

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

Accountants' Report and Financial Statements

December 31, 2006



Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
December 31, 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis.....	2
Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Assets	7
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities	8
Notes to Financial Statements.....	9
Required Supplementary Information	
Budgetary Comparison Schedule.....	19
Supplementary Information	
Governmental Fund Balance Sheet/Statement of Net Assets – Library Only	20
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities – Library Only	21
Combining Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities	22

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, 2006, 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, 2006, 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

April 12, 2007

Fayetteville Public Library

A Component Unit of the City of Fayetteville, Arkansas

Management's Discussion and Analysis

Year Ended December 31, 2006

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, 2006. It should be read in conjunction with the accompanying financial statements of the Government.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$30,086,045 (*net assets*). Of this amount, \$3,226,052 (*unrestricted net assets*) may be used to meet the Library's ongoing obligations and \$3,524,485 are available to meet Foundation obligations.
- The Library's net assets increased by \$222,368 or 0.90%. The Foundation's net assets increased by \$953,349 or 19%.
- As of the close of the current year, the Government's governmental fund reported ending fund balances of \$2,244,552 attributable to the Library and \$5,965,083 attributable to its Foundation, an increase of \$1,739,034 or 27% in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balances for the governmental fund were \$5,769,037, or 195% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation is \$2,244,552, or 80% 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 \$30,086,045 at the close of the most recent fiscal year.

A portion of the government's net assets (23%) may be used to meet the government's ongoing obligations to citizens and creditors.

Statement of Net Assets

	Library		Foundation		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 3,398,934	\$ 2,686,325	\$ 6,430,203	\$ 5,482,543	\$ 9,829,137	\$ 8,168,868
Capital Assets, net	<u>20,894,910</u>	<u>21,429,418</u>	<u>-</u>	<u>641</u>	<u>20,894,910</u>	<u>21,430,059</u>
Total Assets	<u>24,293,844</u>	<u>24,115,743</u>	<u>6,430,203</u>	<u>5,483,184</u>	<u>30,724,047</u>	<u>29,598,927</u>
Current and Other Liabilities	<u>172,882</u>	<u>217,149</u>	<u>465,120</u>	<u>471,450</u>	<u>638,002</u>	<u>688,599</u>
Total Liabilities	<u>172,882</u>	<u>217,149</u>	<u>465,120</u>	<u>471,450</u>	<u>638,002</u>	<u>688,599</u>
Net Assets						
Invested in Capital Assets	20,894,910	21,429,418	-	641	20,894,910	21,430,059
Restricted	-	-	2,440,598	1,679,328	2,440,598	1,679,328
Unrestricted	<u>3,226,052</u>	<u>2,469,176</u>	<u>3,524,485</u>	<u>3,331,765</u>	<u>6,750,537</u>	<u>5,800,941</u>
Total Net Assets	<u>\$ 24,120,962</u>	<u>\$ 23,898,594</u>	<u>\$ 5,965,083</u>	<u>\$ 5,011,734</u>	<u>\$ 30,086,045</u>	<u>\$ 28,910,328</u>

An additional portion of the net assets (69%) 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 (8%) represents resources that are subject to external restrictions on how they may be used. The Foundation's restricted net assets increased significantly in 2006 due to two gifts of \$300,000 each that are permanently restricted for the benefit of the Children's Library and the Volunteer Program. Combined unrestricted net assets increased 16% since revenues outstripped expenses in 2006 by \$1,175,717.

Statement of Activities

	Library		Foundation		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues								
Grants and contributions	\$ 2,247,306	\$ 2,179,577	\$ 946,452	\$ 1,046,637	\$ (272,865)	\$ (374,598)	\$ 2,920,893	\$ 2,851,616
Local property taxes	1,023,700	909,783	-	-	-	-	1,023,700	909,783
Fines and fees	135,650	109,846	-	-	-	-	135,650	109,846
Investment earnings	86,231	45,464	417,727	186,603	-	-	503,958	232,067
Miscellaneous	<u>85,913</u>	<u>37,279</u>	<u>270</u>	<u>2,731</u>	<u>-</u>	<u>-</u>	<u>86,183</u>	<u>40,010</u>
Total Revenues	<u>3,578,800</u>	<u>3,281,949</u>	<u>1,364,449</u>	<u>1,235,971</u>	<u>(272,865)</u>	<u>(374,598)</u>	<u>4,670,384</u>	<u>4,143,322</u>
Expenses	<u>3,356,432</u>	<u>3,091,573</u>	<u>411,100</u>	<u>512,132</u>	<u>(272,865)</u>	<u>(374,598)</u>	<u>3,494,667</u>	<u>3,229,107</u>
Change in Net Assets	222,368	190,376	953,349	723,839	-	-	1,175,717	914,215
Net Assets, Beginning 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>
Net Assets, End of Year	<u>\$ 24,120,962</u>	<u>\$ 23,898,594</u>	<u>\$ 5,965,083</u>	<u>\$ 5,011,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,086,045</u>	<u>\$ 28,910,328</u>

