foundation		
Deposits		241,572
Investments		<u>4,644,754</u>
	\$	<u><u>6,545,741</u></u>

Included in the following statement of net assets captions

Cash and cash equivalents	\$	2,593,335
Restricted cash and cash equivalents		360,627
Investments		2,277,193
Restricted investments		<u>1,314,586</u>
	\$	<u><u>6,545,741</u></u>

Investment Income

Investment income for the year ended December 31, 2005, consisted of:

Interest and dividend income	\$	132,723
Net increase in fair value of investments		<u>99,344</u>
	\$	<u><u>232,067</u></u>

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2005, were:

	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	\$ 20,673,697	\$ 80,933	\$ —	\$ 20,754,630
Furniture and equipment	1,047,059	185,158	2,490	1,229,727
Library owned art	<u>—</u>	<u>150,000</u>	<u>—</u>	<u>150,000</u>
	<u>21,720,756</u>	<u>416,091</u>	<u>2,490</u>	<u>22,134,357</u>
Less accumulated depreciation				
Buildings and improvements	93,032	372,835	—	465,867
Furniture and equipment	<u>89,957</u>	<u>150,340</u>	<u>1,866</u>	<u>238,431</u>
	<u>182,989</u>	<u>523,175</u>	<u>1,866</u>	<u>704,298</u>
Capital Assets, Net	<u>\$ 21,537,767</u>	<u>\$ (107,084)</u>	<u>\$ 624</u>	<u>\$ 21,430,059</u>

Note 5: Pension Plan

The Library contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Library's required contributions, determined in accordance with the terms of the plan. The plan is administered by BancOklahoma Trust. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Library's governing body. Contribution rates for plan members and the Library expressed as a percentage of covered payroll were 3% and 10% for 2005. Contributions actually made by plan members and the Library aggregated \$37,101 and \$75,262 during 2005.

Note 6: Risk Management

The Library is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2005

Note 7: Foundation Endowments and Similar Funds

The Foundation's Board of Directors has established an investment policy with the objective of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. It is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to ensure a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. As of December 31, 2005, the Foundation had a total of \$229,328 of net appreciation from investment of donor-restricted endowments available for expenditure. This amount is reported in expendable restricted net assets on the statements of net assets. The laws of the state of Arkansas do not currently restrict the Foundation's ability to spend net appreciation on donor-restricted endowment funds.

Required Supplementary Information

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Budgetary Comparison Schedule
General Fund
Budgetary Basis
Year Ended December 31, 2005

	Original	Final	GAAP Basis	Adjustments	Budgetary Basis	Final Budget- Budgetary Basis Variance
Revenues						
Contributions						
From primary government	\$ 1,711,198	\$ 1,711,198	\$ 1,623,813	\$ —	\$ 1,623,813	\$ (87,385)
From other	57,000	80,000	885,649	(628,451)	257,198	177,198
Property taxes	694,412	694,412	833,725	—	833,725	139,313
Investment earnings	3,600	3,600	232,067	(186,603)	45,464	41,864
Fines and fees	45,500	45,500	109,846	—	109,846	64,346
State aid to public libraries	35,000	35,000	67,633	—	67,633	32,633
Miscellaneous	<u>6,000</u>	<u>83,248</u>	<u>40,010</u>	<u>(2,731)</u>	<u>37,279</u>	<u>(45,969)</u>
Total revenues	<u>2,552,710</u>	<u>2,652,958</u>	<u>3,792,743</u>	<u>(817,785)</u>	<u>2,974,958</u>	<u>322,000</u>
Expenditures						
Current						
Personnel services	1,561,858	1,502,377	1,619,578	(64,912)	1,554,666	(52,289)
Materials and supplies	422,000	509,006	731,921	(29,345)	702,576	(193,570)
Services and charges	377,433	389,138	200,290	(8,333)	191,957	197,181
Maintenance	158,400	198,918	120,447	—	120,447	78,471
Capital outlay	<u>33,000</u>	<u>53,500</u>	<u>185,157</u>	<u>(218)</u>	<u>184,939</u>	<u>(131,439)</u>
Total expenditures	<u>2,552,691</u>	<u>2,652,939</u>	<u>2,857,393</u>	<u>(102,808)</u>	<u>2,754,585</u>	<u>(101,646)</u>
Excess of Revenues Over (Under)						
Expenditures	<u>19</u>	<u>19</u>	<u>935,350</u>	<u>(714,977)</u>	<u>220,373</u>	<u>220,354</u>
Other financing Source						
Sale of land	<u>—</u>	<u>—</u>	<u>6,927</u>	<u>(6,927)</u>	<u>—</u>	<u>—</u>
Change in Net Assets	19	19	942,277	(721,904)	220,373	220,354
Fund Balance, Beginning of Year	<u>1,339,478</u>	<u>1,339,478</u>	<u>5,528,324</u>	<u>(4,188,846)</u>	<u>1,339,478</u>	<u>—</u>
Fund Balance, End of Year	<u>\$ 1,339,497</u>	<u>\$ 1,339,497</u>	<u>\$ 6,470,601</u>	<u>\$ (4,910,750)</u>	<u>\$ 1,559,851</u>	<u>\$ 220,354</u>

