

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Accountants' Report and Financial Statements
December 31, 2009

BKD^{LLP}
CPAs & Advisors

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
December 31, 2009

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Fayetteville Public Library
Fayetteville, Arkansas

We have audited the accompanying basic financial statements of Fayetteville Public Library, a component unit of the City of Fayetteville, Arkansas, as of and for the year ended December 31, 2009, 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, 2009, 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

May 4, 2010

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Management's Discussion and Analysis
Year Ended December 31, 2009

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, 2009. It should be read in conjunction with the accompanying financial statements of the Government.

Financial Highlights

Key financial highlights for 2009 are as follows:

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$30,216,866 (*net assets*). Unrestricted net assets of \$4,376,853 may be used to meet the Library's ongoing obligations and \$3,081,065 is available to meet the Fayetteville Public Library Foundation (the "Foundation") obligations.
- The Library's total net assets decreased by \$16,074 or .07%. The Foundation's net assets increased by \$978,884 or 19%.
- As of the close of the current year, the Government's governmental fund reported ending fund balances of \$3,116,207 attributable to the Library and \$6,057,188 attributable to its Foundation, a increase of \$978,884 or 19% for the Foundation and an increase of \$311,521 or 7.7% for the Library in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balances for the governmental fund were \$7,457,918, or 194% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation was \$4,376,853, or 115% 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 \$30,216,866 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.

Statements of Net Assets

	Library		Foundation		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 4,686,738	\$ 4,328,553	\$ 6,414,145	\$ 5,339,864	\$ 11,100,883	\$ 9,668,417
Capital Assets, net	<u>19,782,825</u>	<u>20,110,420</u>	<u>-</u>	<u>-</u>	<u>19,782,825</u>	<u>20,110,420</u>
Total Assets	<u>24,469,563</u>	<u>24,438,973</u>	<u>6,414,145</u>	<u>5,339,864</u>	<u>30,883,708</u>	<u>29,778,837</u>
Current and Other Liabilities	<u>309,885</u>	<u>263,221</u>	<u>356,957</u>	<u>261,560</u>	<u>666,842</u>	<u>524,781</u>
Total Liabilities	<u>309,885</u>	<u>263,221</u>	<u>356,957</u>	<u>261,560</u>	<u>666,842</u>	<u>524,781</u>
Net Assets						
Invested in Capital Assets	19,782,825	20,110,420	-	-	19,782,825	20,110,420
Restricted	-	-	2,976,123	2,307,700	2,976,123	2,307,700
Unrestricted	<u>4,376,853</u>	<u>4,065,332</u>	<u>3,081,065</u>	<u>2,770,604</u>	<u>7,457,918</u>	<u>6,835,936</u>
Total Net Assets	<u>\$ 24,159,678</u>	<u>\$ 24,175,752</u>	<u>\$ 6,057,188</u>	<u>\$ 5,078,304</u>	<u>\$ 30,216,866</u>	<u>\$ 29,254,056</u>

An additional portion of the net assets (65%) 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 (10%) represents resources that are subject to external restrictions on how they may be used. Combined unrestricted net assets and total net assets increased 9% and 3%, respectively since revenues exceeded expenses in 2009 by \$962,810.