In 2006, revenues increased by \$527,062 or 13%, primarily due to two factors:

- Local property tax revenues increased \$113,917 as a result of increased property tax valuation.

Investment earnings increased \$271,891 due to better market performance at the end of 2006 and increased investments from two large endowment contributions received during the year.

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 \$2,244,552 and \$5,965,083 for the Library and Foundation, respectively. 100% and 59% 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 \$1,739,034 (\$684,701 and \$1,054,333 attributed to the Library and Foundation, respectively) during the current fiscal year. Key factors in this increase are:

- The local support from donors in the form of endowment gifts received for the children's library and the volunteer program which was noted earlier in the analysis of the government-wide financial statements.
- The increase in investment income during 2006, which was also noted earlier in the analysis of the government-wide financial statements.

Capital Assets

At the end of 2006, the Government had \$20,894,910 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements, a decrease of \$535,149. The decrease is primarily due to depreciation expense of capital assets in the amount of \$545,727 and capital asset additions of \$10,578.

Budgetary Highlights

Differences between the final budget and the actual results (budgetary basis) as reported on Page 19 can be briefly summarized as follows:

- \$94,920 – Other contribution revenues. This represents donations to the library from the Foundation. Since the stock market was up over what was expected in June 2005, when the budget was prepared, the Foundation contributed significantly more to the Library than originally anticipated.

- \$133,561– Local property taxes. The Library used a calculation of 90% of the annual tax levy in June 2005 to budget. Then in December 2005, the budget was adjusted to 100% of 2005 collections, including the interest earned on the millage investment account. The 90% was too conservative of an estimate and the Library expects to use an estimate of 95% of the annual tax levy for budget purposes in the future.
- \$75,231– Investment earnings. Interest rates improved dramatically from June 2005, when the budget was prepared. Also, the interest earned on the tax millage investment account was not included in the current year budget. It was included in the actual amount available from millage monies to be used the next year and not budgeted for current year expenditures.
- \$75,389 – State aid to public libraries. The variance was mainly due to state GIF (General Improvement Funds) funds received in the amount of \$17,290 and the state aid appropriated by the State Library Board to the Library in August 2005 was greater than the amount appropriated in 2004, from which the Library’s 2006 budget was based.
- \$65,650 – Fines and fees. The Library contracted with a collection agency during the last quarter of 2006. This resulted in the increased collection of older receivables and the return of overdue materials when the contract began. Although we expect this trend to continue for a time, we do anticipate a leveling off in 2008.

Economic Factors and Next Year’s Budgets and Rates

The Northwest Arkansas and national economy are showing signs of slowing, as indicated by the slowing of the housing market and various other related factors. As a result, asset growth from investment performance is not expected to be at the same level in 2007 as 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 the City of Fayetteville, Arkansas
Governmental Fund Balance Sheet/Statement of Net Assets
December 31, 2006

