

Douglas County



BASIC FINANCIAL STATEMENTS

December 31, 2007

DOUGLAS COUNTY LIBRARIES
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DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007

As management of the Douglas County Libraries (the Library), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the year ended December 31, 2007.

Overview of the financial statements

This discussion and analysis are intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements are comprised of three components: 1) government-wide financial statements 2) fund financial statements and 3) notes to the financial statements. Government-wide financial statements and fund financial statements are presented in a combined format. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* 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 assets* presents information on all of the Library'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 Library 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 periods (e.g., earned but unused personal time off).

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 Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Library are governmental funds.

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 funds 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 year. Such information may be useful in evaluating a government's near-term financing requirements.

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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 funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the special revenue fund. The special revenue fund reflects the activity of the Douglas County Libraries Foundation.

The combined statements of the basic governmental funds and government-wide financial statements can be found beginning on page 1 of this report.

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 beginning on page 5 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The Library adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided on page 13 for the general fund to demonstrate compliance with the budget.

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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 Library, assets exceeded liabilities by \$39,678,366 at the end of 2007. The largest portion of the Library's net assets (65%) reflects its investment in capital assets (e.g., land, buildings, furniture, equipment and library materials).

An additional portion of the Library's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$13,053,809, may be used to meet the Library's ongoing obligations. The Library has maintained positive balances in all three categories of net assets for both the current and prior year.

Library's Net Assets

	2007	2006
Current and other assets	\$33,578,954	\$30,105,665
Capital assets	25,962,179	25,668,975
Total assets	59,541,133	55,774,640
Current and other liabilities	19,484,963	17,499,775
Long term liabilities	377,804	312,674
Total liabilities	19,862,767	17,812,449
Net assets:		
Investment in capital assets	25,962,179	25,668,975
Restricted	662,378	543,348
Unrestricted	13,053,809	11,749,868
Total net assets	\$39,678,366	\$37,962,191

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Governmental activities. Governmental activities increased net assets by \$1,716,175 during 2007, a 32% decrease from 2006 change in net assets. Expenses as a percentage of total revenues were 91% for 2007 and 86% for 2006.

Revenues increased primarily due to increased assessed property values and a resulting 5% increase in property taxes. In addition revenues increased due to increased investment earnings from higher invested cash balances and increased library fines and other charges for services from increased circulation volume.

Expenses increased 12% from the prior year. This is primarily due to increased depreciation costs of \$1,065,106 associated with a change in estimate of the estimated average life of the library collection. The Library continues to enhance its popular and audio/video materials collections with shorter average lives. Expenses also increased from additional staffing and other costs associated with increased service growth.

Library's Change in Net Assets

	2007	2006
Revenues:		
Program revenues:		
Operating contributions and grants	\$324,616	\$308,132
Charges for services	439,902	347,188
General revenues:		
Property taxes	16,152,215	15,440,965
Auto ownership taxes	1,615,885	1,542,834
Investment earnings	868,395	739,827
Gain on sale of capital assets	130,675	103,253
Total revenues	19,531,688	18,482,199
Expenses:		
Library operations	17,815,513	15,962,268
Increase in net assets	1,716,175	2,519,931
Net assets, beginning of year	37,962,191	35,442,260
Net assets, end of year	\$39,678,366	\$37,962,191

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Financial analysis of the governmental funds

The focus of the Library's funds, all of which are *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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Library's governmental funds reported total ending fund balances of \$14,544,991. About 95% of this total amount constitutes *unreserved, undesignated fund balance*, which represents resources available for spending. *Reserved* fund balance of \$790,617 is not available for new spending or is legally restricted for emergency reserves or donor specific programs.

The general fund is the chief operating fund of the Library and represents 98% of the total ending fund balances or \$14,211,183. As a measure of the general fund's liquidity, it may be useful to compare total unreserved fund balance to total fund expenditures. Unreserved fund balance represents 76% of total general fund expenditures.

The fund balance of the Library's general fund increased by \$1,452,515 during the current fiscal year. This increase is due to the continuing growth in property tax and other revenues in excess of increases in staffing, capital outlays and other operating expenses.

General fund budgetary highlights

During the year there were no increases in total appropriations in the general fund between the original and final budget.

Actual expenditures were significantly lower than budget primarily due to the budget for contingencies that was not required to be spent.

Capital assets

The Library's investment in capital assets as of year-end was \$25,962,179, net of accumulated depreciation. This investment in capital assets includes land, buildings, furniture, equipment and library materials. The total increase in the Library's investment in capital assets for the current year was 1%. Most of this increase is due to new library materials added to the Library's collection and to investments in computer technologies. See the Notes to Financial Statements, page 9, for additional information on the change in capital assets during the year.

