

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Accountants' Report and Financial Statements
December 31, 2011



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A Component Unit of the City of Fayetteville, Arkansas
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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, 2011, 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, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 1* to the financial statements, in 2011 the Library changed its method of accounting for fund balances in accordance with the Governmental Accounting standards Board Statement no. 54, *Fund Balance Reporting and Governmental Fund-Type Definition*.

Accounting principles generally accepted in the United States of America require the accompanying management's discussion and analysis and budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The Governmental Fund Balance Sheet/Statement of Net Assets - Library Only, Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Library Only and the Combining Statement of Governmental Fund Revenues, Expenditure and Changes in Fund/Balance/Statement of Activities listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

April 9, 2012

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Management's Discussion and Analysis
Year Ended December 31, 2011

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, 2011. It should be read in conjunction with the accompanying financial statements of the Government.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$31,699,595 (*net assets*). Unrestricted net assets of \$4,922,432 may be used to meet the Library's ongoing obligations and \$3,475,408 is available to meet the Fayetteville Public Library Foundation (the "Foundation") obligations.
- The Library's total net assets increased by \$307,970 or 1%. The Foundation's net assets increased by \$637,508 or 10%.
- As of the close of the current year, the Government's governmental fund reported ending fund balances of \$3,672,330 attributable to the Library and \$7,242,427 attributable to its Foundation, an increase of \$542,508 or 8% for the Foundation and an increase of \$190,261 or 5% for the Library in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the governmental fund was \$7,103,165, or 163% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation was \$3,627,757, or 87% 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 financial 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 \$31,699,595 at the close of the most recent fiscal year.

A portion of the government's net assets (26%) may be used to meet the government's ongoing obligations to citizens and creditors.

Statements of Net Assets

	Library		Foundation		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 5,262,623	\$ 5,052,371	\$ 7,891,910	\$ 7,224,542	\$ 13,154,533	\$ 12,276,913
Capital Assets, net	<u>19,439,736</u>	<u>19,360,324</u>	<u>-</u>	<u>-</u>	<u>19,439,736</u>	<u>19,360,324</u>
Total Assets	<u>24,702,359</u>	<u>24,412,695</u>	<u>7,891,910</u>	<u>7,224,542</u>	<u>32,594,269</u>	<u>31,637,237</u>
Current and Other Liabilities	<u>340,191</u>	<u>358,497</u>	<u>554,483</u>	<u>524,623</u>	<u>894,674</u>	<u>883,120</u>
Total Liabilities	<u>340,191</u>	<u>358,497</u>	<u>554,483</u>	<u>524,623</u>	<u>894,674</u>	<u>883,120</u>
Net Assets						
Invested in Capital Assets	19,439,736	19,360,324	95,000	-	19,534,736	19,360,324
Restricted	-	-	3,767,019	3,565,643	3,767,019	3,565,643
Unrestricted	<u>4,922,432</u>	<u>4,693,874</u>	<u>3,475,408</u>	<u>3,134,276</u>	<u>8,397,840</u>	<u>7,828,150</u>
Total Net Assets	<u>\$ 24,362,168</u>	<u>\$ 24,054,198</u>	<u>\$ 7,337,427</u>	<u>\$ 6,699,919</u>	<u>\$ 31,699,595</u>	<u>\$ 30,754,117</u>

An additional portion of the net assets (62%) 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 (12%) represents resources that are subject to external restrictions on how they may be used. Combined unrestricted net assets and total net assets increased 7% and 3%, respectively since revenues exceeded expenses in 2011 by \$945,478.

