

Douglas County



BASIC FINANCIAL STATEMENTS

December 31, 2004

Clifton Gunderson LLP
Certified Public Accountants & Consultants
Greenwood Village, CO 80111

DOUGLAS COUNTY LIBRARIES
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	I
Management’s Discussion and Analysis	II
 Basic Financial Statements	
Balance Sheet Governmental Funds / Statement of Net Assets	1
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds / Statement of Activities	2
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets	3
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds to the Statement of Activities	4
Notes to Financial Statements	5
 Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance General Fund – Budget and Actual	14



Independent Auditor's Report

Board of Trustees
Douglas County Libraries
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Douglas County Libraries as of and for the year ended December 31, 2004, which collectively comprise Douglas County Libraries' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Douglas County Libraries' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Douglas County Libraries as of December 31, 2004 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note II to the financial statements, Douglas County Libraries has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for the year ended December 31, 2004.

The management's discussion and analysis and budgetary comparison information on pages II through VII and 14 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Greenwood Village, Colorado
March 10, 2005

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I

DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

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, 2004.

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 vacation leave).

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.

DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

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 14 for the general fund to demonstrate compliance with the budget.

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 \$33,069,065 at the end of 2004. The largest portion of the Library's net assets (73%) reflects its investment in capital assets (e.g., land, buildings, library materials, computers, furniture and equipment).

An additional portion of the Library's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$8,577,899, 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.

DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

Net assets increased \$2,837,296 from the prior year. The increase is due to increased property tax and other revenues exceeding Library expenses. Increased property tax assessments resulted in a nearly 7% increase in property tax revenues in 2004. No major building projects were in progress during the year, as had been the case over the last three years (a new library building), allowing for a build up in net assets.

Library's Net Assets

	2004	Restated 2003
Current and other assets	\$24,346,743	\$21,926,217
Capital assets	24,026,140	22,805,517
Total assets	48,372,883	44,731,734
Current and other liabilities	15,121,100	14,427,821
Long term liabilities	182,718	72,144
Total liabilities	15,303,818	14,499,965
Net assets:		
Investment in capital assets, net	24,026,140	22,805,517
Restricted	465,026	436,707
Unrestricted	8,577,899	6,989,545
Total net assets	\$33,069,065	\$30,231,769

DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

Governmental activities. Governmental activities increased net assets by \$2,837,296. Key elements of this increase are as follows:

Library's Change in Net Assets

	2004
Revenues:	
Program revenues:	
Operating contributions and grants	\$249,003
Charges for services	279,189
General revenues:	
Property taxes	14,465,236
Investment earnings	153,875
Total revenues	15,147,303
 Expenses:	
General government	12,310,007
 Increase in net assets	2,837,296
Net assets 1/1/04	30,231,769
Net assets 12/31/04	\$33,069,065

Because this is the first year to report governmental activities, comparison to the prior year is not possible. Comparative data will be presented in future years.

Financial analysis of the governmental funds

Governmental funds. 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, *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 \$9,653,643. About 92% of this total amount constitutes *unreserved, designated fund balance*, which represents designation of fund balances for management plans that are subject to change. *Unreserved, undesignated* fund balance is \$229,775 which is available for spending at the Library's discretion. *Reserved* fund balance is \$537,546 and is not available for new spending or is legally restricted for emergency reserves.

DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

The general fund is the chief operating fund of the Library and represents 97% of the total ending fund balances or \$9,403,784. 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 67% of total general fund expenditures.

The fund balance of the Library's general fund increased by \$1,708,726 during the current fiscal year. This increase is due to increased property tax and other revenues exceeding Library expenditures. Increased property tax assessments resulted in a nearly 7% increase in property tax revenues in 2004. No major building projects were in progress during the year as had been the case over the last three years (a new library building), allowing for a build up in the fund balance.

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 \$24,026,140, net of accumulated depreciation. This investment in capital assets includes land, buildings, library materials, computers, furniture and equipment. The total increase in the Library's investment in capital assets for the current year was 5%. Most of this increase is due to a net \$1,448,240 of new library materials added to the Library's collection. See the Notes to Financial Statements, page 10, for additional information on the change in capital assets during the year.

Economic factors and next year's budget and rates

- Real and personal property values increased 5.6% over the prior year, the lowest rate of increase in the last ten years.
- The population of Douglas County has increased approximately 6.1% to an estimated 251,000 residents.
- The unemployment rate for Douglas County at December 31, 2004 was 4%, comparing favorably to the state unemployment rate of 5.2%.

DOUGLAS COUNTY LIBRARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

All of these factors were considered in preparing the Library's budget for 2005. The general fund balance that is unreserved and designated for subsequent year's expenditures was \$8.9 million at December 31, 2004. It is intended that this use of available fund balance will avoid the need to raise taxes for the 2005 fiscal year.