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Economic factors and next year's budget and rates

- Real and personal property values increased 5% over the prior year.
- The population of Douglas County is expected to increase approximately 5% to an estimated 293,000 residents.
- The unemployment rate for Douglas County at December 31, 2007 was 3.8%, comparing favorably to the state unemployment rate of 4.3%.

All of these factors were considered in preparing the Library's budget for 2008. The general fund balance that is unreserved and undesignated was \$13.5 million at December 31, 2007. The available fund balance is sufficient to cover normal operating costs; however it is not sufficient to meet major capital improvement projects and associated operating expenses, such as new library buildings, that will be required to maintain service levels over the next three to five years. During 2007 the Library submitted a proposed increased mill levy to the voters, which failed to pass. The Library is exploring its long range planning options, including the need to re-submit a tax increase to the voters during 2008.

Requests for information

This financial report is designed to provide a general overview of the Library's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office, Douglas County Libraries, 100 South Wilcox Street, Castle Rock, CO 80104.

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 Reconciliation of the Balance Sheet Governmental Funds
 to the Statement of Net Assets
 December 31, 2007

Fund balances - governmental funds \$ 14,544,991

Amounts reported for governmental activities 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 governmental
funds.

	Assets	\$ 33,985,832	
	Accumulated depreciation	<u>(8,023,653)</u>	25,962,179

Compensated absences are not due and payable in the current
period and therefore are not reported in the governmental
funds.

(828,804)

Net assets of governmental activities \$ 39,678,366

The Notes to Financial Statements are an integral part of these statements.

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Library was established in 1990 as a special district to provide library services within Douglas County, Colorado. A seven-member board of trustees, appointed by the Douglas County Commissioners, governs the Library.

The accompanying financial statements present the Library, the primary government, and its component unit. A component unit is a legally separate organization for which the Library is considered to be financially accountable.

Blended Component Unit. The Douglas County Libraries Foundation (the "Foundation") is a nonprofit organization whose sole purpose is to support the Library by funding opportunities above and beyond the Library's normal operating budget. The Library is financially accountable for the Foundation because the Library board appoints the three-member board of directors from its own membership, can impose its will on the Foundation and the Library financially benefits from the activities of the Foundation. The Foundation provides services almost exclusively to the Library. The Foundation is reported as a special revenue fund of the Library.

B. Government-wide and fund financial statements

Basic financial statements are presented in a combined format for both the fund and government-wide level. These include the Balance Sheet Governmental Funds / Statement of Net Assets and the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds / Statement of Activities.

The Statement of Activities demonstrates the degree to which the expenses of the Library are offset by program revenues. Program revenues include 1) grants and contributions and 2) charges to users of the Library's services.

C. Measurement focus, basis of accounting, and financial statement presentation

Governmental fund statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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 collected within 60 days of the end of the current fiscal period. The major sources of revenue that are susceptible to accrual are property taxes and investment earnings. All other revenue items are considered to be measurable

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and available only when cash is received by the Library. Expenditures generally are recorded when an obligation is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The general operating fund is the Library's only major fund and it accounts for all financial resources of the Library, except for those required to be accounted for in the special revenue fund. The special revenue fund accounts for the financial resources of the Foundation.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

The effect of interfund activity has been eliminated from the government-wide financial statements.

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.

D. Assets, liabilities and net assets

1. Cash and investments

The Library's cash and investments are cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Library to invest in certain obligations of the U.S. Treasury, commercial paper, repurchase agreements, qualified investment pools and other specified investments. Investments are reported at fair market value. The Library's policy is to follow state statutes regarding investments. The Library generally limits investment market maturities to five years or less. State statutes do not limit the amount the Library may invest in one issuer.

2. Property taxes receivable

Property tax receivables are shown net of an allowance for uncollectables. Property values are assessed as of January 1 and property taxes levied no later than December 22. Taxes are payable in the following year, either in full by April 30, or in two equal installments due February 28 and June 15. Property taxes levied in the current year and payable in the following year are reported as a

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receivable at December 31. Property taxes are reported as deferred revenue and recognized as income upon collection.

3. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental funds and government-wide financial statements.

4. Capital assets

Capital assets, which include land, buildings, furniture, equipment and library materials, are reported in the government-wide financial statements. In the governmental fund financial statements, capital assets are charged to expenditures when purchased. Capital assets, which are defined as assets with an initial, individual cost of \$1,000 or more, with the exception of library materials capitalized regardless of cost, and an estimated useful life of more than one year, are recorded at historical cost or estimated historical cost if historical cost is not available. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Library values these capital assets at the estimated fair value of the item at the date of donation.