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2005 (Memorandum Only)
Assets				
Cash and equivalents	\$ 3,303,843	\$ —	\$ 3,303,843	\$ 2,593,335
Investments	2,785,692	—	2,785,692	2,277,193
Accounts receivable	98,022	—	98,022	—
Property taxes receivable, net	1,003,702	—	1,003,702	947,546
Pledges receivable, net	430,565	—	430,565	585,793
Accrued interest receivable	7,686	—	7,686	6,309
Prepaid expense	73,524	—	73,524	79,364
Restricted				
Cash and cash equivalents	367,031	—	367,031	360,627
Investments	1,753,167	—	1,753,167	1,314,586
Accrued interest receivable	5,905	—	5,905	4,115
Capital assets, net	<u>—</u>	<u>20,894,910</u>	<u>20,894,910</u>	<u>21,430,059</u>
Total assets	<u>9,829,137</u>	<u>20,894,910</u>	<u>30,724,047</u>	<u>29,598,927</u>
Liabilities				
Accounts payable	110,072	—	110,072	79,408
Accrued expenses	156,428	—	156,428	137,741
Deferred revenue	<u>1,353,002</u>	<u>(981,500)</u>	<u>371,502</u>	<u>471,450</u>
Total liabilities	<u>1,619,502</u>	<u>(981,500)</u>	<u>638,002</u>	<u>688,599</u>
Fund Balances/Net Assets				
Fund balances				
Reserved				
Capital assets	736,147	(736,147)		
Children's library	1,389,955	(1,389,955)		
Volunteer program	314,496	(314,496)		
Unreserved	<u>5,769,037</u>	<u>(5,769,037)</u>		
Total fund balances	<u>8,209,635</u>	<u>(8,209,635)</u>		
Total liabilities and fund balances	<u>\$ 9,829,137</u>			
Net assets				
Invested in capital assets		20,894,910	20,894,910	21,430,059
Restricted for capital assets				
Expendable		236,147	236,147	185,540
Nonexpendable		500,000	500,000	500,000
Restricted for children's library				
Expendable		114,955	114,955	43,788
Nonexpendable		1,275,000	1,275,000	950,000
Restricted for the volunteer program				
Expendable		14,496	14,496	—
Nonexpendable		300,000	300,000	—
Unrestricted		<u>6,750,537</u>	<u>6,750,537</u>	<u>5,800,941</u>
Total net assets		<u>\$ 30,086,045</u>	<u>\$ 30,086,045</u>	<u>\$ 28,910,328</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2006

	Governmental Fund	Adjustments	Statement of Activities	2005 (Memorandum Only)
Revenues				
Contributions				
From primary government	\$ 1,816,249	\$ —	\$ 1,816,249	\$ 1,704,746
Other	1,099,598	(100,343)	999,255	1,079,237
Property taxes	951,526	72,174	1,023,700	909,783
Investment earnings	503,958	—	503,958	232,067
Fines and fees	135,650	—	135,650	109,846
State aid	105,389	—	105,389	67,633
Miscellaneous	<u>86,183</u>	<u>—</u>	<u>86,183</u>	<u>40,010</u>
Total revenues	<u>4,698,553</u>	<u>(28,169)</u>	<u>4,670,384</u>	<u>4,143,322</u>
Expenditures/Expenses				
Current				
Personnel services	1,859,583	—	1,859,583	1,619,578
Materials and supplies	808,451	—	808,451	731,921
Services and charges	163,971	—	163,971	200,290
Maintenance	116,935	—	116,935	120,447
Depreciation	—	545,727	545,727	523,175
Loss on capital assets	—	—	—	33,696
Capital outlay	<u>10,579</u>	<u>(10,579)</u>	<u>—</u>	<u>—</u>
Total expenditures/expenses	<u>2,959,519</u>	<u>535,148</u>	<u>3,494,667</u>	<u>3,229,107</u>
Excess Revenues Over				
Expenditures/Expenses	<u>1,739,034</u>	<u>(563,317)</u>	<u>1,175,717</u>	<u>914,215</u>
Change in Fund Balances/Net				
Assets	1,739,034	(563,317)	1,175,717	914,215
Fund Balances/Net Assets				
Beginning of the year	<u>6,470,601</u>	<u>22,439,727</u>	<u>28,910,328</u>	<u>27,996,113</u>
End of year	<u>\$ 8,209,635</u>	<u>\$ 21,876,410</u>	<u>\$ 30,086,045</u>	<u>\$ 28,910,328</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

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
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

Cash Equivalents

The Library considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2006, cash equivalents consisted of money market funds with brokers and certificates of deposit.

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

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

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 the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

Total fund balances \$ 8,209,635

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. 20,894,910

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. 981,500

Total net assets \$ 30,086,045

Change in fund balances \$ 1,739,034

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. (535,148)

Contribution 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 (28,169)

Change in net assets \$ 1,175,717

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

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, 2006, \$169,022 of the Foundation's bank balances of \$269,022 were uninsured and uncollateralized. The Foundation's book values of these deposits were \$298,561 as of December 31, 2006.

