

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

Accountants' Report and Financial Statements

December 31, 2010



**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**December 31, 2010**

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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, 2010, 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, 2010, 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 17, 2011

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2010**

***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, 2010. It should be read in conjunction with the accompanying financial statements of the Government.

***Financial Highlights***

Key financial highlights for 2010 are as follows:

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$30,754,117 (*net assets*). Unrestricted net assets of \$4,693,874 may be used to meet the Library's ongoing obligations and \$3,134,276 is available to meet the Fayetteville Public Library Foundation (the "Foundation") obligations.
- The Library's total net assets decreased by \$105,480 or .44%. The Foundation's net assets increased by \$642,731 or 11%.
- As of the close of the current year, the Government's governmental fund reported ending fund balances of \$3,482,069 attributable to the Library and \$6,699,919 attributable to its Foundation, an increase of \$642,731 or 11% for the Foundation and an increase of \$365,862 or 12% for the Library in comparison with the prior year.
- At the end of the current fiscal year, unrestricted net assets for the governmental fund were \$7,828,150, or 182% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation was \$4,693,874, or 117% 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 \$30,754,117 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	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 5,052,371	\$ 4,686,738	\$ 7,224,542	\$ 6,414,145	\$ 12,276,913	\$ 11,100,883
Capital Assets, net	19,360,324	19,782,825	-	-	19,360,324	19,782,825
<b>Total Assets</b>	<b>24,412,695</b>	<b>24,469,563</b>	<b>7,224,542</b>	<b>6,414,145</b>	<b>31,637,237</b>	<b>30,883,708</b>
Current and Other Liabilities	358,497	309,885	524,623	356,957	883,120	666,842
<b>Total Liabilities</b>	<b>358,497</b>	<b>309,885</b>	<b>524,623</b>	<b>356,957</b>	<b>883,120</b>	<b>666,842</b>
<b>Net Assets</b>						
Invested in Capital Assets	19,360,324	19,782,825	-	-	19,360,324	19,782,825
Restricted	-	-	3,565,643	2,976,123	3,565,643	2,976,123
Unrestricted	4,693,874	4,376,853	3,134,276	3,081,065	7,828,150	7,457,918
<b>Total Net Assets</b>	<b>\$ 24,054,198</b>	<b>\$ 24,159,678</b>	<b>\$ 6,699,919</b>	<b>\$ 6,057,188</b>	<b>\$ 30,754,117</b>	<b>\$ 30,216,866</b>

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 5% and 2%, respectively since revenues exceeded expenses in 2010 by \$537,251.

## Statements of Activities

	Library		Foundation		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
<b>Revenues</b>								
Grants and contributions	\$ 2,234,415	\$ 2,246,230	\$ 291,596	\$ 210,311	\$ (131,980)	\$ (154,000)	\$ 2,394,031	\$ 2,302,541
Local property taxes	1,221,453	1,244,217	-	-	-	-	1,221,453	1,244,217
Fines and fees	175,470	170,974	-	-	-	-	175,470	170,974
Investment income (loss)	50,204	11,537	776,291	962,972	-	-	826,495	974,509
Miscellaneous	213,904	117,971	-	-	-	-	213,904	117,971
<b>Total revenues</b>	<b>3,895,446</b>	<b>3,790,929</b>	<b>1,067,887</b>	<b>1,173,283</b>	<b>(131,980)</b>	<b>(154,000)</b>	<b>4,831,353</b>	<b>4,810,212</b>
<b>Expenses</b>	<b>4,000,926</b>	<b>3,807,003</b>	<b>425,156</b>	<b>194,399</b>	<b>(131,980)</b>	<b>(154,000)</b>	<b>4,294,102</b>	<b>3,847,402</b>
<b>Changes in Net Assets</b>	<b>(105,480)</b>	<b>(16,074)</b>	<b>642,731</b>	<b>978,884</b>	<b>-</b>	<b>-</b>	<b>537,251</b>	<b>962,810</b>
<b>Net Assets,</b>								
<b>Beginning of Year</b>	24,159,678	24,175,752	6,057,188	5,078,304	-	-	30,216,866	29,254,056
<b>Net Assets, End of Year</b>	<b>\$ 24,054,198</b>	<b>\$ 24,159,678</b>	<b>\$ 6,699,919</b>	<b>\$ 6,057,188</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,754,117</b>	<b>\$ 30,216,866</b>

