

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

Accountants' Report and Financial Statements

December 31, 2007



**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**December 31, 2007**

**Contents**

<b>Independent Accountants' Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>2</b>
<b>Financial Statements</b>	
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
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule.....	19
<b>Supplementary Information</b>	
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, 2007, 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, 2007, 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.

April 10, 2008

*BKD, LLP*

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2007**

***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, 2007. It should be read in conjunction with the accompanying financial statements of the Government.

***Financial Highlights***

Key financial highlights for 2007 are as follows:

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$30,619,609 (*net assets*). Of this amount, \$3,752,109 (*unrestricted net assets*) may be used to meet the Library's ongoing obligations and \$3,895,436 are available to meet the Fayetteville Public Library Foundation (the "Foundation") obligations.
- The Library's net assets increased by \$17,595 or 0.07%. The Foundation's net assets increased by \$515,969 or 9%.
- As of the close of the current year, the Government's governmental fund reported ending fund balances of \$2,607,159 attributable to the Library and \$6,481,052 attributable to its Foundation, an increase of \$878,576 or 11% in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balances for the governmental fund were \$6,502,595, or 260% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation was \$2,607,159, or 75% 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 \$30,619,609 at the close of the most recent fiscal year.

A portion of the government's net assets (25%) may be used to meet the government's ongoing obligations to citizens and creditors.

## Statement of Net Assets

	Library		Foundation		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 4,019,305	\$ 3,398,934	\$ 6,759,573	\$ 6,430,203	\$ 10,778,878	\$ 9,829,137
Capital Assets, net	20,386,448	20,894,910	-	-	20,386,448	20,894,910
Total Assets	<u>24,405,753</u>	<u>24,293,844</u>	<u>6,759,573</u>	<u>6,430,203</u>	<u>31,165,326</u>	<u>30,724,047</u>
Current and Other Liabilities	267,196	172,882	278,521	465,120	545,717	638,002
Total Liabilities	<u>267,196</u>	<u>172,882</u>	<u>278,521</u>	<u>465,120</u>	<u>545,717</u>	<u>638,002</u>
Net Assets						
Invested in Capital Assets	20,386,448	20,894,910	-	-	20,386,448	20,894,910
Restricted	-	-	2,585,616	2,440,598	2,585,616	2,440,598
Unrestricted	3,752,109	3,226,052	3,895,436	3,524,485	7,647,545	6,750,537
Total Net Assets	<u>\$ 24,138,557</u>	<u>\$ 24,120,962</u>	<u>\$ 6,481,052</u>	<u>\$ 5,965,083</u>	<u>\$ 30,619,609</u>	<u>\$ 30,086,045</u>

An additional portion of the net assets (67%) 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 (9%) represents resources that are subject to external restrictions on how they may be used. Combined unrestricted net assets increased 8% since revenues exceeded expenses in 2007 by \$533,564.

## Statement of Activities

	Library		Foundation		Eliminations		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Revenues</b>								
Grants and contributions	\$ 2,402,769	\$ 2,247,306	\$ 414,812	\$ 946,452	\$ (305,169)	\$ (272,865)	\$ 2,512,412	\$ 2,920,893
Local property taxes	1,166,746	1,023,700	-	-	-	-	1,166,746	1,023,700
Fines and fees	170,837	135,650	-	-	-	-	170,837	135,650
Investment earnings	125,329	86,231	532,035	417,727	-	-	657,364	503,958
Miscellaneous	25,898	85,913	5,253	270	-	-	31,151	86,183
Total revenues	<u>3,891,579</u>	<u>3,578,800</u>	<u>952,100</u>	<u>1,364,449</u>	<u>(305,169)</u>	<u>(272,865)</u>	<u>4,538,510</u>	<u>4,670,384</u>
<b>Expenses</b>	<u>3,873,984</u>	<u>3,356,432</u>	<u>436,131</u>	<u>411,100</u>	<u>(305,169)</u>	<u>(272,865)</u>	<u>4,004,946</u>	<u>3,494,667</u>
Changes in Net Assets	17,595	222,368	515,969	953,349	-	-	533,564	1,175,717
Net Assets,								
Beginning of Year	24,120,962	23,898,594	5,965,083	5,011,734	-	-	30,086,045	28,910,328
Net Assets, End of Year	<u>\$ 24,138,557</u>	<u>\$ 24,120,962</u>	<u>\$ 6,481,052</u>	<u>\$ 5,965,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,619,609</u>	<u>\$ 30,086,045</u>

