

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

Independent Auditor's Report and Financial Statements

December 31, 2018



Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
December 31, 2018

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Independent Auditor's Report

Board of Trustees
Fayetteville Public Library
Fayetteville, Arkansas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fayetteville Public Library, a component unit of the City of Fayetteville, Arkansas, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fayetteville Public Library as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information and budgetary comparison as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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.

Prior-Year Comparative Information

We have previously audited the Library's 2017 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and the major fund in our report dated June 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

Rogers, Arkansas
June 28, 2019

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Management's Discussion and Analysis
Year Ended December 31, 2018

Introduction

As management of the Fayetteville Public Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the Library's financial activities for the year ended December 31, 2018. It should be read in conjunction with the accompanying basic financial statements of the Library.

Financial Highlights

Key financial highlights for 2018 are as follows:

- The assets of the Library exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$39,019,346 (*net position*). Unrestricted net position of \$9,818,592 may be used to meet the Library's ongoing obligations and \$1,279,330 is available to meet the Fayetteville Public Library Foundation (the "Foundation") obligations.
- The Library's total net position increased by \$1,962,406 or 7%. The Foundation's net position decreased by \$1,066,680 or 13%.
- As of the close of the current year, the Library's governmental fund reported ending fund balances of \$5,847,879 attributable to the Library and \$7,193,048 attributable to its Foundation, a decrease of \$1,325,401 or 16% for the Foundation and an increase of \$1,695,873 or 41% 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 \$6,981,591 or 52% of total governmental fund expenditures. The Library portion of this amount excluding its Foundation was \$5,719,648, or 98% 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 Library.

The Library'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 Library'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.

Governmental funds are used to account for essentially the same functions reported as in the government-wide financial statements (statement of net position 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Library's near-term financing requirements.

Major funds of the Library are as follows:

General Fund – This is the Library's primary operating fund. It accounts for all financial resources of the general government.

Fayetteville Public Library Foundation Fund – This fund accounts for restricted and unrestricted contributions and other funds of the Library not included in the General Fund.

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 fourth column presents the Library's *government-wide financial statements* which are designed to provide readers with a broad overview of the Library's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Library's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position 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 Library'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 position may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities and deferred inflows of resources by \$39,019,346 at the close of the most recent fiscal year.

A portion of the Library's net position (28%) is unrestricted and may be used to meet the Library's ongoing obligations to citizens and creditors.

Statements of Net Position

	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 19,777,342	\$ 18,955,707
Capital Assets, net	<u>19,837,043</u>	<u>19,759,540</u>
Total Assets	<u>39,614,385</u>	<u>38,715,247</u>
Current and Other Liabilities	<u>562,774</u>	<u>559,362</u>
Total Liabilities	<u>562,774</u>	<u>559,362</u>
Deferred Inflows of Resources	<u>32,265</u>	<u>32,265</u>
Net Investment in Capital Assets	19,837,043	19,759,540
Restricted	8,084,381	7,997,323
Unrestricted	<u>11,097,922</u>	<u>10,366,757</u>
Total Net Position	<u>\$ 39,019,346</u>	<u>\$ 38,123,620</u>

An additional portion of the net position (51%) reflects its net investment in capital assets (*e.g.*, land, buildings and furniture and equipment). The Library uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. The remaining balance of net position (21%) represents resources that are subject to external restrictions on how they may be used. Combined unrestricted net position increased 7% and total net position increased 3%, due to revenues exceeding expenses in 2018 by \$895,726.

Statements of Activities

	<u>2018</u>	<u>2017</u>
Revenues		
Grants and contributions	\$ 2,899,828	\$ 2,540,893
Property taxes	5,865,703	5,491,446
Fines and fees	114,875	133,138
Investment income (loss)	(225,535)	1,105,593
Miscellaneous	<u>51,736</u>	<u>19,932</u>
Total revenues	8,706,607	9,291,002
Expenses	<u>7,810,881</u>	<u>7,074,790</u>
Changes in Net Position	895,726	2,216,212
Net Position, Beginning of Year	<u>38,123,620</u>	<u>35,907,408</u>
Net Position, End of Year	<u>\$ 39,019,346</u>	<u>\$ 38,123,620</u>

In 2018, revenues decreased by \$584,395 or 6%, and expenses increased by \$736,091 or 10%, primarily due to:

- A change from investment income to investment loss of \$1,331,128 or 120%.
- An increase in personnel services of \$559,767.