In 2010, revenues increased by \$21,141 or .44%, primarily due to:

- An increase in the fair market value of the Library'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 \$3,482,069 and \$6,699,919 for the Library and Foundation, respectively. 100% and 47% 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 \$537,251 (a \$105,480 decrease and a \$642,731 increase attributed to the Library and Foundation, respectively) during the current fiscal year. Key factors in this increase are:

- The Library fund balance decreased due to increase in revenues.
- The increase in investment income during 2010, which was also noted earlier in the analysis of the government-wide financial statements.

### **Capital Assets**

At the end of 2010, the Government had \$19,360,324 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements, a decrease of \$422,501. The decrease is primarily due to depreciation expense of capital assets in the amount of \$861,222 net of capital asset additions of \$438,721.

### **Budgetary Highlights**

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

- \$40,620 – Other Contributions. The variance was due to corporate donations received by the Foundation in one year, not given to, or budgeted by the Library until the following year. The corporate gifts received by the Foundation in 2009 were treated as a payable in 2009 by the Foundation, but not budgeted by the Library until 2010.
- \$46,006 – Investment income. Most investment income is not budgeted for expenditure in the current year. These exist as "rainy day funds" and are earnings on those funds.
- \$200,267 – Other Sources. The variance was due to an increase in corporate funding received by the library that has traditionally been given to the Foundation.

### ***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, 2010**

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2009 (Memorandum Only)
<b>Assets</b>				
Cash and cash equivalents	\$ 3,065,423	\$ -	\$ 3,065,423	\$ 2,602,887
Investments	4,303,656	-	4,303,656	3,854,289
Accounts receivable	6,176	-	6,176	55,555
Property taxes receivable, net of allowance; \$105,000	1,211,805	-	1,211,805	1,260,646
Pledges receivable, net	332,428	-	332,428	334,125
Accrued interest receivable	19,645	-	19,645	12,755
Prepaid expense	17,934	-	17,934	51,674
Restricted				
Cash and cash equivalents	128,749	-	128,749	165,448
Investments	3,180,731	-	3,180,731	2,755,200
Accrued interest receivable	10,366	-	10,366	8,304
Capital assets, net	-	19,360,324	19,360,324	19,782,825
<b>Total assets</b>	<b>12,276,913</b>	<b>19,360,324</b>	<b>31,637,237</b>	<b>30,883,708</b>
<b>Liabilities</b>				
Accounts payable	21,535	-	21,535	66,854
Accrued expenses	336,962	-	336,962	297,031
Deferred revenue	1,736,428	(1,211,805)	524,623	302,957
<b>Total liabilities</b>	<b>2,094,925</b>	<b>(1,211,805)</b>	<b>883,120</b>	<b>666,842</b>
<b>Fund Balances/Net Assets</b>				
Fund balances				
Reserved				
Capital assets	880,361	(880,361)		
Children's library	1,557,918	(1,557,918)		
Volunteer program	337,999	(337,999)		
NEH Grant	789,365	(789,365)		
Unreserved	6,616,345	(6,616,345)		
<b>Total fund balances</b>	<b>10,181,988</b>	<b>(10,181,988)</b>		
<b>Total liabilities and fund balances</b>	<b>\$ 12,276,913</b>			
Net assets				
Invested in capital assets		19,360,324	19,360,324	19,782,825
Restricted for capital assets				
Expendable		380,361	380,361	271,411
Nonexpendable		500,000	500,000	500,000
Restricted for children's library				
Expendable		807,918	807,918	644,892
Nonexpendable		750,000	750,000	750,000
Restricted for the volunteer program				
Expendable		337,999	337,999	292,046
Restricted for NEH Grant				
Expendable		789,365	789,365	517,774
Unrestricted		7,828,150	7,828,150	7,457,918
<b>Total net assets</b>		<b>\$ 30,754,117</b>	<b>\$ 30,754,117</b>	<b>\$ 30,216,866</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, 2010**