Statements of Activities

	Library		Foundation		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues								
Grants and contributions	\$ 2,246,230	\$ 2,348,367	\$ 210,311	\$ 225,588	\$ (154,000)	\$ (305,169)	\$ 2,302,541	\$ 2,268,786
Local property taxes	1,244,217	1,160,841	-	-	-	-	1,244,217	1,160,841
Fines and fees	170,974	180,507	-	-	-	-	170,974	180,507
Investment income (loss)	11,537	61,621	962,972	(1,276,572)	-	-	974,509	(1,214,951)
Miscellaneous	117,971	74,091	-	-	-	-	117,971	74,091
Total revenues	<u>3,790,929</u>	<u>3,825,427</u>	<u>1,173,283</u>	<u>(1,050,984)</u>	<u>(154,000)</u>	<u>(305,169)</u>	<u>4,810,212</u>	<u>2,469,274</u>
Expenses	<u>3,807,003</u>	<u>3,788,232</u>	<u>194,399</u>	<u>351,764</u>	<u>(154,000)</u>	<u>(305,169)</u>	<u>3,847,402</u>	<u>3,834,827</u>
Changes in Net Assets	(16,074)	37,195	978,884	(1,402,748)	-	-	962,810	(1,365,553)
Net Assets,								
Beginning of Year	<u>24,175,752</u>	<u>24,138,557</u>	<u>5,078,304</u>	<u>6,481,052</u>	<u>-</u>	<u>-</u>	<u>29,254,056</u>	<u>30,619,609</u>
Net Assets, End of Year	<u>\$ 24,159,678</u>	<u>\$ 24,175,752</u>	<u>\$ 6,057,188</u>	<u>\$ 5,078,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,216,866</u>	<u>\$ 29,254,056</u>

In 2009, revenues increased by \$2,340,938 or 95%, primarily due to:

- An increase in the fair market value of the Foundation's investments.

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 \$3,116,207 and \$6,057,188 for the Library and Foundation, respectively. 100% and 51% 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 changed by \$962,810 (a \$16,074 decrease and a \$978,884 increase 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 increase in revenues.
- The increase in investment income during 2009, which was also noted earlier in the analysis of the government-wide financial statements.

Capital Assets

At the end of 2009, the Government had \$19,782,825 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements, a decrease of \$327,595. The decrease is primarily due to depreciation expense of capital assets in the amount of \$753,528 net of capital asset additions of \$425,933.

Budgetary Highlights

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

- \$23,000 – Other Contributions. The variance was due to the Friends of the Library not making its annual donation to the Library and donating funds to the Foundation.
- \$42,007 – Grant Revenue. The variance was due to grant funds that were not expended in the current year.
- \$14,822 – State aid to public libraries. The variance was due to increased state aid awarded to the Library.
- \$105,971 – Other Sources. The variance was due to an increase in grant funding received from the library.

Current Economic Conditions

The current protracted economic environment continues to present the Library and its Foundation with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in tax revenue and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Library and its Foundation.

Current economic conditions have made it difficult for many entities and individuals. A significant decline in contribution revenue, tax revenue and investment earnings could have an adverse impact on the Library and its Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change in the near term resulting in material future adjustments in investment values that could negatively impact the Library's ability to maintain sufficient liquidity.

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, 2009

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2008 (Memorandum Only)
Assets				
Cash and cash equivalents	\$ 2,602,887	\$ -	\$ 2,602,887	\$ 3,255,458
Investments	3,854,289	-	3,854,289	2,565,106
Accounts receivable	55,555	-	55,555	-
Property taxes receivable, net	1,260,646	-	1,260,646	1,229,358
Pledges receivable, net	334,125	-	334,125	280,309
Accrued interest receivable	12,755	-	12,755	9,792
Prepaid expense	51,674	-	51,674	51,620
Restricted				
Cash and cash equivalents	165,448	-	165,448	468,991
Investments	2,755,200	-	2,755,200	1,799,984
Accrued interest receivable	8,304	-	8,304	7,799
Capital assets, net	-	19,782,825	19,782,825	20,110,420
Total assets	11,100,883	19,782,825	30,883,708	29,778,837
Liabilities				
Accounts payable	66,854	-	66,854	16,162
Accrued expenses	297,031	-	297,031	247,059
Deferred revenue	1,563,603	(1,260,646)	302,957	261,560
Total liabilities	1,927,488	(1,260,646)	666,842	524,781
Fund Balances/Net Assets				
Fund balances				
Reserved				
Capital assets	771,411	(771,411)		
Children's library	1,394,892	(1,394,892)		
Volunteer program	292,046	(292,046)		
NEH Grant	517,774	(517,774)		
Unreserved	6,197,272	(6,197,272)		
Total fund balances	9,173,395	(9,173,395)		
Total liabilities and fund balances	\$ 11,100,883			
Net assets				
Invested in capital assets		19,782,825	19,782,825	20,110,420
Restricted for capital assets				
Expendable		271,411	271,411	135,036
Nonexpendable		500,000	500,000	500,000
Restricted for children's library				
Expendable		644,892	644,892	447,063
Nonexpendable		750,000	750,000	750,000
Restricted for the volunteer program				
Expendable		292,046	292,046	241,582
Restricted for NEH Grant				
Expendable		517,774	517,774	234,019
Unrestricted		7,457,918	7,457,918	6,835,936
Total net assets		\$ 30,216,866	\$ 30,216,866	\$ 29,254,056