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 the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

At December 31, 2006, the Library had the following investments and maturities:

Type	December 31, 2006				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury and agencies obligations	\$ 68,166	\$ —	\$ 10,245	\$ 57,921	\$ —
Money market mutual funds	<u>1,672,925</u>	<u>1,672,925</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 1,741,091</u>	<u>\$ 1,672,925</u>	<u>\$ 10,245</u>	<u>\$ 57,921</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 the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

Foundation

At December 31, 2006, the Foundation had the following investments and maturities:

Type	Fair Value	December 31, 2006			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 1,249,356	\$ 507,478	\$ 483,683	\$ 258,195	\$ —
Money market mutual funds	1,211,583	1,211,583	—	—	—
Corporate bonds	215,120	—	78,494	136,626	—
		\$ 1,719,061	\$ 562,177	\$ 394,821	\$ 0
Mutual funds	305,162				
Unit trusts	280,786				
Corporate stocks	2,420,268				
	\$ 5,682,275				

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 - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. 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, 2006, the Foundation’s investments in U. S. agencies obligations, corporate bonds and preferred trust securities were rated AAA, Aaa, A2, A1, Aa3, BA3, Ba3, Baa2, Ba2 and Baa1 by Moody’s Investors Service.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Foundation’s investment policy does not address custodial credit risk.

Concentration of Credit Risk - The Foundation’s investment policy dictates that except for U.S. Treasury or agency obligations, the Foundation’s investment portfolio shall contain no more than 5% exposure to any issuer.

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

Foreign Currency Risk - This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The Foundation's investment policy does not address foreign currency risk.

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	\$	487,398
Cash on hand		408
Investments		1,741,091
Foundation		
Deposits		298,561
Investments		<u>5,682,275</u>
	\$	<u>8,209,733</u>

Included in the following statement of net assets captions

Cash and cash equivalents	\$	3,303,843
Restricted cash and cash equivalents		367,031
Investments		2,785,692
Restricted investments		<u>1,753,167</u>
	\$	<u>8,209,733</u>

Investment Income

Investment income for the year ended December 31, 2006, consisted of:

Interest and dividend income	\$	259,867
Net increase in fair value of investments		<u>244,091</u>
	\$	<u>503,958</u>

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

Notes to Financial Statements

December 31, 2006

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2006, were:

	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	\$ 20,754,630	\$ —	\$ —	\$ 20,754,630
Furniture and equipment	1,229,727	10,578	—	1,240,305
Library owned art	150,000	—	—	150,000
	<u>22,134,357</u>	<u>10,578</u>	<u>0</u>	<u>22,144,935</u>
Less accumulated depreciation				
Buildings and improvements	465,867	373,583	—	839,450
Furniture and equipment	238,431	172,144	—	410,575
	<u>704,298</u>	<u>545,727</u>	<u>0</u>	<u>1,250,025</u>
Capital Assets, Net	<u>\$ 21,430,059</u>	<u>\$ (535,149)</u>	<u>\$ 0</u>	<u>\$ 20,894,910</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 2006. Contributions actually made during 2006 by plan members and the Library aggregated \$52,431 and \$103,980, respectively.

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 the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2006

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, 2006, the Foundation had a total of \$365,599 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.

Note 8: Related Party Transactions

A member of the Board of Directors of the Foundation is also the president of a financial institution which held approximately \$21,000 and \$269,000 of the Library's and Foundation's deposits, respectively, at December 31, 2006.

Required Supplementary Information

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Budgetary Comparison Schedule
Budgetary Basis
Year Ended December 31, 2006