Statements of Activities

	Library		Foundation		Eliminations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Grants and contributions	\$ 2,807,774	\$ 2,234,415	\$ 898,344	\$ 291,596	\$ (370,172)	\$ (131,980)	\$ 3,335,946	\$ 2,394,031
Local property taxes	1,286,767	1,221,453	-	-	-	-	1,286,767	1,221,453
Fines and fees	165,612	175,470	-	-	-	-	165,612	175,470
Investment income (loss)	81,840	50,204	175,410	776,291	-	-	257,250	826,495
Miscellaneous	74,643	213,904	-	-	-	-	74,643	213,904
Total revenues	<u>4,416,636</u>	<u>3,895,446</u>	<u>1,073,754</u>	<u>1,067,887</u>	<u>(370,172)</u>	<u>(131,980)</u>	<u>5,120,218</u>	<u>4,831,353</u>
Expenses	<u>4,108,666</u>	<u>4,000,926</u>	<u>436,246</u>	<u>425,156</u>	<u>(370,172)</u>	<u>(131,980)</u>	<u>4,174,740</u>	<u>4,294,102</u>
Changes in Net Assets	307,970	(105,480)	637,508	642,731	-	-	945,478	537,251
Net Assets,								
Beginning of Year	<u>24,054,198</u>	<u>24,159,678</u>	<u>6,699,919</u>	<u>6,057,188</u>	<u>-</u>	<u>-</u>	<u>30,754,117</u>	<u>30,216,866</u>
Net Assets, End of Year	<u>\$ 24,362,168</u>	<u>\$ 24,054,198</u>	<u>\$ 7,337,427</u>	<u>\$ 6,699,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,699,595</u>	<u>\$ 30,754,117</u>

In 2011, revenues increased by \$288,865 or 6%, primarily due to:

- An increase in the contributions to both the Library and the Foundation.

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, *unassigned 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 \$3,672,330 and \$7,242,427 for the Library and Foundation, respectively. Approximately, 99% and 48% of these amounts constitutes unassigned fund balances, which are available for spending at the Library's and Foundation's discretion, respectively. The remainder of the fund balances have spending constraints placed on the purpose for which resources can be used.

The fund balances of the governmental fund changed by \$732,769 (a \$190,261 and a \$542,508 increase attributed to the Library and Foundation, respectively) during the current fiscal year. Key factors in this increase are increased contributions to the Library and Foundation.

Capital Assets

At the end of 2011, the Government had \$19,534,736 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements, increased of \$174,412. The increase is primarily due to depreciation expense of capital assets in the amount of \$872,982, net of capital asset additions of \$1,049,806.

Budgetary Highlights

Differences between the final budget and the actual results (budgetary basis) as reported on Page 20 can be briefly summarized as follows:

- Total revenues were under budget by less than 1%. Actual amounts are consistent with the budget.
- Total expenditures were over budget by less than 2%. Actual amounts are consistent with the budget.
- Overall change in fund balance was 37% or \$84,358 less than budgeted.

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, 2011

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2010 (Memorandum Only)
Assets				
Cash and cash equivalents	\$ 2,968,433	\$ -	\$ 2,968,433	\$ 3,065,423
Investments	4,679,339	-	4,679,339	4,303,656
Accounts receivable	-	-	-	6,176
Property taxes receivable, net of allowance; \$36,663	1,250,102	-	1,250,102	1,211,805
Pledges receivable, net	517,051	-	517,051	332,428
Accrued interest receivable	29,375	-	29,375	19,645
Prepaid expense	44,573	-	44,573	17,934
Restricted				
Cash and cash equivalents	181,647	-	181,647	128,749
Investments	3,374,744	-	3,374,744	3,180,731
Accrued interest receivable	14,269	-	14,269	10,366
Capital assets, net	<u>-</u>	<u>19,534,736</u>	<u>19,534,736</u>	<u>19,360,324</u>
Total assets	<u>\$ 13,059,533</u>	<u>19,534,736</u>	<u>32,594,269</u>	<u>31,637,237</u>
Liabilities				
Accounts payable	73,188	-	73,188	21,535
Accrued expenses	297,003	-	297,003	336,962
Deferred revenue	<u>1,774,585</u>	<u>(1,250,102)</u>	<u>524,483</u>	<u>524,623</u>
Total liabilities	<u>2,144,776</u>	<u>(1,250,102)</u>	<u>894,674</u>	<u>883,120</u>
Fund Balances/Net Assets				
Fund balances				
Nonspendable				
Prepaid expense	44,573	(44,573)		
Permanent endowment	1,250,000	(1,250,000)		
Restricted	2,517,019	(2,517,019)		
Unassigned	<u>7,103,165</u>	<u>(7,103,165)</u>		
Total fund balances	<u>10,914,757</u>	<u>(10,914,757)</u>		
Total liabilities and fund balances	<u>\$ 13,059,533</u>			
Net assets				
Invested in capital assets		19,534,736	19,534,736	19,360,324
Restricted for capital assets				
Expendable		404,333	404,333	380,361
Nonexpendable		500,000	500,000	500,000
Restricted for children's library				
Expendable		563,932	563,932	807,918
Nonexpendable		750,000	750,000	750,000
Restricted for the volunteer program				
Expendable		342,828	342,828	337,999
Restricted for NEH Grant				
Expendable		1,205,926	1,205,926	789,365
Unrestricted		<u>8,397,840</u>	<u>8,397,840</u>	<u>7,828,150</u>
Total net assets		<u>\$ 31,699,595</u>	<u>\$ 31,699,595</u>	<u>\$ 30,754,117</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2011

