

Fayetteville Public Library Foundation
A Component Unit of the Fayetteville Public Library

Independent Auditor's Report and Financial Statements

December 31, 2012



Fayetteville Public Library Foundation
A Component Unit of the Fayetteville Public Library
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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Fayetteville Public Library Foundation
Fayetteville, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Fayetteville Public Library Foundation, (the Foundation), a component unit of the Fayetteville Public Library, which comprise the statement of financial position as of December 31, 2012, and the related statement of activities for the year then ended, and the related notes to the financial statements.

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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fayetteville Public Library Foundation as of December 31, 2012, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the accompanying management's discussion 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.

BKD, LLP

Rogers, Arkansas
April 8, 2013

Fayetteville Public Library Foundation
A Component Unit of the Fayetteville Public Library
Management's Discussion and Analysis
Year Ended December 31, 2012

As management of the Fayetteville Public Library Foundation (the Foundation), we offer readers of the Foundation's financial statements this narrative overview and analysis of the financial activities of the Foundation for the fiscal year ended December 31, 2012.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The assets of the Foundation exceeded its liabilities at the close of the most recent fiscal year by \$8,102,188 (net position). Of this amount, \$3,365,314 (unrestricted net position) may be used for the Foundation's ongoing mission and obligations.
- At December 31, 2012, unassigned fund balance was \$3,365,314, or 739% of the total fund expenditures for the current fiscal year. The Foundation contribution revenues decreased 34% to \$594,404 in 2012 as compared to 2011 and Library contributions decreased 38% to \$229,471 in 2012 as compared to 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Foundation's basic financial statements. The Foundation's basic financial statements comprise three components: 1) government-wide financial statements (statement of net position and statement of activities), 2) governmental fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Foundation's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Foundation's assets and liabilities, with the difference between the two 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 Foundation is improving or deteriorating.

The *statement of activities* presents information showing how the Foundation'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.

The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Foundation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance and finance-related legal requirements. The Foundation has only one fund which is reported as a governmental fund.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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 a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the statement of governmental fund revenues, expenditures, and changes in the fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9-14 of this report.

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 Foundation, assets exceeded liabilities by \$8,102,188 at the close of the most recent fiscal year.

The largest portion of the Foundation’s net position (42%) may be used to meet the ongoing obligations of the Foundation and to pursue its mission. Unrestricted position decreased \$110,094 (3%) in 2012.

Foundation’s Net Position

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 8,415,307	\$ 7,796,910
Capital assets, net	143,750	95,000
Total Assets	<u>8,559,057</u>	<u>7,891,910</u>
 Total Liabilities	 <u>456,869</u>	 <u>554,483</u>
 Net Position		
Net investment in capital assets	143,750	95,000
Restricted	4,593,124	3,767,019
Unrestricted	<u>3,365,314</u>	<u>3,475,408</u>
 Total Net Position	 <u>\$ 8,102,188</u>	 <u>\$ 7,337,427</u>

The restricted net position (57%) represents resources that are subject to external restrictions on how and when they may be used. Restricted net position increased \$826,105 or (22%) in 2012.

Change in Foundation's Net Position

	<u>2012</u>	<u>2011</u>
Revenues		
Program Revenues		
Contributions	\$ 594,404	\$ 898,344
General Revenues		
Investment income	626,044	175,410
Total Revenues	<u>1,220,448</u>	<u>1,073,754</u>
Expenses		
Public relations	136,018	18,906
Other	83,948	47,168
Library contributions	229,471	370,172
Depreciation	6,250	-
Total Expenses	<u>455,687</u>	<u>436,246</u>
Change in Net Position	764,761	637,508
Net Position, Beginning of Year	<u>7,337,427</u>	<u>6,699,919</u>
Net Position, End of Year	<u>\$ 8,102,188</u>	<u>\$ 7,337,427</u>

Net position increased \$764,761 or (20%). The increase in net position is due in part by increased donations to meet the NEH grant requirements and in part the increase in market performance during 2012. Contributions to the Library by the Foundation decreased \$140,701. The Foundation distributes a percentage of Fund Balance for all Foundation funds except NEH, which will not make distributions until the campaign is complete. The Foundation earned investment income of \$626,044 during 2012, a 257% or \$450,634 increase from investment income in 2011 due to an increase in market performance.