	Budget		Actual		Budgetary Basis	Final Budget-Budgetary Basis Variance
	Original	Final	GAAP Basis	Adjustments		
Revenues						
Contributions						
From primary government	\$ 1,811,270	\$ 1,811,270	\$ 1,816,249	\$ —	\$ 1,816,249	\$ 4,979
From other	111,500	230,748	1,099,598	(773,930)	325,668	94,920
Property taxes	734,478	817,965	951,526	—	951,526	133,561
Investment earnings	11,000	11,000	503,958	(417,727)	86,231	75,231
Fines and fees	70,000	70,000	135,650	—	135,650	65,650
State aid to public libraries	40,676	30,000	105,389	—	105,389	75,389
Miscellaneous	12,000	57,208	86,183	(270)	85,913	28,705
Total revenues	<u>2,790,924</u>	<u>3,028,191</u>	<u>4,698,553</u>	<u>(1,191,927)</u>	<u>3,506,626</u>	<u>478,435</u>
Expenditures						
Current						
Personnel services	1,662,051	1,807,051	1,859,583	(67,650)	1,791,933	15,118
Materials and supplies	516,500	609,767	808,451	(3,252)	805,199	(195,432)
Services and charges	382,000	306,050	163,971	(66,692)	97,279	208,771
Maintenance	193,500	184,500	116,935	—	116,935	67,565
Capital outlay	10,000	99,575	10,579	—	10,579	88,996
Total expenditures	<u>2,764,051</u>	<u>3,006,943</u>	<u>2,959,519</u>	<u>(137,594)</u>	<u>2,821,925</u>	<u>185,018</u>
Excess of Revenues Over (Under) Expenditures	<u>26,873</u>	<u>21,248</u>	<u>1,739,034</u>	<u>(1,054,333)</u>	<u>684,701</u>	<u>663,453</u>
Change in Fund Balance	26,873	21,248	1,739,034	(1,054,333)	684,701	663,453
Fund Balance, Beginning of Year	<u>1,559,851</u>	<u>1,559,851</u>	<u>6,470,601</u>	<u>(4,910,750)</u>	<u>1,559,851</u>	<u>—</u>
Fund Balance, End of Year	<u>\$ 1,586,724</u>	<u>\$ 1,581,099</u>	<u>\$ 8,209,635</u>	<u>\$ (5,965,083)</u>	<u>\$ 2,244,552</u>	<u>\$ 663,453</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 the City of Fayetteville, Arkansas
Governmental Fund Balance Sheet/Statement of Net Assets – Library Only
December 31, 2006

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2005 (Memorandum Only)
Assets				
Cash and cash equivalents	\$ 2,160,731	\$ —	\$ 2,160,731	\$ 1,590,736
Investments	68,166	—	68,166	68,679
Property taxes receivable	1,003,702	—	1,003,702	947,546
Accounts receivable – other	98,022	—	98,022	—
Prepaid expense	68,313	—	68,313	79,364
Capital assets, net of accumulated depreciation	<u>—</u>	<u>20,894,910</u>	<u>20,894,910</u>	<u>21,429,418</u>
Total assets	<u>\$ 3,398,934</u>	<u>20,894,910</u>	<u>24,293,844</u>	<u>24,115,743</u>
Liabilities				
Accounts payable	\$ 16,454	—	16,454	79,408
Accrued expenses	156,428	—	156,428	137,741
Deferred revenue	<u>981,500</u>	<u>(981,500)</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>1,154,382</u>	<u>(981,500)</u>	<u>172,882</u>	<u>217,149</u>
Fund Balance/Net Assets				
Fund balance				
Unreserved	<u>2,244,552</u>	<u>(2,244,552)</u>		
Total fund balance	<u>2,244,552</u>	<u>(2,244,552)</u>		
Total liabilities and fund balance	<u>\$ 3,398,934</u>			
Net assets				
Invested in capital assets		20,894,910	20,894,910	21,429,418
Unrestricted		<u>3,226,052</u>	<u>3,226,052</u>	<u>2,469,176</u>
Total net assets		<u>\$ 24,120,962</u>	<u>\$ 24,120,962</u>	<u>\$ 23,898,594</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund
Balance/Statement of Activities – Library Only
Year Ended December 31, 2006

	Governmental Fund	Adjustments	Statement of Activities	2005 (Memorandum Only)
Revenues				
Contributions				
From Foundation	\$ 272,865	\$ —	\$ 272,865	\$ 374,598
From primary government	1,816,249	—	1,816,249	1,704,746
Other	52,803	—	52,803	32,600
Property taxes	951,526	72,174	1,023,700	909,783
Investment earnings	86,231	—	86,231	45,464
Fines and fees	135,650	—	135,650	109,846
State aid	105,389	—	105,389	67,633
Miscellaneous	85,913	—	85,913	37,279
	<u>3,506,626</u>	<u>72,174</u>	<u>3,578,800</u>	<u>3,281,949</u>
Total revenues				
Expenditures/Expenses				
Current				
Personnel services	1,791,933	—	1,791,933	1,554,666
Materials and supplies	805,199	—	805,199	702,576
Services and charges	97,279	—	97,279	191,957
Maintenance	116,935	—	116,935	120,447
Depreciation	—	545,086	545,086	521,927
Capital outlay	10,579	(10,579)	—	—
	<u>2,821,925</u>	<u>534,507</u>	<u>3,356,432</u>	<u>3,091,573</u>
Total expenditures/expenses				
Change in fund balance/net assets	684,701	(462,333)	222,368	190,376
Fund Balances/Net Assets				
Beginning of the year	<u>1,559,851</u>	<u>22,338,743</u>	<u>23,898,594</u>	<u>23,708,218</u>
End of the year	<u>\$ 2,244,552</u>	<u>\$ 21,876,410</u>	<u>\$ 24,120,962</u>	<u>\$ 23,898,594</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Combining Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2006