Budgets and Budgetary Accounting

The annual budget is prepared on the modified accrual basis for revenues and expenditures and adopted by the Library Board of Trustees. Subsequent amendments are approved by the Board. Budgetary control is maintained at the Library program level.

The budgetary basis used for budget purposes excludes the revenues and expenditures of the Foundation since it is a blended component unit of the Library and does not adopt an annual budget.

Supplementary Information

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Governmental Fund Balance Sheet/Statement of Net Assets – Library Only
December 31, 2005

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2004 (Memorandum Only)
Assets				
Cash and cash equivalents	\$ 1,590,736	\$ —	\$ 1,590,736	\$ 1,725,249
Investments	68,679	—	68,679	69,818
Property taxes receivable	947,546	—	947,546	833,267
Accounts receivable – other	—	—	—	63,594
Prepaid expense	79,364	—	79,364	—
Capital assets, net of accumulated depreciation	<u>—</u>	<u>21,429,418</u>	<u>21,429,418</u>	<u>21,535,473</u>
Total assets	<u>\$ 2,686,325</u>	<u>21,429,418</u>	<u>24,115,743</u>	<u>24,227,401</u>
Liabilities				
Accounts payable	\$ 79,408	—	79,408	66,839
Accrued expenses	137,741	—	137,741	132,933
Due to primary government	—	—	—	319,411
Deferred revenue	<u>909,325</u>	<u>(909,325)</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>1,126,474</u>	<u>(909,325)</u>	<u>217,149</u>	<u>519,183</u>
Fund Balance/Net Assets				
Fund balance				
Unreserved	<u>1,559,851</u>	<u>(1,559,851)</u>	<u>—</u>	<u>—</u>
Total fund balance	<u>1,559,851</u>	<u>(1,559,851)</u>	<u>0</u>	<u>0</u>
Total liabilities and fund balance	<u>\$ 2,686,325</u>			
Net assets				
Invested in capital assets		21,429,418	21,429,418	21,535,473
Unrestricted		<u>2,469,176</u>	<u>2,469,176</u>	<u>2,172,745</u>
Total net assets		<u>\$ 23,898,594</u>	<u>\$ 23,898,594</u>	<u>\$ 23,708,218</u>

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Statement of Governmental Fund Revenues, Expenditures and changes in Fund
Balance/Statement of Activities – Library Only
Year Ended December 31, 2005

	Governmental Fund	Adjustments	Statement of Activities	2004 (Memorandum Only)
Revenues				
Contributions				
From Foundation	\$ 224,598	\$ 150,000	\$ 374,598	\$ 894,287
From primary government	1,623,813	80,933	1,704,746	22,961,246
Other	32,600	—	32,600	46,000
Property taxes	833,725	76,058	909,783	825,004
Investment earnings	45,464	—	45,464	12,567
Fines and fees	109,846	—	109,846	73,613
State aid	67,633	—	67,633	48,998
Miscellaneous	37,279	—	37,279	17,731
	<u>2,974,958</u>	<u>306,991</u>	<u>3,281,949</u>	<u>24,879,446</u>
Total revenues				
Expenditures/Expenses				
Current				
Personnel services	1,554,666	—	1,554,666	1,345,592
Materials and supplies	702,576	—	702,576	1,396,001
Services and charges	191,957	—	191,957	202,062
Maintenance	120,447	—	120,447	34,197
Depreciation	—	521,927	521,927	151,393
Capital outlay	184,939	(184,939)	—	—
	<u>2,754,585</u>	<u>336,988</u>	<u>3,091,573</u>	<u>3,129,245</u>
Total expenditures/expenses				
Change in fund balance/net assets	<u>220,373</u>	<u>(29,997)</u>	<u>190,376</u>	<u>21,750,201</u>
Fund Balances/Net Assets				
Beginning of the year, as previously reported	1,339,478	22,368,740	23,708,218	1,220,614
Adjustment applicable to prior years	—	—	—	737,403
Beginning of the year, as restated	<u>1,339,478</u>	<u>22,368,740</u>	<u>23,708,218</u>	<u>1,958,017</u>
End of the year	<u>\$ 1,559,851</u>	<u>\$ 22,338,743</u>	<u>\$ 23,898,594</u>	<u>\$ 23,708,218</u>