Financial Analysis of the Government's Funds

Governmental funds. The focus of the Foundation's governmental funds is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the Foundation'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 Foundation's governmental fund reported combined ending fund balances of \$7,958,438. Approximately 42% of this amount (\$3,365,314) constitutes unassigned fund balance, which is available for spending at the Foundation's discretion. The remainder of the fund balances have spending constraints placed on the purpose for which resources can be used.

Capital Assets

At the end of 2012, the Foundation had an addition of \$55,000 to net investment in capital assets due to completion of the documentary film. The film was completed in October 2012 and \$6,250 depreciation has been recorded.

Requests for Information

This financial report is designed to provide a general overview for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be mailed to the following address:

Fayetteville Public Library Foundation
401 W. Mountain
Fayetteville, AR 72701

Fayetteville Public Library Foundation
A Component Unit of the Fayetteville Public Library
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2012

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Position	2011 (Memorandum Only)
Assets				
Cash and cash equivalents	\$ 398,526	\$ -	\$ 398,526	\$ 634,696
Pledges receivable, net of allowance; \$15,000	377,092	-	377,092	517,051
Accounts receivable	17,351	-	17,351	-
Accrued interest receivable	12,994	-	12,994	14,392
Grant receivable	39,603	-	39,603	-
Inventories	7,969	-	7,969	-
Investments	3,394,345	-	3,394,345	3,060,111
Restricted				
Cash and cash equivalents	350,127	-	350,127	381,647
Investments	3,805,053	-	3,805,053	3,174,744
Accrued interest receivable	12,247	-	12,247	14,269
Capital assets	-	143,750	143,750	95,000
Total assets	<u>8,415,307</u>	<u>143,750</u>	<u>8,559,057</u>	<u>7,891,910</u>
Liabilities				
Accounts payable	38,666	-	38,666	30,000
Due to Library	1,539	-	1,539	-
Deferred revenue	416,664	-	416,664	524,483
Total liabilities	<u>456,869</u>	<u>-</u>	<u>456,869</u>	<u>554,483</u>
Fund Balances/Net Position				
Fund Balances				
Nonspendable	1,250,000	(1,250,000)		
Restricted	3,343,124	(3,343,124)		
Unassigned	3,365,314	(3,365,314)		
Total fund balances	<u>7,958,438</u>	<u>(7,958,438)</u>		
Total liabilities and fund balances	<u>\$ 8,415,307</u>			
Net Position				
Net investment in capital assets		143,750	143,750	95,000
Restricted for capital assets				
Expendable		263,563	263,563	204,333
Nonexpendable		500,000	500,000	500,000
Restricted for the children's library				
Expendable		807,486	807,486	763,932
Nonexpendable		750,000	750,000	750,000
Restricted for the volunteer program				
Expendable		354,948	354,948	342,828
Restricted for NEH Grant				
Expendable		1,917,127	1,917,127	1,205,926
Unrestricted		3,365,314	3,365,314	3,475,408
Total net position		<u>\$ 8,102,188</u>	<u>\$ 8,102,188</u>	<u>\$ 7,337,427</u>

Fayetteville Public Library Foundation
A Component Unit of the Fayetteville Public Library
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2012

	Governmental Fund	Adjustments	Statement of Activities	2011 (Memorandum Only)
Revenues				
Contributions	\$ 594,404	\$ -	\$ 594,404	\$ 898,344
Investment income	626,044	-	626,044	175,410
Total revenues	<u>1,220,448</u>	<u>-</u>	<u>1,220,448</u>	<u>1,073,754</u>
Expenditures/Expenses				
Current				
Public relations	136,018	-	136,018	18,906
Other	83,948	-	83,948	47,168
Library contributions	229,471	-	229,471	370,172
Depreciation	-	6,250	6,250	-
Capital outlay	55,000	(55,000)	-	-
Total expenditures/expenses	<u>504,437</u>	<u>(48,750)</u>	<u>455,687</u>	<u>436,246</u>
Excess of Revenues Over Expenditures/Expenses and Changes in Fund Balances/Net Position	716,011	48,750	764,761	637,508
Fund Balances/Net Position				
Beginning of year	<u>7,242,427</u>	<u>-</u>	<u>7,337,427</u>	<u>6,699,919</u>
End of year	<u>\$ 7,958,438</u>	<u>\$ 48,750</u>	<u>\$ 8,102,188</u>	<u>\$ 7,337,427</u>

Fayetteville Public Library Foundation
A Component Unit of the Fayetteville Public Library
Notes to Financial Statements
December 31, 2012

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

Nature of Operations

The Fayetteville Public Library Foundation (the "Foundation") was created as a vehicle to provide for the reception and administration of endowments and other designated and undesignated charitable gifts to and for the benefit of the Fayetteville Public Library (the "Library") and for the advancement of the role of the Library in encouraging reading, knowledge acquisition and a love of literature. The Foundation is governed by a ten-member Board of Directors appointed by the Board of Trustees of the Library. The Foundation is a component unit of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Foundation has one fund, the General Fund, which is the Foundation's primary 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 Foundation 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 Foundation 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 Foundation's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Fayetteville Public Library Foundation
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Notes to Financial Statements

December 31, 2012

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012, cash equivalents consisted of money market funds with brokers.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at amortized cost.