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.

DOUGLAS COUNTY LIBRARIES
Balance Sheet Governmental Funds /
Statement of Net Assets
December 31, 2004

	General Fund	Special Revenue Fund	Governmental Funds Total	Adjustments	Statement of Net Assets
ASSETS					
Cash and investments	\$ 9,992,701	\$ 249,631	\$ 10,242,332	\$	\$ 10,242,332
Property taxes receivable, net of allowance for uncollectible accounts of \$85,000	14,030,583		14,030,583		14,030,583
Interfund receivable		1,913	1,913	(1,913)	0
Other receivables	1,308		1,308		1,308
Prepays	72,520		72,520		72,520
Capital assets, net				24,026,140	24,026,140
Total assets	\$ 24,097,112	\$ 251,544	\$ 24,348,656	24,024,227	48,372,883
LIABILITIES					
Accounts payable	\$ 481,411	\$ 1,685	\$ 483,096		483,096
Interfund payable	1,913		1,913	(1,913)	0
Accrued salaries	299,318		299,318		299,318
Deferred property taxes, net of reserves of \$85,000	13,910,686		13,910,686		13,910,686
Compensated balances:					
Due within one year				428,000	428,000
Due in more than one year				182,718	182,718
Total liabilities	14,693,328	1,685	14,695,013	608,805	15,303,818
FUND BALANCE / NET ASSETS					
Fund Balance:					
Reserved for emergencies	444,942		444,942	(444,942)	0
Reserved for prepaids	72,520		72,520	(72,520)	0
Reserved for donor restrictions		20,084	20,084	(20,084)	0
Unreserved - designated for subsequent year's expenditures	8,886,322		8,886,322	(8,886,322)	0
Unreserved - undesignated		229,775	229,775	(229,775)	0
Total fund balances	9,403,784	249,859	9,653,643	(9,653,643)	0
Total liabilities and fund balances	\$ 24,097,112	\$ 251,544	\$ 24,348,656		
Net assets:					
Investment in capital assets, net				24,026,140	24,026,140
Restricted for:					
Emergencies				444,942	444,942
Donor specified programs				20,084	20,084
Unrestricted				8,577,899	8,577,899
Total net assets				\$ 33,069,065	\$ 33,069,065

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

DOUGLAS COUNTY LIBRARIES
Statement of Revenues, Expenditures and
Changes in Fund Balances Governmental Funds /
Statement of Activities
For the Year Ended December 31, 2004

	General Fund	Special Revenue Fund	Governmental Funds Total	Adjustments	Statement of Activities
EXPENDITURES / EXPENSES					
Library operations	\$ 10,577,953	\$ 30,108	\$ 10,608,061	\$ 1,701,946	\$ 12,310,007
Capital outlay	2,755,435	35,757	2,791,192	(2,791,192)	0
Total expenditures / expenses	<u>13,333,388</u>	<u>65,865</u>	<u>13,399,253</u>	<u>(1,089,246)</u>	<u>12,310,007</u>
PROGRAM REVENUES					
Operating contributions and grants	210,700	38,303	249,003		249,003
Charges for services	214,551	64,638	279,189		279,189
Total program revenues	<u>425,251</u>	<u>102,941</u>	<u>528,192</u>	<u>0</u>	<u>528,192</u>
NET PROGRAM REVENUES (EXPENSES)					<u>(11,781,815)</u>
GENERAL REVENUES					
Property taxes	14,465,236		14,465,236		14,465,236
Investment earnings	151,627	2,248	153,875		153,875
Total general revenues	<u>14,616,863</u>	<u>2,248</u>	<u>14,619,111</u>	<u>0</u>	<u>14,619,111</u>
EXCESS OF REVENUES OVER EXPENDITURES					
	1,708,726	39,324	1,748,050	1,089,246	
CHANGE IN NET ASSETS					2,837,296
FUND BALANCE / NET ASSETS:					
Beginning of year, as restated	<u>7,695,058</u>	<u>210,535</u>	<u>7,905,593</u>	<u>22,326,176</u>	<u>30,231,769</u>
End of year	<u>\$ 9,403,784</u>	<u>\$ 249,859</u>	<u>\$ 9,653,643</u>	<u>\$ 23,415,422</u>	<u>\$ 33,069,065</u>

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

DOUGLAS COUNTY LIBRARIES
 Reconciliation of the Balance Sheet Governmental Funds
 to the Statement of Net Assets
 December 31, 2004

Fund balances - governmental funds \$ 9,653,643

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	\$ 29,569,258	
	Accumulated depreciation	<u>(5,543,118)</u>	24,026,140

Compensated absences are not due and payable in the current
 period and therefore are not reported in the governmental funds. (610,718)

Net assets of governmental activities \$ 33,069,065

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

DOUGLAS COUNTY LIBRARIES

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances Governmental Funds to the Statement of Activities
December 31, 2004

Net change in fund balances - governmental funds \$ 1,748,050

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation and loss on disposal of capital assets in the current period.