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, 2009

	Governmental Fund	Adjustments	Statement of Activities	2008 (Memorandum Only)
Revenues				
Contributions				
From primary government	\$ 1,932,059	\$ -	\$ 1,932,059	\$ 1,891,146
Other	210,311	-	210,311	259,588
Property taxes	1,212,929	31,288	1,244,217	1,160,841
Investment income (loss)	974,509	-	974,509	(1,214,951)
Fines and fees	170,974	-	170,974	180,507
Grant revenue	26,353	-	26,353	2,069
State aid	133,818	-	133,818	129,793
Miscellaneous	117,971	-	117,971	74,091
	<u>4,778,924</u>	<u>31,288</u>	<u>4,810,212</u>	<u>2,483,084</u>
Total revenues				
Expenditures/Expenses				
Current				
Personnel services	2,226,701	-	2,226,701	2,104,639
Materials and supplies	701,805	-	701,805	846,874
Services and charges	79,199	-	79,199	97,867
Maintenance	86,169	-	86,169	135,372
Depreciation	-	753,528	753,528	663,885
Capital outlay	425,933	(425,933)	-	-
	<u>3,519,807</u>	<u>327,595</u>	<u>3,847,402</u>	<u>3,848,637</u>
Total expenditures/expenses				
Excess Revenues Over				
(Under) Expenditures/Expenses	<u>1,259,117</u>	<u>(296,307)</u>	<u>962,810</u>	<u>(1,365,553)</u>
Change in Fund Balances/Net Assets	1,259,117	(296,307)	962,810	(1,365,553)
Fund Balances/Net Assets				
Beginning of the year	<u>7,914,278</u>	<u>21,339,778</u>	<u>29,254,056</u>	<u>30,619,609</u>
End of year	<u>\$ 9,173,395</u>	<u>\$ 21,043,471</u>	<u>\$ 30,216,866</u>	<u>\$ 29,254,056</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2009

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

Nature of Operations and Reporting Entity

Fayetteville Public Library (Library) is 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses

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Notes to Financial Statements
December 31, 2009

and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Library considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009, cash equivalents consisted of money market funds with brokers.

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 earnings include 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
Library materials	3-10 years

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2009

Collections

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

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.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the change in net assets.

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

Notes to Financial Statements

December 31, 2009

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

Total fund balances and the net change in fund balances 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. These differences primarily result 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 assets and the net change in fund balances to the net change in net assets:

Total fund balances	\$ 9,173,395
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.	19,782,825
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.	<u>1,260,646</u>
Total net assets	<u><u>\$ 30,216,866</u></u>
 Change in fund balances	 \$ 1,259,117
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, for government-wide statements, the costs of those assets are allocated over estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(327,595)
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	<u>31,288</u>
Change in net assets	<u><u>\$ 962,810</u></u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2009

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. At December 31, 2009, the Library's bank balances were under collateralized by \$7,098.

Foundation

The Foundation does not have a deposit policy.

At December 31, 2009, the Foundation's bank balances were completely collateralized.

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.

At December 31, 2009, the Library had the following investments and maturities:

Type	December 31, 2009				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury and agencies obligations	\$ 777,527	\$ -	\$ 299,138	\$ 478,389	\$ -
Money market mutual funds	<u>1,416,374</u>	<u>1,416,374</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,193,901</u>	<u>\$ 1,416,374</u>	<u>\$ 299,138</u>	<u>\$ 478,389</u>	<u>\$ -</u>

Fayetteville Public Library
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Notes to Financial Statements
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Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Library’s investment policy attempts 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. Some of the Library’s investments have maturities over five years to maximize interest earnings.