In 2007, revenues decreased by \$642,153 or 55%, primarily due to:

- A significant non-recurring contribution was made to the Foundation in 2006 and normal contributions were also lower in 2007.

### ***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 \$2,607,159 and \$6,481,052 for the Library and Foundation, respectively. 100% and 61% 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 \$878,576 (\$362,607 and \$515,969 attributed to the Library and Foundation, respectively) during the current fiscal year. Key factors in this increase are:

- The Library fund balance increased due to higher than budgeted receipts, combined with lower than budgeted building and technology expenses. The Library Board of Trustees established three designated funds to collect money each year to help offset major repairs when they are needed.
- The increase in investment income during 2007, which was also noted earlier in the analysis of the government-wide financial statements.

### ***Capital Assets***

At the end of 2007, the Government had \$20,386,448 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements, a decrease of \$508,462. The decrease is primarily due to depreciation expense of capital assets in the amount of \$549,067 net of capital asset additions of \$40,605.

### ***Budgetary Highlights***

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

- \$98,463 – Other contribution revenues. This represents donations to the library from the Foundation. \$96,000 of this budgeted amount was received in December 2006 for 2007.
- \$37,205– Local property taxes. The Library used a calculation of 95% of the annual tax levy in June 2006 to budget. Then in December 2006, the budget was adjusted to 100% of 2006 collections, including the interest earned on the millage investment account. Collections and interest were higher than anticipated.

- \$110,329– Investment earnings. Since interest rates had fluctuated dramatically in the previous year, conservative figures were used. 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, see above.
- \$23,207 – State aid to public libraries. The variance was due increased state aid and scholarships awarded to FPL employees, but managed through the Library.
- \$50,837 – 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 appear to be declining, 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, 2007**

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2006 (Memorandum Only)
<b>Assets</b>				
Cash and cash equivalents	\$ 3,604,975	\$ -	\$ 3,604,975	\$ 3,303,843
Investments	2,955,260	-	2,955,260	2,785,692
Accounts receivable	-	-	-	98,022
Property taxes receivable, net	1,177,424	-	1,177,424	1,003,702
Pledges receivable, net	384,915	-	384,915	430,565
Accrued interest receivable	6,513	-	6,513	7,686
Prepaid expense	64,175	-	64,175	73,524
Restricted				
Cash and cash equivalents	63,852	-	63,852	367,031
Investments	2,514,611	-	2,514,611	1,753,167
Accrued interest receivable	7,153	-	7,153	5,905
Capital assets, net	-	20,386,448	20,386,448	20,894,910
<b>Total assets</b>	<b>10,778,878</b>	<b>20,386,448</b>	<b>31,165,326</b>	<b>30,724,047</b>
<b>Liabilities</b>				
Accounts payable	8,215	-	8,215	110,072
Accrued expenses	258,981	-	258,981	156,428
Deferred revenue	1,423,471	(1,144,950)	278,521	371,502
<b>Total liabilities</b>	<b>1,690,667</b>	<b>(1,144,950)</b>	<b>545,717</b>	<b>638,002</b>
<b>Fund Balances/Net Assets</b>				
Fund balances				
Reserved				
Capital assets	818,769	(818,769)		
Children's library	1,466,847	(1,466,847)		
Volunteer program	300,000	(300,000)		
Unreserved	6,502,595	(6,502,595)		
<b>Total fund balances</b>	<b>9,088,211</b>	<b>(9,088,211)</b>		
<b>Total liabilities and fund balances</b>	<b>\$ 10,778,878</b>			
Net assets				
Invested in capital assets		20,386,448	20,386,448	20,894,910
Restricted for capital assets				
Expendable		318,769	318,769	236,147
Nonexpendable		500,000	500,000	500,000
Restricted for children's library				
Expendable		191,847	191,847	114,955
Nonexpendable		1,275,000	1,275,000	1,275,000
Restricted for the volunteer program				
Expendable		-	-	14,496
Nonexpendable		300,000	300,000	300,000
Unrestricted		7,647,545	7,647,545	6,750,537
<b>Total net assets</b>		<b>\$ 30,619,609</b>	<b>\$ 30,619,609</b>	<b>\$ 30,086,045</b>