	Governmental Fund			
	Library	Foundation	Eliminations	Total
Revenues				
Contributions				
From Foundation	\$ 272,865	\$ —	\$ (272,865)	\$ —
From primary government	1,816,249	—	—	1,816,249
Other	52,803	1,046,795	—	1,099,598
Property taxes	951,526	—	—	951,526
Investment earnings	86,231	417,727	—	503,958
Fines and fees	135,650	—	—	135,650
State aid	105,389	—	—	105,389
Miscellaneous	85,913	270	—	86,183
Total revenues	<u>3,506,626</u>	<u>1,464,792</u>	<u>(272,865)</u>	<u>4,698,553</u>
Expenditures/Expenses				
Current				
Personnel services	1,791,933	67,650	—	1,859,583
Materials and supplies	805,199	66,692	—	871,891
Services and charges	97,279	3,252	—	100,531
Maintenance	116,935	—	—	116,935
Library contributions	—	272,865	(272,865)	—
Depreciation	—	—	—	—
Capital outlay	10,579	—	—	10,579
Total expenditures/ expenses	<u>2,821,925</u>	<u>410,459</u>	<u>(272,865)</u>	<u>2,959,519</u>
Excess Revenues Over Expenditures/ Expenses	<u>684,701</u>	<u>1,054,333</u>	<u>0</u>	<u>1,739,034</u>
Change in Net Assets	684,701	1,054,333	—	1,739,034
Fund Balances/Net Assets				
Beginning of the year	<u>1,559,851</u>	<u>4,910,750</u>	<u>—</u>	<u>6,470,601</u>
End of the year	<u>\$ 2,244,552</u>	<u>\$ 5,965,083</u>	<u>\$ 0</u>	<u>\$ 8,209,635</u>

Adjustments			Statement of Activities			
Library	Foundation	Total	Library	Foundation	Eliminations	Total
\$ —	\$ —	\$ —	\$ 272,865	\$ —	\$ (272,865)	\$ —
—	—	—	1,816,249	—	—	1,816,249
—	(100,343)	(100,343)	52,803	946,452	—	999,255
72,174	—	72,174	1,023,700	—	—	1,023,700
—	—	—	86,231	417,727	—	503,958
—	—	—	135,650	—	—	135,650
—	—	—	105,389	—	—	105,389
—	—	—	85,913	270	—	86,183
<u>72,174</u>	<u>(100,343)</u>	<u>(28,169)</u>	<u>3,578,800</u>	<u>1,364,449</u>	<u>(272,865)</u>	<u>4,670,384</u>
—	—	—	1,791,933	67,650	—	1,859,583
—	—	—	805,199	66,692	—	871,891
—	—	—	97,279	3,252	—	100,531
—	—	—	116,935	—	—	116,935
—	—	—	—	272,865	(272,865)	—
545,086	641	545,727	545,086	641	—	545,727
<u>(10,579)</u>	<u>—</u>	<u>(10,579)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>534,507</u>	<u>641</u>	<u>535,148</u>	<u>3,356,432</u>	<u>411,100</u>	<u>(272,865)</u>	<u>3,494,667</u>
<u>(462,333)</u>	<u>(100,984)</u>	<u>(563,317)</u>	<u>222,368</u>	<u>953,349</u>	<u>—</u>	<u>1,175,717</u>
<u>(462,333)</u>	<u>(100,984)</u>	<u>(563,317)</u>	<u>222,368</u>	<u>953,349</u>	<u>—</u>	<u>1,175,717</u>
<u>22,338,743</u>	<u>100,984</u>	<u>22,439,727</u>	<u>23,898,594</u>	<u>5,011,734</u>	<u>—</u>	<u>28,910,328</u>
\$ <u>21,876,410</u>	\$ <u>0</u>	\$ <u>21,876,410</u>	\$ <u>24,120,962</u>	\$ <u>5,965,083</u>	\$ <u>0</u>	\$ <u>30,086,045</u>