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

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 or in 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 concentration in securities from a specific issuer less than or equal to 5% of the cost basis of the Library’s portfolio at the time of purchase.

Foundation

At December 31, 2009, the Foundation had the following investments and maturities:

Type	Fair Value	December 31, 2009			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 897,026	\$ 86,886	\$ 498,613	\$ 311,527	\$ -
Corporate bonds	1,101,800	-	629,873	471,927	-
Money market mutual funds	181,311	181,311	-	-	-
		<u>\$ 268,197</u>	<u>\$ 1,128,486</u>	<u>\$ 783,454</u>	<u>\$ -</u>
Mutual funds	305,069				
Unit trusts	308,391				
Corporate stocks	2,919,594				
	<u>\$ 5,713,191</u>				

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2009

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.

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, 2009, the Foundation’s investments in U. S. agencies obligations, corporate bonds and preferred trust securities were rated Aaa, Aa3, Aa2, A3, A2, A1, B2, and Baa2 by Moody’s Investors Service. The Foundation is not in compliance with its investment policy.

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.

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.

Fayetteville Public Library
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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	\$	1,122,818
Investments		2,193,901
Foundation		
Deposits		347,914
Investments		<u>5,713,191</u>
	\$	<u><u>9,377,824</u></u>

Included in the following statement of net assets captions

Cash and cash equivalents	\$	2,602,887
Restricted cash and cash equivalents		165,448
Investments		3,854,289
Restricted investments		<u>2,755,200</u>
	\$	<u><u>9,377,824</u></u>

Investment Income

Investment income for the year ended December 31, 2009, consisted of:

Interest and dividend income	\$	181,316
Net increase in fair value of investments		<u>793,193</u>
	\$	<u><u>974,509</u></u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2009

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2009, were:

	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	\$ 20,770,329	\$ -	\$ -	\$ 20,770,329
Furniture and equipment	1,286,701	56,362	-	1,343,063
Library owned art	150,000	-	-	150,000
Library materials	349,356	369,571	-	718,927
	<u>22,556,386</u>	<u>425,933</u>	<u>-</u>	<u>22,982,319</u>
Less accumulated depreciation				
Buildings and improvements	1,586,901	373,865	-	1,960,766
Furniture and equipment	749,420	154,852	-	904,272
Library materials	109,645	224,811	-	334,456
	<u>2,445,966</u>	<u>753,528</u>	<u>-</u>	<u>3,199,494</u>
Capital assets, net	<u>\$ 20,110,420</u>	<u>\$ (327,595)</u>	<u>\$ -</u>	<u>\$ 19,782,825</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 Bank of Arkansas Wealth Management. 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. Plan members were required to contribute, at a minimum, 3% of covered payroll up to a maximum of \$16,500 for 2009. Contributions actually made during 2009 by plan members and the Library aggregated \$113,706 and \$123,067, respectively.

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2009

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.

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, 2009, the Foundation had a total of \$1,726,123, 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 \$257,000 and \$151,000 of the Library's and Foundation's deposits, respectively, at December 31, 2009.

The Foundation makes annual contributions to the Library based on approval of the Foundation's Board of Directors. As of December 31, 2009, total contributions from the Foundation were \$154,000.

Required Supplementary Information

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Budgetary Comparison Schedule
Budgetary Basis
Year Ended December 31, 2009