Financial Analysis of the Governmental Fund

As noted earlier, the focus of the Library's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a Library's net resources available for discretionary use at the end of the fiscal year.

As of the end of the current fiscal year, the general fund of the Library reported ending fund balances of \$5,847,879. Approximately, 98% of the Library's ending fund balance amount constitutes unassigned fund balance, which is available for spending at the Library's discretion. The remainder of the fund balance has spending constraints placed on the purpose for which resources can be used.

As of the end of the current fiscal year, the Fayetteville Public Library (FPL) Foundation fund reported ending fund balances of \$7,193,048. 100% of the fund balance has spending constraints placed on the purpose for which resources can be used.

The total fund balance of the general fund of the Library increased by \$1,695,873 during the current fiscal year. A key factor in the change is an increase in the property tax rates for the Library.

The total fund balance of the FPL Foundation fund decreased by \$1,325,401 during the current fiscal year. A key factor in the change is an increase in the unrealized investment loss for the Foundation.

Capital Assets

At the end of 2018, the Library had \$19,837,043 net investment in capital assets, as detailed in *Note 4* to the financial statements, an increase of \$77,503. The increase is primarily due to capital assets additions in the amount of \$1,234,364, net of depreciation expense of \$1,156,861.

Budgetary Highlights

Differences between the final budget and the actual results (budgetary basis) as reported on page 22 can be briefly summarized as follows:

- Total revenues were under budget by 3.5%.
- Total expenditures were under budget by 13.0%.
- Overall change in fund balance was 86.5% or \$786,696 less than budgeted.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library'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 Director 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 Position
December 31, 2018

	General Fund	FPL Foundation Fund	Total Governmental Fund Balance Sheet
Assets			
Cash and cash equivalents	\$ 3,352,720	\$ 369,001	\$ 3,721,721
Investments	2,476,405	1,375,584	3,851,989
Accounts receivable	6,037	-	6,037
Property taxes receivable, net of allowance; \$173,868	6,043,052	-	6,043,052
Pledges receivable, net	-	265,721	265,721
Accrued interest receivable	9,564	3,370	12,934
Due from other funds	250,678	-	250,678
Inventory	-	-	-
Prepaid expense	128,231	17,387	145,618
Restricted			
Cash and cash equivalents	-	851,607	851,607
Investments	-	4,869,714	4,869,714
Accrued interest receivable	-	8,949	8,949
Capital assets, net	-	-	-
Total assets	<u>\$ 12,266,687</u>	<u>\$ 7,761,333</u>	<u>\$ 20,028,020</u>
Liabilities			
Accounts payable	231,690	6,077	237,767
Accrued expenses	287,443	14,544	301,987
Due to other funds	-	250,678	250,678
Unearned revenue	23,020	-	23,020
Total liabilities	<u>542,153</u>	<u>271,299</u>	<u>813,452</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	5,876,655	-	5,876,655
Unavailable revenue - contributions	-	296,986	296,986
Total deferred inflows of resources	<u>5,876,655</u>	<u>296,986</u>	<u>6,173,641</u>
Fund Balances/Net Position			
Fund balances			
Nonspendable			
Prepaid expense	128,231	17,387	145,618
Permanent endowment	-	1,250,000	1,250,000
Restricted	-	4,663,718	4,663,718
Assigned	-	1,261,943	1,261,943
Unassigned	5,719,648	-	5,719,648
Total fund balances	<u>5,847,879</u>	<u>7,193,048</u>	<u>13,040,927</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 12,266,687</u>	<u>\$ 7,761,333</u>	<u>\$ 20,028,020</u>
Net position			
Net investment in capital assets			
Restricted for capital assets			
Expendable			
Nonexpendable			
Restricted for debt service			
Expendable			
Restricted for children's library			
Expendable			
Nonexpendable			
Restricted for the volunteer program			
Expendable			
Restricted for NEH Grant			
Expendable			
Restricted for capital campaign expansion			
Expendable			
Unrestricted			
Total net position			