Capital assets of the Library are depreciated using the straight-line method. The composite method is used in the depreciation of library materials. These assets are depreciated over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	30
Computers	4
Shelving	10
Furniture	10
Equipment and machinery	5
Library materials	6

5. Compensated absences

It is the Library's policy to permit employees to accumulate earned but unused personal time off (PTO). All PTO is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds statements only if they have matured, for example as a result of employee resignations and retirements.

DOUGLAS COUNTY LIBRARIES
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There is no liability for unpaid accumulated extended illness leave since the Library's policy is to not pay any amounts when employees separate from service with the Library.

6. Fund balance / net assets

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by law for emergency reserves. In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. The Library has reserved \$569,640 for emergency reserves as required by Article X, Section 20 of the Colorado Constitution and \$92,738 due to donor restrictions.

II: Detailed notes

A. Cash and investments

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized by the depository. The eligible collateral is determined by the PDPA. PDPA allows the eligible depository to create a single collateral pool for all public funds. The pool is to be maintained by another depository or held in trust for all amounts of local government deposits in excess of federal insurance levels as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Regulatory Commission for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. As of December 31, 2007, the Foundation had bank deposits of \$254,240 that were uninsured and uncollateralized.

As of December 31, 2007, the Library had invested \$14,759,371 in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state regulations governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The trust is rated AAA by Standard and Poor's.

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B. Capitalized assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance <u>12/31/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/07</u>
Capital assets not being depreciated:				
Land	\$1,722,988			\$1,722,988
Artwork	136,751	\$6,000		142,751
Total capital assets not being depreciated	<u>1,859,739</u>	<u>6,000</u>		<u>1,865,739</u>
Capital assets being depreciated:				
Buildings	16,807,982	87,899		16,895,881
Computers	1,455,462	1,304,395	(20,921)	2,738,936
Shelving	830,819	33,346		864,165
Furniture	317,532	13,819		331,351
Equipment and machinery	620,399	71,965		692,364
Library materials	9,730,396	2,540,529	(1,673,529)	10,597,396
Total capital assets being depreciated	<u>29,762,590</u>	<u>4,051,953</u>	<u>(1,694,450)</u>	<u>32,120,093</u>
Accumulated depreciation:				
Buildings	(3,000,172)	(578,443)		(3,578,615)
Computers	(872,017)	(309,395)	20,921	(1,160,491)
Shelving	(437,133)	(74,393)		(511,526)
Furniture	(131,885)	(30,975)		(162,860)
Equipment and machinery	(326,285)	(106,368)		(432,653)
Library materials	(1,185,862)	(2,665,175)	1,673,529	(2,177,508)
Total accumulated depreciation	<u>(5,953,354)</u>	<u>(3,764,749)</u>	<u>1,694,450</u>	<u>(8,023,653)</u>
Total capital assets being depreciated, net	<u>23,809,236</u>	<u>287,204</u>		<u>24,096,440</u>
Governmental activities capital assets, net	<u>\$25,668,975</u>	<u>\$293,204</u>		<u>\$25,962,179</u>

During 2007 the estimate of the useful life of library materials was changed from 8 years to 6 years, resulting in the recognition of an additional \$1,065,106 in depreciation expense.

C. Interfund receivable and payable

At December 31, 2007 the Foundation owed the Library \$20,189. The outstanding balance between the funds results mainly from the time lag between the dates reimbursable revenues and expenditures occur and when payments are made between the funds.

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D. Commitments

Operating lease commitments

The Library leases library facilities and equipment under noncancelable operating leases. Total costs for such leases were \$158,074 for the year ended December 31, 2007. The future minimum payments for these leases are as follows:

<u>Year Ending Dec. 31</u>	<u>Amount</u>
2008	\$ 154,839
2009	166,355
2010	175,606
2011	178,681
2012	186,920
2013 – 2016	<u>626,507</u>
	<u>\$1,488,908</u>

E. Compensated absences

Compensated absences liability for the year ended December 31, 2007 was as follows:

Balance 12/31/06	\$731,674
Additions	526,876
Reductions	<u>(429,746)</u>
Balance 12/31/07	<u>\$828,804</u>
Due within one year	<u>\$451,000</u>

The general fund is used to liquidate compensated absences.

III: Other information

A. Risk management

The Library is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors or omissions; injuries to employees and natural disasters for which the Library carries commercial and worker's compensation insurance. Settled claims have not exceeded coverage in the past three fiscal years.