	Budget		Actual		Final Budget- Budgetary Basis Variance	
	Original	Final	GAAP Basis	Adjustments		
Revenues						
Contributions						
From primary government	\$ 1,932,278	\$ 1,932,278	\$ 1,932,059	\$ -	\$ 1,932,059	\$ (219)
Other	177,000	177,000	210,311	(56,311)	154,000	(23,000)
Property taxes	1,180,361	1,180,361	1,212,929	-	1,212,929	32,568
Investment income	18,000	18,000	974,509	(962,972)	11,537	(6,463)
Fines and fees	111,640	180,000	170,974	-	170,974	(9,026)
Grant revenue	68,360	68,360	26,353	-	26,353	(42,007)
State aid	118,996	118,996	133,818	-	133,818	14,822
Other sources	12,000	12,000	117,971	-	117,971	105,971
Total revenues	3,618,635	3,686,995	4,778,924	(1,019,283)	3,759,641	72,646
Expenditures						
Current						
Personnel services	2,254,074	2,215,074	2,226,701	-	2,226,701	11,627
Materials and supplies	415,000	434,150	701,805	40,399	742,204	308,054
Services and charges	352,561	345,361	79,199	-	79,199	(266,162)
Maintenance	174,500	267,000	86,169	-	86,169	(180,831)
Capital outlay	422,500	480,165	425,933	-	425,933	(54,232)
Total expenditures	3,618,635	3,741,750	3,519,807	40,399	3,560,206	(181,544)
Excess of Revenues Over (Under) Expenditures	-	(54,755)	1,259,117	(1,059,682)	199,435	254,190
Change in Fund Balances	-	(54,755)	1,259,117	(1,059,682)	199,435	254,190
Fund Balances, Beginning of Year	2,252,406	2,252,406	7,914,278	(5,278,304)	2,252,406	-
Fund Balances, End of Year	\$ 2,252,406	\$ 2,197,651	\$ 9,173,395	\$ (6,337,986)	\$ 2,451,841	\$ 254,190

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, 2009

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2008 (Memorandum only)
Assets				
Cash and cash equivalents	\$ 2,436,041	\$ -	\$ 2,436,041	\$ 2,814,327
Investments	880,678	-	880,678	233,248
Accounts receivable	54,000	-	54,000	-
Property taxes receivable, net	1,260,646	-	1,260,646	1,229,358
Accrued interest receivable	3,699	-	3,699	-
Prepaid expense	51,674	-	51,674	51,620
Capital assets, net	-	19,782,825	19,782,825	20,110,420
Total assets	4,686,738	19,782,825	24,469,563	24,438,973
Liabilities				
Accounts payable	12,854	-	12,854	16,162
Accrued expenses	297,031	-	297,031	247,059
Deferred revenue	1,260,646	(1,260,646)	-	-
Total liabilities	1,570,531	(1,260,646)	309,885	263,221
Fund Balance/ Net Assets				
Fund balance				
Unreserved	3,116,207	(3,116,207)		
Total fund balance	3,116,207	(3,116,207)		
Total liabilities and fund balance	\$ 4,686,738			
Net assets				
Invested in capital assets		19,782,825	19,782,825	20,110,420
Unrestricted		4,376,853	4,376,853	4,065,332
Total net assets		\$ 24,159,678	\$ 24,159,678	\$ 24,175,752

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, 2009

	Governmental Fund	Adjustments	Statement of Activities	2008 (Memorandum Only)
Revenues				
Contributions				
From Foundation	\$ 154,000	\$ -	\$ 154,000	\$ 291,359
From primary government	1,932,059	-	1,932,059	1,891,146
Other	-	-	-	34,000
Property taxes	1,212,929	31,288	1,244,217	1,160,841
Investment income	11,537	-	11,537	61,621
Fines and fees	170,974	-	170,974	180,507
Grant revenue	26,353	-	26,353	2,069
State aid	133,818	-	133,818	129,793
Miscellaneous	117,971	-	117,971	74,091
	<u>3,759,641</u>	<u>31,288</u>	<u>3,790,929</u>	<u>3,825,427</u>
Expenditures/Expenses				
Current				
Personnel services	2,226,701	-	2,226,701	2,104,639
Materials and supplies	661,406	-	661,406	790,348
Services and charges	79,199	-	79,199	93,988
Maintenance	86,169	-	86,169	135,372
Depreciation	-	753,528	753,528	663,885
Capital outlay	425,933	(425,933)	-	-
	<u>3,479,408</u>	<u>327,595</u>	<u>3,807,003</u>	<u>3,788,232</u>
Change in Fund Balances/Net Assets	280,233	(296,307)	(16,074)	37,195
Fund Balances/Net Assets				
Beginning of the year	<u>2,835,974</u>	<u>21,339,778</u>	<u>24,175,752</u>	<u>24,138,557</u>
End of the year	<u>\$ 3,116,207</u>	<u>\$ 21,043,471</u>	<u>\$ 24,159,678</u>	<u>24,175,752</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, 2009