Investment income consists of interest and dividend income 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. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful life of the film is 5 years.

Pledges Receivable

Pledges receivable consists 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.

Deferred Revenue

Deferred revenue represents unearned contributions for which the Foundation has not met all of the applicable eligibility requirements.

Net Position

Net position of the Foundation is classified in four components. Net investment in capital assets consists 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 donors external to the Foundation. Restricted nonexpendable net position is noncapital assets whose restrictions are permanent in nature as specified by donors external to the Foundation. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of restricted expendable or restricted nonexpendable net position.

Fayetteville Public Library Foundation
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Notes to Financial Statements
December 31, 2012

Fund Balance - Governmental Funds

The fund balances for the Foundation'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. Foundation funds in this category are legally required to be maintained intact by external contributors.

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. Foundation funds in this category 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 Foundation considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Income Taxes

The Foundation is exempt from income taxes under section 501 of the Internal Revenue Code and similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Note 2: Deposits, Investments and Investment Return

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. The Foundation does not have a deposit policy.

At December 31, 2012, the Foundation's bank balances were \$220,856, all of which were insured.

Fayetteville Public Library Foundation
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Notes to Financial Statements
December 31, 2012

Investments

At December 31, 2012, the Foundation had the following investments and maturities:

Type	December 31, 2012				
	Fair Value	Maturities in Years			More than 10
		Less than 1	1-5	6-10	
U.S. agencies obligations	\$ 1,047,176	\$ 86,998	\$ 116,805	\$ 843,373	\$ -
Corporate bonds	1,791,027	308,655	648,079	834,293	-
Money market mutual funds	525,465	525,465	-	-	-
	3,363,668	<u>\$ 921,118</u>	<u>\$ 764,884</u>	<u>\$ 1,677,666</u>	<u>\$ -</u>
Mutual funds	340,803				
Unit trusts	339,530				
Corporate stocks	<u>3,680,862</u>				
	<u>\$ 7,724,863</u>				

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Foundation’s policy to limit its investments in corporate bonds to issues that are rated investment grade by Standard & Poor’s and Moody’s Investors Service and shall maintain an A+ average rating or better for Standard & Poor’s and an A1 average rating or better for Moody’s Investors Service. At December 31, 2012, 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 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.

Fayetteville Public Library Foundation
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Notes to Financial Statements

December 31, 2012

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		
Deposits	\$	223,188
Investments		<u>7,724,863</u>
	\$	<u><u>7,948,051</u></u>

Included in the following statement of net asset captions		
Cash and cash equivalents	\$	398,526
Investments		3,394,345
Restricted cash and cash equivalents		350,127
Restricted investments		<u>3,805,053</u>
	\$	<u><u>7,948,051</u></u>

Investment Income

Investment income for the year ended December 31, 2012, consisted of:

Interest and dividend income	\$	212,546
Net increase in fair value of investments		<u>413,498</u>
	\$	<u><u>626,044</u></u>

Fayetteville Public Library Foundation
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Notes to Financial Statements
December 31, 2012

Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2012, was:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Construction in progress	\$ 95,000	\$ 55,000	\$ (150,000)	\$ -
Film	-	150,000	-	150,000
Less accumulated depreciation Film	-	6,250	-	6,250
Capital assets, net	<u>\$ 95,000</u>	<u>\$ 198,750</u>	<u>\$ (150,000)</u>	<u>\$ 143,750</u>

Note 4: Endowments and Similar Funds

The Board of Directors has established an investment policy with the objective of protecting the principal of the Foundation's 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, 2012, the Foundation had a total of \$3,343,124 in net appreciation from investment of donor-restricted endowments available for expenditure. This amount is reported in expendable restricted net assets on the statement 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 5: Related Party Transactions

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 2012, the Foundation paid the vendor \$80,000, with \$10,000 due and payable as of December 31, 2012.