Capital asset additions	\$ 2,791,192	
Depreciation	(1,560,961)	
Loss on disposal	<u>(9,608)</u>	1,220,623

Compensated absences in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (131,377)

Change in net assets of governmental activities \$ 2,837,296

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

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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, can impose its will on the Foundation and the Library financially benefits from the activities of the Foundation. 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. All other revenue items are considered to be measurable and available only when cash is received by the Library. Expenditures generally are recorded when an obligation is

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 fund is the Library's operating 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 obligations of the U.S. Treasury, commercial paper, repurchase agreements, qualified investment pools and other specified investments. Investments are reported at fair market value.

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 receivable at December 31. Property tax revenue is reported as deferred revenue and recognized as income upon collection.

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

3. *Prepays*

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 property, plant and equipment, are reported in the government-wide financial statements. In the governmental funds 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 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.

Property, plant, and equipment 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	10

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.

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.

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

6. *Fund equity*

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by law for emergency reserves. The Library has reserved \$444,942 for emergency reserves as required by Article X, Section 20 of the Constitution of Colorado. Designations of fund balances represent tentative management plans that are subject to change.

II. Changes in accounting principles and restated net assets

As of January 1, 2004, the Library and its component unit adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

GASB’s 34 and 37 establish the basic financial statements, required management’s discussion and analysis and supplementary information for governments. In addition to fund level financial statements, GASB 34 and 37 require government-wide financial statements consisting of a statement of net assets and a statement of activities using the accrual basis of accounting. GASB 38 establishes and modifies various note disclosure requirements.

As a result of implementing these changes, net assets as of December 31, 2003 has been restated as follows:

Fund balance 12/31/03	\$ 7,426,252
Capitalized assets, net of accumulated depreciation	<u>22,805,517</u>
Restated net assets 12/31/03	<u>\$30,231,769</u>

The fund balance of the general fund as of December 31, 2003 has also been restated as follows:

Balance 12/31/03	\$ 7,215,717
Compensated absences no longer recorded in governmental funds	<u>479,341</u>
Restated balance 12/31/03	<u>\$ 7,695,058</u>

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

III. 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 hold 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.

IV: 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 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, 2004, the carrying amount of the Library's bank deposits was \$315,391 and the bank balance was \$372,734. Of the bank balance, \$209,484 was covered by federal depository insurance and \$163,250 was collateralized in a single pool.

As of December 31, 2004, the Library had invested \$9,926,941 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 statues governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00.

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Investments are categorized to give an indication of the level of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the entity's name. The investment of \$9,926,941 in the Trust at December 31, 2004 is not categorized because it is not evidenced by securities that exist in physical or book entry form.

B. Capitalized assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance <u>12/31/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/04</u>
Capital assets not being depreciated:				
Land	\$1,722,988			\$1,722,988
Artwork	96,133	\$22,918		119,051
Total capital assets not being depreciated	<u>1,819,121</u>	<u>22,918</u>		<u>1,842,039</u>
Capital assets being depreciated:				
Buildings	16,309,260	78,790		16,388,050
Computers	938,423	455,835	\$(38,811)	1,355,447
Shelving	687,314	20,834	(20,886)	687,262
Furniture	205,470	14,298	(17,273)	202,495
Equipment and machinery	332,522	84,821	(20,019)	397,324
Library materials	7,387,687	2,113,696	(804,742)	8,696,641
Total capital assets being depreciated	<u>25,860,676</u>	<u>2,768,274</u>	<u>(901,731)</u>	<u>27,727,219</u>
Accumulated depreciation:				
Buildings	(1,334,948)	(547,840)		(1,882,788)
Computers	(562,422)	(202,798)	38,058	(727,162)
Shelving	(256,714)	(63,826)	16,453	(304,087)
Furniture	(80,296)	(18,443)	13,735	(85,004)
Equipment and machinery	(165,918)	(62,598)	19,136	(209,380)
Library materials	(2,473,982)	(665,456)	804,741	(2,334,697)
Total accumulated depreciation	<u>(4,874,280)</u>	<u>(1,560,961)</u>	<u>892,123</u>	<u>(5,543,118)</u>
Total capital assets being depreciated, net	<u>20,986,396</u>	<u>1,207,313</u>	<u>(9,608)</u>	<u>22,184,101</u>
Governmental activities capital assets, net	<u>\$22,805,517</u>	<u>\$1,230,231</u>	<u>\$(9,608)</u>	<u>\$24,026,140</u>

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Depreciation and losses on retirements charged to Library operations were \$1,570,569 for the year ended December 31, 2004.