See Notes to Financial Statements

Adjustments	Statement of Net Position	2017 (Memorandum Only)
\$ -	\$ 3,721,721	\$ 2,026,633
-	3,851,989	4,825,776
-	6,037	13,701
-	6,043,052	5,807,452
-	265,721	27,265
-	12,934	13,542
(250,678)	-	-
-	-	11,284
-	145,618	60,490
-	851,607	240,731
-	4,869,714	5,916,732
-	8,949	12,101
19,837,043	19,837,043	19,759,540
<u>\$ 19,586,365</u>	<u>\$ 39,614,385</u>	<u>\$ 38,715,247</u>
-	237,767	267,329
-	301,987	292,033
(250,678)	-	-
-	23,020	-
<u>(250,678)</u>	<u>562,774</u>	<u>559,362</u>
(5,876,655)	-	-
(264,721)	32,265	32,265
<u>(6,141,376)</u>	<u>32,265</u>	<u>32,265</u>
(145,618)		
(1,250,000)		
(4,663,718)		
(1,261,943)		
<u>(5,719,648)</u>		
<u>(13,040,927)</u>		
19,837,043	19,837,043	19,759,540
532,011	532,011	581,262
500,000	500,000	500,000
1,905,942	1,905,942	1,823,263
1,028,502	1,028,502	1,195,960
750,000	750,000	750,000
401,257	401,257	436,390
2,457,578	2,457,578	2,657,110
509,091	509,091	53,338
11,097,922	11,097,922	10,366,757
<u>\$ 39,019,346</u>	<u>\$ 39,019,346</u>	<u>\$ 38,123,620</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, 2018

	General Fund	FPL Foundation Fund	Total Governmental Funds
Revenues			
Contributions			
From primary government	\$ 2,183,401	\$ -	\$ 2,183,401
Other	109,874	101,069	210,943
Property taxes	5,682,673	-	5,682,673
Investment income (loss)	36,854	(262,389)	(225,535)
Fines and fees	114,875	-	114,875
Grant revenue	86,845	-	86,845
State aid	153,918	-	153,918
Miscellaneous	51,725	11	51,736
	<u>8,420,165</u>	<u>(161,309)</u>	<u>8,258,856</u>
Total revenues			
Expenditures/Expenses			
Current			
Personnel services	3,456,705	176,219	3,632,924
Services and charges	563,816	-	563,816
Materials and supplies	406,833	-	406,833
Maintenance	121,271	-	121,271
Public relations	-	10,486	10,486
Depreciation	-	-	-
Other	-	217,324	217,324
Transfers to primary government	1,701,366	-	1,701,366
Capital outlay	1,234,364	-	1,234,364
	<u>7,484,355</u>	<u>404,029</u>	<u>7,888,384</u>
Total expenditures/expenses			
Excess (Deficiency) of Revenues Over Expenditures	935,810	(565,338)	370,472
Other Financing Sources/Uses			
Transfers - internal activities	760,063	(760,063)	-
	<u>760,063</u>	<u>(760,063)</u>	<u>-</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	1,695,873	(1,325,401)	370,472
Change in net position	-	-	-
Fund Balances/Net Position			
Beginning of the year	4,152,006	8,518,449	12,670,455
End of year	<u>\$ 5,847,879</u>	<u>\$ 7,193,048</u>	<u>\$ 13,040,927</u>

See Notes to Financial Statements

Adjustments	Statement of Activities	2017 (Memorandum Only)
\$ -	\$ 2,183,401	\$ 2,196,401
264,721	475,664	173,900
183,030	5,865,703	5,491,446
-	(225,535)	1,105,593
-	114,875	133,138
-	86,845	38,980
-	153,918	131,612
-	51,736	19,932
447,751	8,706,607	9,291,002
-	3,632,924	3,073,157
-	563,816	600,591
-	406,833	381,728
-	121,271	153,374
-	10,486	11,688
1,156,861	1,156,861	1,063,217
-	217,324	164,724
-	1,701,366	1,626,311
(1,234,364)	-	-
(77,503)	7,810,881	7,074,790
-	-	-
-	-	-
(370,472)	-	-
895,726	895,726	2,216,212
25,453,165	38,123,620	35,907,408
\$ 25,978,419	\$ 39,019,346	\$ 38,123,620

Fayetteville Public Library
A Component Unit of the City of Fayetteville, Arkansas
Notes to Financial Statements
December 31, 2018

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 provides the Library with financial assistance and 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 as the Library's other major governmental 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

Government-Wide Financial Statements

The government-wide financial statements of the Library have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally grants and property taxes) are recognized when all applicable eligibility requirements are met. Revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Charges for services (exchange or exchange-like transactions) and program-specific grants and contributions are reported as program revenues. All tax revenue, investment monies and nonprogram-specific grants and contributions are reported as general revenues. The Library first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

Fund financial statements provide information about the Library's funds.