	Governmental Fund	Adjustments	Statement of Activities	2010 (Memorandum Only)
Revenues				
Contributions				
From primary government	\$ 1,949,063	\$ -	\$ 1,949,063	\$ 1,949,059
Other	1,238,970	-	1,238,970	294,596
Property taxes	1,248,470	38,297	1,286,767	1,221,453
Investment income	257,250	-	257,250	826,495
Fines and fees	165,612	-	165,612	175,470
Grant revenue	5,317	-	5,317	1,095
State aid	142,596	-	142,596	149,281
Miscellaneous	74,643	-	74,643	213,904
	<u>5,081,921</u>	<u>38,297</u>	<u>5,120,218</u>	<u>4,831,353</u>
Expenditures/Expenses				
Current				
Personnel services	2,190,273	-	2,190,273	2,195,649
Materials and supplies	548,212	-	548,212	686,612
Services and charges	62,121	-	62,121	88,672
Maintenance	94,452	-	94,452	168,730
Public relations	18,906	-	18,906	19,227
Depreciation	-	872,982	872,982	861,222
Other	387,794	-	387,794	273,990
Capital outlay	1,047,394	(1,047,394)	-	-
	<u>4,349,152</u>	<u>(174,412)</u>	<u>4,174,740</u>	<u>4,294,102</u>
Excess Revenues Over				
(Under) Expenditures/Expenses and				
Change in Fund Balances/ Net Assets				
	732,769	212,709	945,478	537,251
Fund Balances/Net Assets				
Beginning of the year	<u>10,181,988</u>	<u>20,477,129</u>	<u>30,754,117</u>	<u>30,216,866</u>
End of year	<u>\$ 10,914,757</u>	<u>\$ 20,689,838</u>	<u>\$ 31,699,595</u>	<u>\$ 30,754,117</u>

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2011

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 legally 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

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Notes to Financial Statements
December 31, 2011

liabilities at the date of the financial statements and the reported amounts of revenues, expenses 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, 2011, 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 2011, the Foundation reserved for \$15,000 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

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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.

Fund Balance - Governmental Funds

The fund balances for the Library's governmental funds are displayed in three components:

Nonspendable - Nonspendable fund balances are not in a spendable form or are required to be maintained intact.

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Restricted - Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers. Funds are externally restricted by contributors.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

The Library considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unassigned fund balance is available. The Library applies restricted amounts first, followed by unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Change in Accounting Principles

The Foundation implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting, and Governmental Fund Type Definitions* during 2011. The statement established fund balance classifications that comprise a hierarchy based primarily on the extension which a government is bound to observe constraints imposed upon the use of the resources reports in governmental funds. The objective of this Statement is to provide clearer fund balance classifications that can be more consistently applied. With the implementation of this Statement, there is no effect on beginning fund balance. Amounts previously reported as reserved are now reported as either nonspendable or restricted and amounts previously reported as unreserved are now reported as unassigned.

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:

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Total fund balances	\$ 10,914,757
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.	19,534,736
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>1,250,102</u>
Total net assets	<u><u>\$ 31,699,595</u></u>
Change in fund balances	\$ 732,769
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.	174,412
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>38,297</u>
Change in net assets	<u><u>\$ 945,478</u></u>

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2011

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, 2011, the Library's bank balances were completely collateralized by the FDIC insurance.

Foundation

The Foundation does not have a deposit policy.

At December 31, 2011, the Foundation's bank balances were completely collateralized by the FDIC insurance.

Investments

Library

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

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2011

At December 31, 2011, the Library had the following investments and maturities:

Type	December 31, 2011				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury and agencies obligations	\$ 1,127,896	\$ -	\$ 95,083	\$ 1,032,813	\$ -
Corporate bonds	391,332	-	66,995	324,337	-
Money market mutual funds	1,780,301	1,780,301	-	-	-
	<u>\$ 3,299,529</u>	<u>\$ 1,780,301</u>	<u>\$ 162,078</u>	<u>\$ 1,357,150</u>	<u>\$ -</u>

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Library’s investment policy 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.