	Governmental Fund			
	Library	Foundation	Eliminations	Total
Revenues				
Contributions				
From Foundation	\$ 154,000	\$ -	\$ (154,000)	\$ -
From primary government	1,932,059	-	-	1,932,059
Other	-	210,311	-	210,311
Property taxes	1,212,929	-	-	1,212,929
Investment income (loss)	11,537	962,972	-	974,509
	170,974	-	-	170,974
Grant revenue	26,353	-	-	26,353
State aid	133,818	-	-	133,818
Miscellaneous	117,971	-	-	117,971
	<u>3,759,641</u>	<u>1,173,283</u>	<u>(154,000)</u>	<u>4,778,924</u>
Total revenues				
Expenditures/Expenses				
Current				
Personnel services	2,226,701	-	-	2,226,701
Materials and supplies	661,406	40,399	-	701,805
Services and charges	79,199	-	-	79,199
Maintenance	86,169	-	-	86,169
Library contributions	-	154,000	(154,000)	-
Depreciation	-	-	-	-
Capital outlay	425,933	-	-	425,933
	<u>3,479,408</u>	<u>194,399</u>	<u>(154,000)</u>	<u>3,519,807</u>
Total expenditures/ expenses				
Excess Revenues Over				
Expenditures/Expenses	<u>280,233</u>	<u>978,884</u>	<u>-</u>	<u>1,259,117</u>
Change in Net Assets	280,233	978,884	-	1,259,117
Fund Balances/Net Assets				
Beginning of the year	<u>2,835,974</u>	<u>5,078,304</u>	<u>-</u>	<u>7,914,278</u>
End of the year	<u>\$ 3,116,207</u>	<u>\$ 6,057,188</u>	<u>\$ -</u>	<u>\$ 9,173,395</u>

Adjustments			Statement of Activities			
Library	Foundation	Total	Library	Foundation	Eliminations	Total
\$ -	\$ -	\$ -	\$ 154,000	\$ -	\$ (154,000)	\$ -
-	-	-	1,932,059	-	-	1,932,059
-	-	-	-	210,311	-	210,311
31,288	-	31,288	1,244,217	-	-	1,244,217
-	-	-	11,537	962,972	-	974,509
-	-	-	170,974	-	-	170,974
-	-	-	26,353	-	-	26,353
-	-	-	133,818	-	-	133,818
-	-	-	117,971	-	-	117,971
<u>31,288</u>	<u>-</u>	<u>31,288</u>	<u>3,790,929</u>	<u>1,173,283</u>	<u>(154,000)</u>	<u>4,810,212</u>
-	-	-	2,226,701	-	-	2,226,701
-	-	-	661,406	40,399	-	701,805
-	-	-	79,199	-	-	79,199
-	-	-	86,169	-	-	86,169
-	-	-	-	154,000	(154,000)	-
753,528	-	753,528	753,528	-	-	753,528
(425,933)	-	(425,933)	-	-	-	-
<u>327,595</u>	<u>-</u>	<u>327,595</u>	<u>3,807,003</u>	<u>194,399</u>	<u>(154,000)</u>	<u>3,847,402</u>
<u>(296,307)</u>	<u>-</u>	<u>(296,307)</u>	<u>(16,074)</u>	<u>978,884</u>	<u>-</u>	<u>962,810</u>
(296,307)	-	(296,307)	(16,074)	978,884	-	962,810
<u>21,339,778</u>	<u>-</u>	<u>21,339,778</u>	<u>24,175,752</u>	<u>5,078,304</u>	<u>-</u>	<u>29,254,056</u>
<u>\$ 21,043,471</u>	<u>\$ -</u>	<u>\$ 21,043,471</u>	<u>\$ 24,159,678</u>	<u>\$ 6,057,188</u>	<u>\$ -</u>	<u>\$ 30,216,866</u>