Fayetteville Public Library
A Component Unit of City of Fayetteville, Arkansas
Combining Statement of governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2005

	Governmental Fund			
	Library	Foundation	Eliminations	Total
Revenues				
Contributions				
From Foundation	\$ 224,598	\$ —	\$ (224,598)	\$ 0
From primary government	1,623,813	—	—	1,623,813
Other	32,600	1,003,049	(150,000)	885,649
Property taxes	833,725	—	—	833,725
Investment earnings	45,464	186,603	—	232,067
Fines and fees	109,846	—	—	109,846
State aid	67,633	—	—	67,633
Miscellaneous	37,279	2,731	—	40,010
Total revenues	<u>2,974,958</u>	<u>1,192,383</u>	<u>(374,598)</u>	<u>3,792,743</u>
Expenditures/Expenses				
Current				
Personnel services	1,554,666	64,912	—	1,619,578
Materials and supplies	702,576	29,345	—	731,921
Services and charges	191,957	8,333	—	200,290
Maintenance	120,447	—	—	120,447
Library contributions	—	374,598	(374,598)	0
Depreciation	—	—	—	0
Loss on capital assets	—	—	—	0
Capital outlay	184,939	218	—	185,157
Total expenditures/ expenses	<u>2,754,585</u>	<u>477,406</u>	<u>(374,598)</u>	<u>2,857,393</u>
Excess Revenues Over Expenditures/ Expenses	220,373	714,977	0	935,350
Other Financing Source				
Sale of land	—	6,927	—	6,927
Change in Net Assets	<u>220,373</u>	<u>721,904</u>	<u>0</u>	<u>942,277</u>
Fund Balances/Net Assets				
Beginning of the year	<u>1,339,478</u>	<u>4,188,846</u>	<u>—</u>	<u>5,528,324</u>
End of the year	<u>\$ 1,559,851</u>	<u>\$ 4,910,750</u>	<u>\$ 0</u>	<u>\$ 6,470,601</u>

Adjustments				Statement of Activities			
Library	Foundation	Eliminations	Total	Library	Foundation	Eliminations	Total
\$ 150,000	\$ —	\$ (150,000)	\$ 0	\$ 374,598	\$ —	\$ (374,598)	\$ 0
80,933	—	—	80,933	1,704,746	—	—	1,704,746
—	43,588	150,000	193,588	32,600	1,046,637	—	1,079,237
76,058	—	—	76,058	909,783	—	—	909,783
—	—	—	0	45,464	186,603	—	232,067
—	—	—	0	109,846	—	—	109,846
—	—	—	0	67,633	—	—	67,633
—	—	—	0	37,279	2,731	—	40,010
<u>306,991</u>	<u>43,588</u>	<u>0</u>	<u>350,579</u>	<u>3,281,949</u>	<u>1,235,971</u>	<u>(374,598)</u>	<u>4,143,322</u>
—	—	—	0	1,554,666	64,912	—	1,619,578
—	—	—	0	702,576	29,345	—	731,921
—	—	—	0	191,957	8,333	—	200,290
—	—	—	0	120,447	—	—	120,447
—	—	—	0	—	374,598	(374,598)	0
521,927	1,248	—	523,175	521,927	1,248	—	523,175
—	33,696	—	33,696	—	33,696	—	33,696
<u>(184,939)</u>	<u>(218)</u>	<u>—</u>	<u>(185,157)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>0</u>
<u>336,988</u>	<u>34,726</u>	<u>0</u>	<u>371,714</u>	<u>3,091,573</u>	<u>512,132</u>	<u>(374,598)</u>	<u>3,229,107</u>
(29,997)	8,862	0	(21,135)	190,376	723,839	0	914,215
—	(6,927)	—	(6,927)	—	—	—	0
<u>(29,997)</u>	<u>1,935</u>	<u>0</u>	<u>(28,062)</u>	<u>190,376</u>	<u>723,839</u>	<u>0</u>	<u>914,215</u>
<u>22,368,740</u>	<u>99,049</u>	<u>—</u>	<u>22,467,789</u>	<u>23,708,218</u>	<u>4,287,895</u>	<u>—</u>	<u>27,996,113</u>
<u>\$ 22,338,743</u>	<u>\$ 100,984</u>	<u>\$ 0</u>	<u>\$ 22,439,727</u>	<u>\$ 23,898,594</u>	<u>\$ 5,011,734</u>	<u>\$ 0</u>	<u>\$ 28,910,328</u>