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Notes to Financial Statements
December 31, 2011

Foundation

At December 31, 2011, the Foundation had the following investments and maturities:

Type	December 31, 2011				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 484,076	\$ -	\$ 186,499	\$ 297,577	\$ -
Corporate bonds	1,831,131	4,078	1,003,864	823,189	-
Money market mutual funds	860,811	860,811	-	-	-
	3,176,018	<u>\$ 864,889</u>	<u>\$ 1,190,363</u>	<u>\$ 1,120,766</u>	<u>\$ -</u>
Mutual funds	274,361				
Unit trusts	405,194				
Corporate stocks	3,240,094				
	<u>\$ 7,095,667</u>				

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

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, 2011, 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.

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.

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December 31, 2011

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

Summary of Carrying Values

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

Carrying value		
Library		
Deposits	\$	653,436
Investments		3,299,529
Foundation		
Deposits		155,531
Investments		<u>7,095,667</u>
		<u>\$ 11,204,163</u>

Included in the following statement of net assets captions		
Cash and cash equivalents	\$	2,968,433
Restricted cash and cash equivalents		181,647
Investments		4,679,339
Restricted investments		<u>3,374,744</u>
		<u>\$ 11,204,163</u>

Investment Income

Investment income for the year ended December 31, 2011, consisted of:

Interest and dividend income	\$	263,240
Net decrease in fair value of investments		<u>(5,990)</u>
		<u>\$ 257,250</u>

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2011

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2011, were:

	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	\$ 20,820,430	\$ 156,337	\$ -	\$ 20,976,767
Furniture and equipment	1,228,758	467,045	8,808	1,686,995
Library owned art	150,000	-	-	150,000
Library materials	1,069,464	331,424	-	1,400,888
Construction in progress	-	95,000	-	95,000
	<u>23,268,652</u>	<u>1,049,806</u>	<u>8,808</u>	<u>24,309,650</u>
Less accumulated depreciation				
Buildings and improvements	2,336,135	380,580	-	2,716,715
Furniture and equipment	901,434	157,264	6,396	1,052,302
Library materials	670,759	335,138	-	1,005,897
	<u>3,908,328</u>	<u>872,982</u>	<u>6,396</u>	<u>4,774,914</u>
Capital assets, net	<u>\$ 19,360,324</u>	<u>\$ 176,824</u>	<u>\$ 2,412</u>	<u>\$ 19,534,736</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 2011. Contributions actually made during 2011 by plan members and the Library aggregated \$115,460 and \$147,257, respectively.

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2011

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, 2011, the Foundation had a total of \$2,547,169, 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 \$138,000 and \$90,000 of the Library's and Foundation's deposits, respectively, at December 31, 2011.

The Foundation makes annual contributions to the Library based on approval of the Foundation's Board of Directors. As of December 31, 2011, total contributions from the Foundation were \$370,172.

The Foundation has contracted with the spouse of one member of the Foundation's management to provide services for the benefit of the Library in the amount of \$150,000. During 2011, the Foundation paid the vendor \$60,000, with \$30,000 due and payable as of December 31, 2011. The amount committed under the contract to be paid to the vendor in subsequent years is \$55,000.

Required Supplementary Information

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Budgetary Comparison Schedule
Budgetary Basis
Year Ended December 31, 2011