	Governmental Fund	Adjustments	Statement of Activities	2009 (Memorandum Only)
<b>Revenues</b>				
Contributions				
From primary government	\$ 1,949,059	\$ -	\$ 1,949,059	\$ 1,932,059
Other	294,596	-	294,596	210,311
Property taxes	1,270,295	(48,842)	1,221,453	1,244,217
Investment income	826,495	-	826,495	974,509
Fines and fees	175,470	-	175,470	170,974
Grant revenue	1,095	-	1,095	26,353
State aid	149,281	-	149,281	133,818
Miscellaneous	213,904	-	213,904	117,971
	<u>4,880,195</u>	<u>(48,842)</u>	<u>4,831,353</u>	<u>4,810,212</u>
<b>Expenditures/Expenses</b>				
Current				
Personnel services	2,195,649	-	2,195,649	2,226,701
Materials and supplies	686,612	-	686,612	701,805
Services and charges	88,672	-	88,672	79,199
Maintenance	168,730	-	168,730	86,169
Public relations	19,227	-	19,227	-
Depreciation	-	861,222	861,222	753,528
Other	273,990	-	273,990	-
Capital outlay	438,722	(438,722)	-	-
	<u>3,871,602</u>	<u>422,500</u>	<u>4,294,102</u>	<u>3,847,402</u>
<b>Excess Revenues Over (Under) Expenditures/Expenses</b>	<u>1,008,593</u>	<u>(471,342)</u>	<u>537,251</u>	<u>962,810</u>
<b>Change in Fund Balances/Net Assets</b>	1,008,593	(471,342)	537,251	962,810
<b>Fund Balances/Net Assets</b>				
Beginning of the year	<u>9,173,395</u>	<u>21,043,471</u>	<u>30,216,866</u>	<u>29,254,056</u>
End of year	<u>\$ 10,181,988</u>	<u>\$ 20,572,129</u>	<u>\$ 30,754,117</u>	<u>\$ 30,216,866</u>

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

**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

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

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, 2010, 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. In 2010 the Foundation reserved for \$105,000 in pledges receivable that it deemed uncollectible.

***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**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

***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.

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

**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	\$ 10,181,988
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.	19,360,324
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>1,211,805</u>
Total net assets	<u><u>\$ 30,754,117</u></u>
Change in fund balances	\$ 1,008,593
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.	(422,500)
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>(48,842)</u>
Change in net assets	<u><u>\$ 537,251</u></u>

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

**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, 2010, the Library's bank balances were completely collateralized.

**Foundation**

The Foundation does not have a deposit policy.

At December 31, 2010, 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, 2010, the Library had the following investments and maturities:

Type	December 31, 2010				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury and agencies obligations	\$ 1,037,303	\$ 10,450	\$ 94,356	\$ 932,497	\$ -
Money market mutual funds	1,197,658	1,197,658	-	-	-
	<u>\$ 2,234,961</u>	<u>\$ 1,208,108</u>	<u>\$ 94,356</u>	<u>\$ 932,497</u>	<u>\$ -</u>

# Fayetteville Public Library

## A Component Unit of the City of Fayetteville, Arkansas

### Notes to Financial Statements

December 31, 2010

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, 2010, the Foundation had the following investments and maturities:

Type	Fair Value	December 31, 2010			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 685,960	\$ 102,455	\$ 213,111	\$ 370,394	\$ -
Corporate bonds	1,427,693	-	967,625	460,068	
Money market mutual funds	183,949	183,949	-	-	-
		<u>\$ 286,404</u>	<u>\$ 1,180,736</u>	<u>\$ 830,462</u>	<u>\$ -</u>
Mutual funds	366,009				
Unit trusts	320,642				
Corporate stocks	3,539,604				
	<u>\$ 6,523,857</u>				



**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

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+ average rating or better for Standard & Poor’s and an A1 average rating or better for Moody’s Investors Service. At December 31, 2010, the Foundation’s investments in U.S. agencies obligations, corporate bonds and preferred trust securities were rated an average rate of A+ by Standard & Poor rating and an average rate of A1 by Moody’s Investors Service. The Foundation is 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**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