C. Interfund receivable and payable

At December 31, 2004 the Library owed the Foundation \$1,913. 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.

D. Leases

The Library leases library facilities and equipment under noncancelable operating leases. Total costs for such leases were \$31,962 for the year ended December 31, 2004. The future minimum payments for these leases are as follows:

<u>Year Ending Dec. 31</u>	<u>Amount</u>
2005	\$ 25,575
2006	89,154
2007	88,962
2008	82,412
2009	85,708
2010 – 2014	482,793
2015 – 2019	<u>89,775</u>
	<u>\$944,379</u>

E. Compensated absences

Compensated absences liability for the year ended December 31, 2004 was as follows:

Balance 12/31/03	\$479,341
Additions	538,574
Reductions	<u>(407,197)</u>
Balance 12/31/04	<u>\$610,718</u>
Due within one year	<u>\$428,000</u>

The general fund has been used to liquidate compensated absences for prior years.

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

V: 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 workmen's compensation insurance. Settled claims have not exceeded coverage in the past three fiscal years.

B. Employee retirement and deferred compensation 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 customerservice@copera.org. All employees of the Library are members of PERA.

1. Defined Benefit Pension Plan

The Library contributes to the Municipal Division Trust Fund (MDTF), one of the cost-sharing multiple-employer defined benefit plans administered by PERA. MDTF 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 10% of covered salary to PERA (9.6% of covered salary for 2003 and 9.19% for 2002). Total Library employer contributions to PERA were \$651,854 for 2004, \$534,969 for 2003 and \$435,558 for 2002, equal to required contributions for each respective year. Portions of the Library's contribution are allocated by PERA to the HCTF and the 401(k) plan (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,

DOUGLAS COUNTY LIBRARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Section 208 of the CRS, as amended. Through June, 2004, 1.1% of covered salary was allocated to HCTF, and beginning in July, 2004 1.02% was allocated (1.69% for 2003 and 2.31% for 2002). No member contributions are required.

3. 401(k) Defined Contribution Pension Plan

The 401(k) plan administered by PERA provides benefits at retirement to PERA members. Plan participation is voluntary and contributions are separate from the defined benefit contributions made to PERA. Members may contribute up to 100 percent of gross salary less the 8% PERA contribution, to a maximum of \$13,000 for 2004. The contribution requirements are established under Title 24, Article 51, Section 1402 of the CRS, as amended. Beginning in June, 2004 PERA discontinued a match of a member's voluntary contributions. For 2004, the PERA match was \$15,821. Member contributions for 2004 were \$465,325.

4. Deferred Compensation Plan

Library employees may voluntarily contribute to the Deferred Compensation Plan, an Internal Revenue Code Section 457 defined contribution plan administered by Nationwide Solutions. Plan participation is voluntary and member contributions are separate from all other plans. The Deferred Compensation Plan is funded by voluntary member contributions to a maximum limit set by the IRS (\$13,000). There were no member contributions for 2004. Plan assets are held in trust for the exclusive benefit of participating employees and are not accessible by the Library or its creditors.

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

Schedule of Revenues, Expenditures and
Changes in Fund Balance General Fund
Budget and Actual
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 14,362,053	\$ 14,362,053	\$ 14,465,236	\$ 103,183
Operating contributions and grants	200,000	200,000	210,700	10,700
Charges for services	181,150	181,150	214,551	33,401
Interest	95,000	95,000	151,627	56,627
Total revenues	<u>14,838,203</u>	<u>14,838,203</u>	<u>15,042,114</u>	<u>203,911</u>
EXPENDITURES				
Salaries and benefits	8,838,662	8,838,662	8,132,431	706,231
Library materials	2,400,000	2,400,000	2,284,405	115,595
Facilities	744,050	730,400	614,003	116,397
Technology and support services	725,366	797,866	661,234	136,632
Programs and outreach	354,425	333,925	228,502	105,423
Administration	793,781	808,577	771,074	37,503
Contingency	6,314,882	6,314,882		6,314,882
Capital expenditures	831,395	778,249	641,739	136,510
Total expenditures	<u>21,002,561</u>	<u>21,002,561</u>	<u>13,333,388</u>	<u>7,669,173</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES				
	(6,164,358)	(6,164,358)	1,708,726	7,873,084
FUND BALANCE, beginning of year, as restated				
	<u>6,603,504</u>	<u>6,603,504</u>	<u>7,695,058</u>	<u>1,091,554</u>
FUND BALANCE, end of year				
	<u><u>\$ 439,146</u></u>	<u><u>\$ 439,146</u></u>	<u><u>\$ 9,403,784</u></u>	<u><u>\$ 8,964,638</u></u>