	Budget		Actual			Final Budget- Budgetary Basis Variance
	Original	Final	GAAP Basis	Adjustments	Budgetary Basis	
Revenues						
Contributions						
From primary government	\$ 1,949,059	\$ 1,949,059	\$ 1,949,063	\$ -	\$ 1,949,063	\$ 4
Other	167,600	167,600	1,238,970	(868,798)	370,172	202,572
Property taxes	1,298,663	1,298,663	1,248,470	-	1,248,470	(50,193)
Investment income	-	-	257,250	(175,410)	81,840	81,840
Fines and fees	-	-	165,612	-	165,612	165,612
Grant revenue	-	-	5,317	-	5,317	5,317
State aid	137,296	137,296	142,596	-	142,596	5,300
Miscellaneous	194,400	502,400	74,643	-	74,643	(427,757)
Total revenues	3,747,018	4,055,018	5,081,921	(1,044,208)	4,037,713	(17,305)
Expenditures						
Current						
Personnel services	2,291,000	2,315,000	2,190,273	-	2,190,273	(124,727)
Materials and supplies	418,500	546,737	548,212	-	548,212	1,475
Services and charges	273,500	424,500	62,121	-	62,121	(362,379)
Maintenance	196,500	339,373	94,452	-	94,452	(244,921)
Public relations	39,800	37,800	18,906	-	18,906	(18,894)
Other	77,000	65,600	387,794	-	387,794	322,194
Capital outlay	484,530	553,089	1,047,394	-	1,047,394	494,305
Total expenditures	3,780,830	4,282,099	4,349,152	-	4,349,152	67,053
Excess of Revenues Over (Under) Expenditures	(33,812)	(227,081)	732,769	(1,044,208)	(311,439)	(84,358)
Change in Fund Balances	(33,812)	(227,081)	732,769	(1,044,208)	(311,439)	(84,358)
Fund Balances, Beginning of Year	2,252,697	2,063,406	10,181,988	(6,337,986)	2,063,406	-
Fund Balances, End of Year	\$ 2,218,885	\$ 1,836,325	\$ 10,914,757	\$ (7,382,194)	\$ 1,751,967	\$ (84,358)

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, 2011

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets	2010 (Memorandum only)
Assets				
Cash and cash equivalents	\$ 2,333,737	\$ -	\$ 2,333,737	\$ 2,663,794
Investments	1,619,228	-	1,619,228	1,144,480
Accounts receivable	-	-	-	6,176
Property taxes receivable, net	1,250,102	-	1,250,102	1,211,805
Accrued interest receivable	14,983	-	14,983	8,182
Prepaid expense	44,573	-	44,573	17,934
Capital assets, net	-	19,439,736	19,439,736	19,360,324
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,262,623</u>	<u>19,439,736</u>	<u>24,702,359</u>	<u>24,412,695</u>
Liabilities				
Accounts payable	43,188	-	43,188	21,405
Accrued expenses	297,003	-	297,003	337,092
Deferred revenue	1,250,102	(1,250,102)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,590,293</u>	<u>(1,250,102)</u>	<u>340,191</u>	<u>358,497</u>
Fund Balance/ Net Assets				
Fund balance				
Nonspendable	44,573	(44,573)		
Unassigned	3,627,757	(3,627,757)		
	<u> </u>	<u> </u>		
Total fund balance	<u>3,672,330</u>	<u>(3,672,330)</u>		
Total liabilities and fund balance	<u>\$ 5,262,623</u>			
Net assets				
Invested in capital assets		19,439,736	19,439,736	19,360,324
Unrestricted		4,922,432	4,922,432	4,693,874
		<u> </u>	<u> </u>	<u> </u>
Total net assets		<u>\$ 24,362,168</u>	<u>\$ 24,362,168</u>	<u>\$ 24,054,198</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, 2011

	Governmental Fund	Adjustments	Statement of Activities	2010 (Memorandum Only)
Revenues				
Contributions				
From Foundation	\$ 370,172	\$ -	\$ 370,172	\$ 131,980
From primary government	1,949,063	-	1,949,063	1,949,059
Other	340,626	-	340,626	3,000
Property taxes	1,248,470	38,297	1,286,767	1,221,453
Investment income	81,840	-	81,840	50,204
Fines and fees	165,612	-	165,612	175,470
Grant revenue	5,317	-	5,317	1,095
State aid	142,596	-	142,596	149,281
Miscellaneous	74,643	-	74,643	213,904
	<u>4,378,339</u>	<u>38,297</u>	<u>4,416,636</u>	<u>3,895,446</u>
Expenditures/Expenses				
Current				
Personnel services	2,190,273	-	2,190,273	2,195,649
Materials and supplies	548,212	-	548,212	686,052
Services and charges	62,121	-	62,121	88,672
Maintenance	94,452	-	94,452	169,290
Depreciation	-	872,982	872,982	861,222
Other	340,626	-	340,626	41
Capital outlay	952,394	(952,394)	-	-
	<u>4,188,078</u>	<u>(79,412)</u>	<u>4,108,666</u>	<u>4,000,926</u>
Change in Fund Balances/Net Assets	190,261	117,709	307,970	(105,480)
Fund Balances/Net Assets				
Beginning of the year	<u>3,482,069</u>	<u>20,572,129</u>	<u>24,054,198</u>	<u>24,159,678</u>
End of the year	<u>\$ 3,672,330</u>	<u>\$ 20,689,838</u>	<u>\$ 24,362,168</u>	<u>\$ 24,054,198</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, 2011