***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	\$ 1,573,313
Investments	2,234,961
Foundation	
Deposits	346,428
Investments	<u>6,523,857</u>
	<u><u>\$ 10,678,559</u></u>

Included in the following statement of net assets captions	
Cash and cash equivalents	\$ 3,065,423
Restricted cash and cash equivalents	128,749
Investments	4,303,656
Restricted investments	<u>3,180,731</u>
	<u><u>\$ 10,678,559</u></u>

***Investment Income***

Investment income for the year ended December 31, 2010, consisted of:

Interest and dividend income	\$ 231,879
Net increase in fair value of investments	<u>594,616</u>
	<u><u>\$ 826,495</u></u>

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

**Notes to Financial Statements**

**December 31, 2010**

**Note 4: Capital Assets**

Capital assets activity for the year ended December 31, 2010, were:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Buildings and improvements	\$ 20,770,329	\$ 50,101	\$ -	\$ 20,820,430
Furniture and equipment	1,343,063	38,083	152,388	1,228,758
Library owned art	150,000	-	-	150,000
Library materials	718,927	350,537	-	1,069,464
	<u>22,982,319</u>	<u>438,721</u>	<u>152,388</u>	<u>23,268,652</u>
Less accumulated depreciation				
Buildings and improvements	1,960,766	375,369	-	2,336,135
Furniture and equipment	904,272	149,550	152,388	901,434
Library materials	334,456	336,303	-	670,759
	<u>3,199,494</u>	<u>861,222</u>	<u>152,388</u>	<u>3,908,328</u>
Capital assets, net	<u>\$ 19,782,825</u>	<u>\$ (422,501)</u>	<u>\$ -</u>	<u>\$ 19,360,324</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 2010. Contributions actually made during 2010 by plan members and the Library aggregated \$114,582 and \$142,935, respectively.

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2010**

**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, 2010, the Foundation had a total of \$2,315,643, 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 \$150,000 and \$41,000 of the Library's and Foundation's deposits, respectively, at December 31, 2010.

The Foundation makes annual contributions to the Library based on approval of the Foundation's Board of Directors. As of December 31, 2010, total contributions from the Foundation were \$131,980.

## **Required Supplementary Information**

**Fayetteville Public Library**  
**A Component Unit of the City of Fayetteville, Arkansas**  
**Budgetary Comparison Schedule**  
**Budgetary Basis**  
**Year Ended December 31, 2010**

	Budget		Actual			Final Budget- Budgetary Basis Variance
	Original	Final	GAAP Basis	Adjustments	Budgetary Basis	
<b>Revenues</b>						
Contributions						
From primary government	\$ 1,949,059	\$ 1,949,059	\$ 1,949,059	\$ -	\$ 1,949,059	\$ -
Other	172,600	172,600	294,596	(162,616)	131,980	(40,620)
Property taxes	1,267,379	1,267,379	1,270,295	-	1,270,295	2,916
Investment income	2,400	4,198	826,495	(776,291)	50,204	46,006
Fines and fees	180,000	175,470	175,470	-	175,470	-
Grant revenue	-	1,095	1,095	-	1,095	-
State aid	137,294	145,394	149,281	-	149,281	3,887
Other sources	12,000	13,637	213,904	-	213,904	200,267
Total revenues	3,720,732	3,728,832	4,880,195	(938,907)	3,941,288	212,456
<b>Expenditures</b>						
Current						
Personnel services	2,292,141	2,244,741	2,195,649	-	2,195,649	(49,092)
Materials and supplies	407,000	459,127	686,612	-	686,612	227,485
Services and charges	313,000	298,252	88,672	-	88,672	(209,580)
Maintenance	221,500	321,157	168,730	-	168,730	(152,427)
Public relations	39,800	43,800	19,227	-	19,227	(24,573)
Other	-	-	273,990	-	273,990	273,990
Capital outlay	447,000	496,000	438,722	-	438,722	(57,278)
Total expenditures	3,720,441	3,863,077	3,871,602	-	3,871,602	8,525
<b>Excess of Revenues Over (Under) Expenditures</b>	291	(134,245)	1,008,593	(938,907)	69,686	203,931
<b>Change in Fund Balances</b>	291	(134,245)	1,008,593	(938,907)	69,686	203,931
<b>Fund Balances, Beginning of Year</b>	2,252,406	2,197,651	9,173,395	(6,337,986)	2,197,651	-
<b>Fund Balances, End of Year</b>	\$ 2,252,697	\$ 2,063,406	\$ 10,181,988	\$ (7,276,893)	\$ 2,267,337	\$ 203,931