Fayetteville Public Library
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Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. The Library considers revenues to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Major revenue sources susceptible to accrual include property taxes, sales taxes and grants.

Fund Accounting

The financial activities of the Library are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. The Library uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The Library reports the following major governmental funds:

General Fund – This is the Library’s primary operating fund. It accounts for all financial resources of the general government.

Fayetteville Public Library Foundation Fund – This fund accounts for restricted and unrestricted contributions and other funds of the Library not included in the General Fund.

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, liabilities, and deferred inflows/outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position 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, 2018, cash equivalents consisted of money market funds with brokers.

Restricted cash equivalents consist of those short-term liquid investments held for use by the Library that have been limited by donors to a specific time period or purpose.

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2018

Inventories

Inventories, consisting of DVD's, are valued at cost using the first in/first out (FIFO) method.

Property Taxes

Property taxes are levied each November 1 on the assessed value listed as of January 1 for all real and personal property. The property tax is considered due on the first Monday in February (the lien date) after the levy; however, the tax is not considered delinquent until October 16 of that year. As a result, the majority of the tax is not collected within the time frame necessary to finance the liabilities of the current period. Property taxes, which remain delinquent for a period of three years, are certified to the land commissioner where a lien is recorded and held on file. If property taxes remain delinquent for a period of seven years, the property will be subsequently sold by the land commissioner.

In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2018, property taxes receivable and related deferred inflows of resources of \$5,876,655 have been recorded in the governmental funds. In the government-wide statement of net position, property taxes are considered earned at the time levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible. The appraised value of taxable property upon which the property tax is levied is determined by the county assessor. The assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value.

During August 2016, the City of Fayetteville, Arkansas held a special election related to an increase in property taxes for the benefit of the Library. An increase of one and one-half (1.5) mills was passed as it relates to the maintenance and operation of the Fayetteville Public Library. In addition, a separate tax of one and two-tenths (1.2) mills was passed to be pledged to the issuance of bonds not to exceed \$26,500,000 to finance capital improvements to the Fayetteville Public Library. These bonds were issued in June 2017. Property taxes of \$1,905,942 for the 1.2 mills are included in the property tax receivable of \$5,807,452 and are shown as restricted for debt service on the Statement of Net Position.

Pledges Receivable

Pledges receivable consist of promises to give made by donors. Pledges receivable are recorded net of estimated uncollectible amounts and discounted to present value for pledges due in more than one year. The Foundation provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Fayetteville Public Library
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Notes to Financial Statements
December 31, 2018

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.

Restricted investments consist of those investments held for use by the Library that have been limited by donors to a specific time period or purpose

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 acquisition 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
Software	5-10 years
Film	5 years

Collections

All collections of works of art, historical treasures, and similar assets are capitalized. Items added to the collections are capitalized at cost if purchased or at estimated acquisition 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. These collections are considered inexhaustible and have extraordinarily long useful lives, and as such, these items are not depreciated.

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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 position.

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the Library that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by the Library that is applicable to a future period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statements as revenues and expenditures until the period(s) to which they relate. The governmental funds report unavailable revenues from two sources: property taxes and contributions. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The statement of net position reports unavailable revenue from contributions only due to time restrictions.

Net Position

Net position of the Library is classified in four components. Net investment in capital assets consist of capital assets net of accumulated depreciation. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the Library. Restricted nonexpendable net position is noncapital assets whose restrictions are permanent in nature as specified by donors external to the Library. Unrestricted net position is remaining assets and deferred outflows less remaining liabilities and deferred inflows that do not meet the definition of net investment in capital assets, restricted expendable or restricted nonexpendable.

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.

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Fund Balance - Governmental Funds

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

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

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.

Assigned - Assigned fund balances include amounts intended to be used for specific purposes as specified by the Foundation's management or governing board..

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, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 and the FPL Foundation Fund differs from net position and change in net position of the governmental activities reported in the statement of net position and statement of activities. These differences primarily result from the long-term economic focus of the statement of net position 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 position and the net change in fund balances to the net change in net position:

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Total fund balances	\$ 13,040,927
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Amounts reported in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	19,837,043
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Amounts reported as deferred inflows of resources are 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.	6,141,376
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Total net position	<u>\$ 39,019,346</u>
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Change in fund balances	\$ 370,472
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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.	77,503
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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.	264,721
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Property tax 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>183,030</u>
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Change in net position	<u>\$ 895,726</u>
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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. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Library

The Library's deposit policy for custodial credit risk requires compliance with the provisions of state law. At December 31, 2018, the Library had bank balances of \$768,239 that were all insured (FDIC) or collateralized with securities held by the Library or the Library's agents in the Library's name. The carrying value of these deposits as of December 31, 2018, was \$811,219.