	Governmental Fund			
	Library	Foundation	Eliminations	Total
Revenues				
Contributions				
From Foundation	\$ 370,172	\$ -	\$ (370,172)	\$ -
From primary government	1,949,063	-	-	1,949,063
Other	340,626	898,344	-	1,238,970
Property taxes	1,248,470	-	-	1,248,470
Investment income	81,840	175,410	-	257,250
	165,612	-	-	165,612
Grant revenue	5,317	-	-	5,317
State aid	142,596	-	-	142,596
Miscellaneous	74,643	-	-	74,643
	<u>4,378,339</u>	<u>1,073,754</u>	<u>(370,172)</u>	<u>5,081,921</u>
Total revenues				
Expenditures/Expenses				
Current				
Personnel services	2,190,273	-	-	2,190,273
Materials and supplies	548,212	-	-	548,212
Services and charges	62,121	-	-	62,121
Maintenance	94,452	-	-	94,452
Library contributions	-	370,172	(370,172)	-
Public relations	-	18,906	-	18,906
Depreciation	-	-	-	-
Other	340,626	47,168	-	387,794
Capital outlay	952,394	95,000	-	1,047,394
	<u>4,188,078</u>	<u>531,246</u>	<u>(370,172)</u>	<u>4,349,152</u>
Total expenditures/ expenses				
Excess Revenues Over				
Expenditures/Expenses	<u>190,261</u>	<u>542,508</u>	<u>-</u>	<u>732,769</u>
Change in Fund Balances/Net Assets	190,261	542,508	-	732,769
Fund Balances/Net Assets				
Beginning of the year	<u>3,482,069</u>	<u>6,699,919</u>	<u>-</u>	<u>10,181,988</u>
End of the year	<u>\$ 3,672,330</u>	<u>\$ 7,242,427</u>	<u>\$ -</u>	<u>\$ 10,914,757</u>

Adjustments			Statement of Activities			
Library	Foundation	Total	Library	Foundation	Eliminations	Total
\$ -	\$ -	\$ -	\$ 370,172	\$ -	\$ (370,172)	\$ -
-	-	-	1,949,063	-	-	1,949,063
-	-	-	340,626	898,344	-	1,238,970
38,297	-	38,297	1,286,767	-	-	1,286,767
-	-	-	81,840	175,410	-	257,250
-	-	-	165,612	-	-	165,612
-	-	-	5,317	-	-	5,317
-	-	-	142,596	-	-	142,596
-	-	-	74,643	-	-	74,643
<u>38,297</u>	<u>-</u>	<u>38,297</u>	<u>4,416,636</u>	<u>1,073,754</u>	<u>(370,172)</u>	<u>5,120,218</u>
-	-	-	2,190,273	-	-	2,190,273
-	-	-	548,212	-	-	548,212
-	-	-	62,121	-	-	62,121
-	-	-	94,452	-	-	94,452
-	-	-	-	370,172	(370,172)	-
-	-	-	-	18,906	-	18,906
872,982	-	872,982	872,982	-	-	872,982
-	-	-	340,626	47,168	-	387,794
<u>(952,394)</u>	<u>(95,000)</u>	<u>(1,047,394)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(79,412)</u>	<u>(95,000)</u>	<u>(174,412)</u>	<u>4,108,666</u>	<u>436,246</u>	<u>(370,172)</u>	<u>4,174,740</u>
<u>117,709</u>	<u>95,000</u>	<u>212,709</u>	<u>307,970</u>	<u>637,508</u>	<u>-</u>	<u>945,478</u>
117,709	95,000	212,709	307,970	637,508	-	945,478
<u>20,572,129</u>	<u>(95,000)</u>	<u>20,477,129</u>	<u>24,054,198</u>	<u>6,699,919</u>	<u>-</u>	<u>30,754,117</u>
<u>\$ 20,689,838</u>	<u>\$ -</u>	<u>\$ 20,689,838</u>	<u>\$ 24,362,168</u>	<u>\$ 7,337,427</u>	<u>\$ -</u>	<u>\$ 31,699,595</u>