***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, 2010**

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2009 (Memorandum only)
<b>Assets</b>				
Cash and cash equivalents	\$ 2,663,794	\$ -	\$ 2,663,794	\$ 2,436,041
Investments	1,144,480	-	1,144,480	880,678
Accounts receivable	6,176	-	6,176	54,000
Property taxes receivable, net	1,211,805	-	1,211,805	1,260,646
Accrued interest receivable	8,182	-	8,182	3,699
Prepaid expense	17,934	-	17,934	51,674
Capital assets, net	-	19,360,324	19,360,324	19,782,825
	<u>5,052,371</u>	<u>19,360,324</u>	<u>24,412,695</u>	<u>24,469,563</u>
<b>Liabilities</b>				
Accounts payable	21,535	-	21,535	12,854
Accrued expenses	336,962	-	336,962	297,031
Deferred revenue	1,211,805	(1,211,805)	-	-
	<u>1,570,302</u>	<u>(1,211,805)</u>	<u>358,497</u>	<u>309,885</u>
<b>Fund Balance/ Net Assets</b>				
Fund balance				
Unreserved	<u>3,482,069</u>	<u>(3,482,069)</u>		
	<u>3,482,069</u>	<u>(3,482,069)</u>		
Total fund balance	<u>3,482,069</u>	<u>(3,482,069)</u>		
Total liabilities and fund balance	<u>\$ 5,052,371</u>			
Net assets				
Invested in capital assets		19,360,324	19,360,324	19,782,825
Unrestricted		4,693,874	4,693,874	4,376,853
		<u>\$ 24,054,198</u>	<u>\$ 24,054,198</u>	<u>\$ 24,159,678</u>
Total net assets		<u>\$ 24,054,198</u>	<u>\$ 24,054,198</u>	<u>\$ 24,159,678</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, 2010**

	Governmental Fund	Adjustments	Statement of Activities	2009 (Memorandum Only)
<b>Revenues</b>				
Contributions				
From Foundation	\$ 131,980	\$ -	\$ 131,980	\$ 154,000
From primary government	1,949,059	-	1,949,059	1,932,059
Other	3,000	-	3,000	-
Property taxes	1,270,295	(48,842)	1,221,453	1,244,217
Investment income	50,204	-	50,204	11,537
Fines and fees	175,470	-	175,470	170,974
Grant revenue	1,095	-	1,095	26,353
State aid	149,281	-	149,281	133,818
Miscellaneous	213,904	-	213,904	117,971
	<u>3,944,288</u>	<u>(48,842)</u>	<u>3,895,446</u>	<u>3,790,929</u>
<b>Total revenues</b>				
<b>Expenditures/Expenses</b>				
Current				
Personnel services	2,195,649	-	2,195,649	2,226,701
Materials and supplies	686,612	-	686,612	661,406
Services and charges	88,672	-	88,672	79,199
Maintenance	168,730	-	168,730	86,169
Depreciation	-	861,222	861,222	753,528
Other	41	-	41	-
Capital outlay	438,722	(438,722)	-	-
	<u>3,578,426</u>	<u>422,500</u>	<u>4,000,926</u>	<u>3,807,003</u>
<b>Total expenditures/expenses</b>				
<b>Change in Fund Balances/Net Assets</b>	365,862	(471,342)	(105,480)	(16,074)
<b>Fund Balances/Net Assets</b>				
Beginning of the year	<u>3,116,207</u>	<u>21,043,471</u>	<u>24,159,678</u>	<u>24,175,752</u>
End of the year	<u>\$ 3,482,069</u>	<u>\$ 20,572,129</u>	<u>\$ 24,054,198</u>	<u>\$ 24,159,678</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, 2010**