Foundation

The Foundation's deposit policy for custodial credit risk requires compliance with the provisions of state law. At December 31, 2018, the Foundation's bank balances were completely insured by 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.

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At December 31, 2018, the Library had the following investments and maturities:

Type	December 31, 2018				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 2,064,811	\$ -	\$ 2,064,811	\$ -	\$ -
Money market mutual funds	2,521,581	2,521,581	-	-	-
Corporate bonds	411,590	411,590	-	-	-
	<u>\$ 4,997,982</u>	<u>\$ 2,933,171</u>	<u>\$ 2,064,811</u>	<u>\$ -</u>	<u>\$ -</u>

In compliance with GASB 72, the Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Library had the following recurring fair value measurements as of December 31, 2018:

- U.S. agencies obligations of \$2,064,811 are valued using the option-adjusted discounted cash flow model (Level 2 inputs).
- Money market mutual funds of \$2,521,581, are valued using quoted market prices (Level 1 inputs).
- Corporate bonds of \$411,590 are valued using quoted market prices (Level 1 inputs).

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 90 days to 10 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.

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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. It is the Library’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 A3 average rating or better for Moody’s Investors Service. Investment in commercial paper will be rated A-1/P-1. At December 31, 2018, the Library’s investments in U.S. agencies obligations and corporate bonds were rated an average rate of AA by Standard & Poor rating and an average rate of Aa1 by Moody’s Investors Service.

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, 2018, the Foundation had the following investments and maturities:

Type	Fair Value	December 31, 2018			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 1,933,113	\$ 470,099	\$ 1,264,867	\$ 198,147	\$ -
Money market mutual funds	1,119,704	1,119,704	-	-	-
U.S. agencies obligations	80,764	-	23,638	57,126	-
		<u>\$ 1,589,803</u>	<u>\$ 1,288,505</u>	<u>\$ 255,273</u>	<u>\$ -</u>
Corporate stocks	3,664,108				
Unit trusts	288,549				
Mutual funds	<u>278,764</u>				
	<u>\$ 7,365,002</u>				

In compliance with GASB 72, the Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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The Foundation had the following recurring fair value measurements as of December 31, 2018:

- Corporate bonds and stocks of \$1,933,113 and \$3,664,108, respectively, are valued using quoted market prices (Level 1 inputs).
- Money market mutual funds and mutual funds of \$1,119,704 and \$278,764, respectively, are valued using quoted market prices (Level 1 inputs).
- U.S. agencies obligations of \$80,764 are valued using the option-adjusted discounted cash flow model (Level 2 inputs).
- Exchange-trade funds of \$288,549 are valued using quoted market prices (Level 1 inputs).

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 10 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, 2018, the Foundation’s investments in U.S. agencies obligations and corporate bonds 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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Summary of Carrying Values

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

Carrying value		
Library		
Deposits	\$	811,219
Cash on hand		19,924
Investments		4,997,982
Foundation		
Deposits		100,904
Investments		<u>7,365,002</u>
	<u>\$</u>	<u>13,295,031</u>

Included in the following statement of net position captions		
Cash and cash equivalents	\$	3,721,721
Restricted cash and cash equivalents		851,607
Investments		3,851,989
Restricted investments		<u>4,869,714</u>
	<u>\$</u>	<u>13,295,031</u>

Investment Income

Investment income (loss) for the year ended December 31, 2018, consisted of:

Interest and dividend income	\$	259,330
Net decrease in fair value of investments		<u>(484,865)</u>
	<u>\$</u>	<u>(225,535)</u>