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B. Employee retirement plans

The Library provides retirement plans through the Public Employees' Retirement Association of Colorado (PERA). PERA was established pursuant to Title 24, Article 51 of the CRS, which assigns the authority to establish and amend public employee benefit plan provisions to the state legislature. PERA administers cost-sharing multiple-employer defined benefit plans, a cost-sharing multiple-employer post-employment healthcare plan (Health Care Trust Fund -- HCTF) and a multiple-employer Internal Revenue Code Section 401(k) defined contribution plan (401(k) plan). PERA issues a publicly available annual financial report which may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, CO 80203 or by calling PERA at (303) 832-9550 or (800) 759-7372 or by visiting PERA's website at www.copera.org. All employees of the Library are members of PERA.

1. Defined Benefit Pension Plan

The Library contributes to the Local Government Division Trust Fund (LGDTF), one of the cost-sharing multiple-employer defined benefit plans administered by PERA. The LGDTF provides retirement and disability, annual increases, and death benefits to members or their beneficiaries.

Plan members and employers are required to contribute to PERA at a rate established under Title 24, Article 51, Part 4 of the CRS, as amended. Members are required to contribute 8% of covered salary to PERA. The Library is required to contribute 11% of covered salary to PERA (10.5% during 2006 and 10% during 2005). Total Library employer contributions to PERA were \$934,767 for 2007, \$848,171 for 2006 and \$745,695 for 2005, equal to required contributions for each respective year. Portions of the Library's contribution are allocated by PERA to the HCTF (see below).

2. Post-Employment Healthcare Plan

The HCTF provides a health care premium subsidy to participating PERA benefit recipients and their eligible beneficiaries who choose to enroll in the plan. A portion of the employer's contribution to PERA (see above) is allocated by PERA to the HCTF pursuant to Title 24, Article 51, Section 208 of the CRS, as amended. During 2007, 2006 and 2005, 1.02% of covered salary was allocated to HCTF. No member contributions are required.

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C. Tax, spending, and debt limitations

Article X, Section 20 of the Colorado Constitution contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments. In 1996, the voters of the County approved an increased mill levy and authorized the Library to collect and spend or retain all revenue without regard to any limitations under this article or any other Colorado law. A Colorado Attorney General's Opinion issued in 1999 affirms the ability of a Library that holds a vote pursuant to statute to obtain such voter approval.

DOUGLAS COUNTY LIBRARIES
REQUIRED SUPPLEMENTARY INFORMATION
 Budgetary Comparison Schedule - General Fund
 For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 17,840,086	\$ 17,840,086	\$ 17,768,100	\$ (71,986)
Operating contributions and grants	175,000	175,000	179,311	4,311
Charges for services	238,050	238,050	364,557	126,507
Sale of capital assets			130,675	130,675
Interest	601,000	601,000	855,358	254,358
Total revenues	<u>18,854,136</u>	<u>18,854,136</u>	<u>19,298,001</u>	<u>443,865</u>
EXPENDITURES				
Salaries and benefits	11,028,598	11,028,598	10,638,248	390,350
Library materials	2,935,000	2,935,000	2,828,956	106,044
Facilities	936,550	931,550	855,688	75,862
Technology and support services	996,150	962,150	648,132	314,018
Programs and outreach	353,976	351,776	274,473	77,303
Administration	1,105,474	1,137,674	1,125,240	12,434
Contingency	11,933,899	11,270,299		11,270,299
Capital expenditures	1,085,171	1,757,771	1,474,749	283,022
Total expenditures	<u>30,374,818</u>	<u>30,374,818</u>	<u>17,845,486</u>	<u>12,529,332</u>
NET CHANGE IN FUND BALANCE	(11,520,682)	(11,520,682)	1,452,515	12,973,197
FUND BALANCE, beginning of year	<u>12,081,056</u>	<u>12,081,056</u>	<u>12,758,668</u>	<u>677,612</u>
FUND BALANCE, end of year	<u>\$ 560,374</u>	<u>\$ 560,374</u>	<u>\$ 14,211,183</u>	<u>\$ 13,650,809</u>

See the accompanying Independent Auditors' Report

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
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I: Stewardship, compliance and accountability

An annual budget for the general fund is adopted on a basis consistent with state budget law and generally accepted accounting principles. The Library's Board of Trustees holds a public hearing in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is for total fund expenditures and lapses at year-end.

Any increases or decreases to the adopted and appropriated budget requires that an amended or supplemental budget appropriation be approved by the Board of Trustees through formal resolution at a public meeting, with prior published notice of the proposed changes.

A budget is not adopted for the special revenue fund as the Foundation is a 501(c)(3) nonprofit organization and is not required to adopt an annual budget.