	Governmental Fund			
	Library	Foundation	Eliminations	Total
<b>Revenues</b>				
Contributions				
From Foundation	\$ 131,980	\$ -	\$ (131,980)	\$ -
From primary government	1,949,059	-	-	1,949,059
Other	3,000	291,596	-	294,596
Property taxes	1,270,295	-	-	1,270,295
Investment income (loss)	50,204	776,291	-	826,495
	175,470	-	-	175,470
Grant revenue	1,095	-	-	1,095
State aid	149,281	-	-	149,281
Miscellaneous	213,904	-	-	213,904
	<u>3,944,288</u>	<u>1,067,887</u>	<u>(131,980)</u>	<u>4,880,195</u>
<b>Expenditures/Expenses</b>				
Current				
Personnel services	2,195,649	-	-	2,195,649
Materials and supplies	686,612	-	-	686,612
Services and charges	88,672	-	-	88,672
Maintenance	168,730	-	-	168,730
Library contributions	-	131,980	(131,980)	-
Public relations	-	19,227	-	19,227
Depreciation	-	-	-	-
Other	41	273,949	-	273,990
Capital outlay	438,722	-	-	438,722
	<u>3,578,426</u>	<u>425,156</u>	<u>(131,980)</u>	<u>3,871,602</u>
	<u>365,862</u>	<u>642,731</u>	<u>-</u>	<u>1,008,593</u>
<b>Excess Revenues Over Expenditures/Expenses</b>				
<b>Change in Net Assets</b>	365,862	642,731	-	1,008,593
<b>Fund Balances/Net Assets</b>				
Beginning of the year	<u>3,116,207</u>	<u>6,057,188</u>	<u>-</u>	<u>9,173,395</u>
End of the year	<u>\$ 3,482,069</u>	<u>\$ 6,699,919</u>	<u>\$ -</u>	<u>\$ 10,181,988</u>

Adjustments			Statement of Activities			
Library	Foundation	Total	Library	Foundation	Eliminations	Total
\$ -	\$ -	\$ -	\$ 131,980	\$ -	\$ (131,980)	\$ -
-	-	-	1,949,059	-	-	1,949,059
-	-	-	3,000	291,596	-	294,596
(48,842)	-	(48,842)	1,221,453	-	-	1,221,453
-	-	-	50,204	776,291	-	826,495
-	-	-	175,470	-	-	175,470
-	-	-	1,095	-	-	1,095
-	-	-	149,281	-	-	149,281
-	-	-	213,904	-	-	213,904
<u>(48,842)</u>	<u>-</u>	<u>(48,842)</u>	<u>3,895,446</u>	<u>1,067,887</u>	<u>(131,980)</u>	<u>4,831,353</u>
-	-	-	2,195,649	-	-	2,195,649
-	-	-	686,612	-	-	686,612
-	-	-	88,672	-	-	88,672
-	-	-	168,730	-	-	168,730
-	-	-	-	131,980	(131,980)	-
-	-	-	-	19,227	-	19,227
861,222	-	861,222	861,222	-	-	861,222
-	-	-	41	273,949	-	273,990
<u>(438,722)</u>	<u>-</u>	<u>(438,722)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>422,500</u>	<u>-</u>	<u>422,500</u>	<u>4,000,926</u>	<u>425,156</u>	<u>(131,980)</u>	<u>4,294,102</u>
<u>(471,342)</u>	<u>-</u>	<u>(471,342)</u>	<u>(105,480)</u>	<u>642,731</u>	<u>-</u>	<u>537,251</u>
(471,342)	-	(471,342)	(105,480)	642,731	-	537,251
<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>
<u>\$ 20,572,129</u>	<u>\$ -</u>	<u>\$ 20,572,129</u>	<u>\$ 24,054,198</u>	<u>\$ 6,699,919</u>	<u>\$ -</u>	<u>\$ 30,754,117</u>