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Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2018, was:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 2,029,755	\$ -	\$ -	\$ 2,029,755
Construction in progress	114,218	656,158	-	770,376
Buildings and improvements	21,135,992	-	-	21,135,992
Furniture and equipment	2,669,044	76,986	21,192	2,724,838
Library materials	3,931,818	501,220	-	4,433,038
Film	180,000	-	-	180,000
Software	175,967	-	-	175,967
Library owned art	150,000	-	-	150,000
	<u>30,386,794</u>	<u>1,234,364</u>	<u>21,192</u>	<u>31,599,966</u>
Less accumulated depreciation				
Buildings and improvements	5,312,792	453,542	-	5,766,334
Furniture and equipment	1,871,159	193,501	21,192	2,043,468
Library materials	3,208,030	471,416	-	3,679,446
Film	169,750	6,000	-	175,750
Software	65,523	32,402	-	97,925
	<u>10,627,254</u>	<u>1,156,861</u>	<u>21,192</u>	<u>11,762,923</u>
Capital assets, net	<u>\$ 19,759,540</u>	<u>\$ 77,503</u>	<u>\$ -</u>	<u>\$ 19,837,043</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 \$18,500 for 2018. The Library's contribution is a discretionary 6% to 12% of each participant's annual compensation and both the employer and employee contributions are immediately fully vested. Contributions actually made during 2018 by plan members and the Library aggregated \$245,833 and \$219,333, respectively.

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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, 2018, the Foundation had a total of \$1,121,830, of net appreciation from investment of donor-restricted endowments available for expenditure. This amount is reported in restricted fund balance in the governmental fund balance sheet and in various categories of expendable restricted net position on the statement of net position. The laws of the state of Arkansas do not currently restrict the Foundation's ability to spend net appreciation on donor-restricted endowment funds.

Required Supplementary Information

Fayetteville Public Library
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Budgetary Comparison Schedule
Budgetary Basis
Year Ended December 31, 2018

	Budget		Actual			Final Budget- Budgetary Basis Variance
	Original	Final	GAAP Basis	Adjustments	Budgetary Basis	
Revenues						
Contributions						
From primary government	\$ 2,183,400	\$ 2,183,400	\$ 2,183,401	\$ -	\$ 2,183,401	\$ 1
From Foundation	1,350,703	1,350,703	-	760,063	760,063	(590,640)
Other	21,000	23,000	210,943	(101,069)	109,874	86,874
Property taxes	5,561,700	5,561,700	5,682,673	-	5,682,673	120,973
Investment income	37,230	37,230	(225,535)	262,389	36,854	(376)
Fines and fees	149,600	149,600	114,875	-	114,875	(34,725)
Grant revenue	32,000	33,300	86,845	-	86,845	53,545
State aid	116,344	116,344	153,918	-	153,918	37,574
Miscellaneous	57,000	57,000	51,736	(11)	51,725	(5,275)
Total revenues	<u>9,508,977</u>	<u>9,512,277</u>	<u>8,258,856</u>	<u>921,372</u>	<u>9,180,228</u>	<u>(332,049)</u>
Expenditures						
Current						
Personnel services	4,727,287	3,700,334	3,632,924	(176,219)	3,456,705	(243,629)
Materials and supplies	1,043,513	1,100,189	406,833	-	406,833	(693,356)
Services and charges	739,914	1,804,814	563,816	-	563,816	(1,240,998)
Maintenance	205,933	190,063	121,271	-	121,271	(68,792)
Public relations	-	-	10,486	(10,486)	-	-
Other	-	-	217,324	(217,324)	-	-
Transfers to primary government	-	1,807,700	1,701,366	-	1,701,366	(106,334)
Capital outlay	-	-	1,234,364	-	1,234,364	1,234,364
Total expenditures	<u>6,716,647</u>	<u>8,603,100</u>	<u>7,888,384</u>	<u>(404,029)</u>	<u>7,484,355</u>	<u>(1,118,745)</u>
Excess of Revenues Over (Under) Expenditures	<u>2,792,330</u>	<u>909,177</u>	<u>370,472</u>	<u>1,325,401</u>	<u>1,695,873</u>	<u>786,696</u>
Change in Fund Balances	2,792,330	909,177	370,472	1,325,401	1,695,873	786,696
Fund Balances,						
Beginning of Year	<u>4,152,006</u>	<u>4,152,006</u>	<u>12,670,455</u>	<u>(8,518,449)</u>	<u>4,152,006</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 6,944,336</u>	<u>\$ 5,061,183</u>	<u>\$ 13,040,927</u>	<u>\$ (7,193,048)</u>	<u>\$ 5,847,879</u>	<u>\$ 786,696</u>

Budgets and Budgetary Accounting

The annual budget is prepared on the modified accrual basis for revenues and expenditures and adopted by the Library Board of Trustees. Subsequent amendments are approved by the Board. Budgetary control is maintained at the Library program level.

The budgetary basis used for budget purposes excludes the revenues and expenditures of the Foundation since it is a blended component unit of the Library and does not adopt an annual budget.