**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, 2007**

	Governmental Fund	Adjustments	Statement of Activities	2006 (Memorandum Only)
<b>Revenues</b>				
Contributions				
From primary government	\$ 1,931,146	\$ -	\$ 1,931,146	\$ 1,816,249
Other	438,812	-	438,812	999,255
Property taxes	1,003,296	163,450	1,166,746	1,023,700
Investment earnings	657,364	-	657,364	503,958
Fines and fees	170,837	-	170,837	135,650
Grant revenue	30,547	-	30,547	-
State aid	111,907	-	111,907	105,389
Miscellaneous	31,151	-	31,151	86,183
	<u>4,375,060</u>	<u>163,450</u>	<u>4,538,510</u>	<u>4,670,384</u>
<b>Expenditures/Expenses</b>				
Current				
Personnel services	2,087,552	-	2,087,552	1,859,583
Materials and supplies	1,128,056	-	1,128,056	808,451
Services and charges	97,677	-	97,677	163,971
Maintenance	142,594	-	142,594	116,935
Depreciation	-	549,067	549,067	545,727
Capital outlay	40,605	(40,605)	-	-
	<u>3,496,484</u>	<u>508,462</u>	<u>4,004,946</u>	<u>3,494,667</u>
<b>Excess Revenues Over</b>				
<b>Expenditures/Expenses</b>	<u>878,576</u>	<u>(345,012)</u>	<u>533,564</u>	<u>1,175,717</u>
<b>Change in Fund Balances/Net Assets</b>	878,576	(345,012)	533,564	1,175,717
<b>Fund Balances/Net Assets</b>				
Beginning of the year	<u>8,209,635</u>	<u>21,876,410</u>	<u>30,086,045</u>	<u>28,910,328</u>
End of year	<u>\$ 9,088,211</u>	<u>\$ 21,531,398</u>	<u>\$ 30,619,609</u>	<u>\$ 30,086,045</u>

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2007**

**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 the office of its Director of Development at 401 W. Mountain, Fayetteville, Arkansas.

***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 collectable 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, 2007**

***Cash Equivalents***

The Library considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007, 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, 2007**

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, 2007**

Total fund balances \$ 9,088,211

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. 20,386,448

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. 1,144,950

Total net assets \$ 30,619,609

Change in fund balances \$ 878,576

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. (508,462)

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 163,450

Change in net assets \$ 533,564

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2007**

**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, 2007, \$157,317 of the Foundation's bank balances of \$257,317 were uninsured and uncollateralized. The Foundation's book values of these deposits were \$252,959 as of December 31, 2007.

***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, 2007**

At December 31, 2007, the Library had the following investments and maturities:

Type	December 31, 2007				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury and agencies obligations	\$ 70,761	\$ -	\$ 20,130	\$ 50,631	\$ -
Money market mutual funds	<u>1,855,418</u>	<u>1,855,418</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,926,179</u>	<u>\$ 1,855,418</u>	<u>\$ 20,130</u>	<u>\$ 50,631</u>	<u>\$ -</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, 2007**

**Foundation**

At December 31, 2007, the Foundation had the following investments and maturities:

Type	December 31, 2007				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 1,610,517	\$ 360,191	\$ 479,896	\$ 665,233	\$ 105,197
Money market mutual funds	704,899	704,899	-	-	-
Corporate bonds	220,754	-	78,942	141,812	-
		<u>\$ 1,065,090</u>	<u>\$ 558,838</u>	<u>\$ 807,045</u>	<u>\$ 105,197</u>
Mutual funds	322,135				
Unit trusts	289,486				
Corporate stocks	<u>2,956,218</u>				
	<u>\$ 6,104,009</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** - 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, 2007, 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, 2007**

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	\$	851,119
Cash on hand		408
Investments		1,926,179
Foundation		
Deposits		256,983
Investments		6,104,009
		<u>6,104,009</u>
	\$	<u>9,138,698</u>

Included in the following statement of net assets captions		
Cash and cash equivalents	\$	3,604,975
Restricted cash and cash equivalents		63,852
Investments		2,955,260
Restricted investments		2,514,611
		<u>2,514,611</u>
	\$	<u>9,138,698</u>

**Investment Income**

Investment income for the year ended December 31, 2007, consisted of:

Interest and dividend income	\$	302,889
Net increase in fair value of investments		354,475
		<u>354,475</u>
	\$	<u>657,364</u>

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 4: Capital Assets**

Capital assets activity for the year ended December 31, 2007, were:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Buildings and improvements	\$ 20,754,630	\$ -	\$ -	\$ 20,754,630
Furniture and equipment	1,240,305	40,605	-	1,280,910
Library owned art	150,000	-	-	150,000
	<u>22,144,935</u>	<u>40,605</u>	<u>-</u>	<u>22,185,540</u>
Less accumulated depreciation				
Buildings and improvements	839,450	373,584	-	1,213,034
Furniture and equipment	410,575	175,483	-	586,058
	<u>1,250,025</u>	<u>549,067</u>	<u>-</u>	<u>1,799,092</u>
Capital assets, net	<u>\$ 20,894,910</u>	<u>\$ (508,462)</u>	<u>\$ -</u>	<u>\$ 20,386,448</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 2007. Contributions actually made during 2007 by plan members and the Library aggregated \$75,134 and \$122,054, 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, 2007**

**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 investments 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, 2007, the Foundation had a total of \$510,616 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 \$11,000 and \$258,000 of the Library's and Foundation's deposits, respectively, at December 31, 2007.

## **Required Supplementary Information**

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Budgetary Comparison Schedule**  
**Budgetary Basis**  
**Year Ended December 31, 2007**

	Budget		Actual			Final Budget- Budgetary Basis Variance
	Original	Final	GAAP Basis	Adjustments	Budgetary Basis	
<b>Revenues</b>						
Contributions						
From primary government	\$ 1,931,146	\$ 1,931,146	\$ 1,931,146	\$ -	\$ 1,931,146	\$ -
Other	408,500	427,632	438,812	(202,624)	236,188	(191,444)
Property taxes	966,091	966,091	1,003,296	-	1,003,296	37,205
Investment earnings	15,000	15,000	657,364	(532,035)	125,329	110,329
Fines and fees	120,000	120,000	170,837	-	170,837	50,837
Grand revenue	20,000	20,000	30,547	-	30,547	10,547
State aid	88,700	88,700	111,907	-	111,907	23,207
Miscellaneous	80,904	80,904	31,151	(5,253)	25,898	(55,006)
Total revenues	3,630,341	3,649,473	4,375,060	(739,912)	3,635,148	(14,325)
<b>Expenditures</b>						
Current						
Personnel services	2,041,245	2,041,245	2,087,552	(25,290)	2,062,262	21,017
Materials and supplies	1,315,500	954,882	1,128,056	(100,153)	1,027,903	73,021
Services and charges	427,927	394,427	97,677	(5,519)	92,158	(302,269)
Maintenance	193,500	223,500	142,594	-	142,594	(80,906)
Capital outlay	27,565	27,565	40,605	-	40,605	13,040
Total expenditures	4,005,737	3,641,619	3,496,484	(130,962)	3,365,522	(276,097)
<b>Excess of Revenues Over (Under) Expenditures</b>	(375,396)	7,854	878,576	(608,950)	269,626	261,772
<b>Change in Fund Balance</b>	(375,396)	7,854	878,576	(608,950)	269,626	261,772
<b>Fund Balance,</b>						
Beginning of Year	22,445,522	2,244,552	8,209,635	(5,872,102)	2,244,552	-
<b>Fund Balance, End of Year</b>	\$ 22,070,126	\$ 2,252,406	\$ 9,088,211	\$ (6,481,052)	\$ 2,514,178	\$ 261,772

***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, 2007**

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2006 (Memorandum only)
<b>Assets</b>				
Cash and cash equivalents	\$ 2,706,945	\$ -	\$ 2,706,945	\$ 2,160,731
Investments	70,761	-	70,761	68,166
Accounts receivable	-	-	-	98,022
Property taxes receivable, net	1,177,424	-	1,177,424	1,003,702
Prepaid expense	64,175	-	64,175	68,313
Capital assets, net	-	20,386,448	20,386,448	20,894,910
	<u>4,019,305</u>	<u>20,386,448</u>	<u>24,405,753</u>	<u>24,293,844</u>
<b>Total assets</b>				
	<u>4,019,305</u>	<u>20,386,448</u>	<u>24,405,753</u>	<u>24,293,844</u>
<b>Liabilities</b>				
Accounts payable	8,215	-	8,215	16,454
Accrued expenses	258,981	-	258,981	156,428
Deferred revenue	1,144,950	(1,144,950)	-	-
	<u>1,412,146</u>	<u>(1,144,950)</u>	<u>267,196</u>	<u>172,882</u>
<b>Total liabilities</b>				
	<u>1,412,146</u>	<u>(1,144,950)</u>	<u>267,196</u>	<u>172,882</u>
<b>Fund Balance/ Net Assets</b>				
Fund balance				
Unreserved	<u>2,607,159</u>	<u>(2,607,159)</u>		
Total fund balance				
	<u>2,607,159</u>	<u>(2,607,159)</u>		
Total liabilities and fund balance				
	<u>\$ 4,019,305</u>			
Net assets				
Invested in capital assets		20,386,448	20,386,448	20,894,910
Unrestricted		3,752,109	3,752,109	3,226,052
Total net assets				
		<u>\$ 24,138,557</u>	<u>\$ 24,138,557</u>	<u>\$ 24,120,962</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, 2007**

	Governmental Fund	Adjustments	Statement of Activities	2006 (Memorandum Only)
<b>Revenues</b>				
Contributions				
From Foundation	\$ 305,169	\$ -	\$ 305,169	\$ 272,865
From primary government	1,931,146	-	1,931,146	1,816,249
Other	24,000	-	24,000	52,803
Property taxes	1,003,296	163,450	1,166,746	1,023,700
Investment earnings	125,329	-	125,329	86,231
Fines and fees	170,837	-	170,837	135,650
Grant revenue	30,547	-	30,547	-
State aid	111,907	-	111,907	105,389
Miscellaneous	25,898	-	25,898	85,913
<b>Total revenues</b>	<b>3,728,129</b>	<b>163,450</b>	<b>3,891,579</b>	<b>3,578,800</b>
<b>Expenditures/Expenses</b>				
Current				
Personnel services	2,062,262	-	2,062,262	1,791,933
Materials and supplies	1,027,903	-	1,027,903	805,199
Services and charges	92,158	-	92,158	97,279
Maintenance	142,594	-	142,594	116,935
Depreciation	-	549,067	549,067	545,086
Capital outlay	40,605	(40,605)	-	-
<b>Total expenditures/expenses</b>	<b>3,365,522</b>	<b>508,462</b>	<b>3,873,984</b>	<b>3,356,432</b>
<b>Change in Fund Balances/Net Assets</b>	<b>362,607</b>	<b>(345,012)</b>	<b>17,595</b>	<b>222,368</b>
<b>Fund Balances/Net Assets</b>				
Beginning of the year	2,244,552	21,876,410	24,120,962	23,898,594
End of the year	<u>\$ 2,607,159</u>	<u>\$ 21,531,398</u>	<u>\$ 24,138,557</u>	<u>\$ 24,120,962</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, 2007**

	Governmental Fund			
	Library	Foundation	Eliminations	Total
<b>Revenues</b>				
Contributions				
From Foundation	\$ 305,169	\$ -	\$ (305,169)	\$ -
From primary government	1,931,146	-	-	1,931,146
Other	24,000	414,812	-	438,812
Property taxes	1,003,296	-	-	1,003,296
Investment earnings	125,329	532,035	-	657,364
Fines and fees	170,837	-	-	170,837
Grant revenue	30,547	-	-	30,547
State aid	111,907	-	-	111,907
Miscellaneous	25,898	5,253	-	31,151
	<u>3,728,129</u>	<u>952,100</u>	<u>(305,169)</u>	<u>4,375,060</u>
<b>Expenditures/Expenses</b>				
Current				
Personnel services	2,062,262	25,290	-	2,087,552
Materials and supplies	1,027,903	100,153	-	1,128,056
Services and charges	92,158	5,519	-	97,677
Maintenance	142,594	-	-	142,594
Library contributions	-	305,169	(305,169)	-
Depreciation	-	-	-	-
Capital outlay	40,605	-	-	40,605
	<u>3,365,522</u>	<u>436,131</u>	<u>(305,169)</u>	<u>3,496,484</u>
	<u>362,607</u>	<u>515,969</u>	<u>-</u>	<u>878,576</u>
<b>Excess Revenues Over</b>				
<b>Expenditures/Expenses</b>				
	<u>362,607</u>	<u>515,969</u>	<u>-</u>	<u>878,576</u>
<b>Change in Net Assets</b>	362,607	515,969	-	878,576
<b>Fund Balances/Net Assets</b>				
Beginning of the year	<u>2,244,552</u>	<u>5,965,083</u>	<u>-</u>	<u>8,209,635</u>
End of the year	<u>\$ 2,607,159</u>	<u>\$ 6,481,052</u>	<u>\$ -</u>	<u>\$ 9,088,211</u>

Adjustments			Statement of Activities			
Library	Foundation	Total	Library	Foundation	Eliminations	Total
\$ -	\$ -	\$ -	\$ 305,169	\$ -	\$ (305,169)	\$ -
-	-	-	1,931,146	-	-	1,931,146
-	-	-	24,000	414,812	-	438,812
163,450	-	163,450	1,166,746	-	-	1,166,746
-	-	-	125,329	532,035	-	657,364
-	-	-	170,837	-	-	170,837
-	-	-	30,547	-	-	30,547
-	-	-	111,907	-	-	111,907
-	-	-	25,898	5,253	-	31,151
<u>163,450</u>	<u>-</u>	<u>163,450</u>	<u>3,891,579</u>	<u>952,100</u>	<u>(305,169)</u>	<u>4,538,510</u>
-	-	-	2,062,262	25,290	-	2,087,552
-	-	-	1,027,903	100,153	-	1,128,056
-	-	-	92,158	5,519	-	97,677
-	-	-	142,594	-	-	142,594
-	-	-	-	305,169	(305,169)	-
549,067	-	549,067	549,067	-	-	549,067
(40,605)	-	(40,605)	-	-	-	-
<u>508,462</u>	<u>-</u>	<u>508,462</u>	<u>3,873,984</u>	<u>436,131</u>	<u>(305,169)</u>	<u>4,004,946</u>
(345,012)	-	(345,012)	17,595	515,969	-	533,564
(345,012)	-	(345,012)	17,595	515,969	-	533,564
<u>21,876,410</u>	<u>-</u>	<u>21,876,410</u>	<u>24,120,962</u>	<u>5,965,083</u>	<u>-</u>	<u>30,086,045</u>
<u>\$ 21,531,398</u>	<u>\$ -</u>	<u>\$ 21,531,398</u>	<u>\$ 24,138,557</u>	<u>\$ 6,481,052</u>	<u>\$ -</u>	<u>\$ 30,619,609</u>