

Douglas County Libraries



# FINANCIAL STATEMENTS

## DECEMBER 31, 2018





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## Independent Auditor's Report

Board of Trustees  
Douglas County Libraries  
Castle Rock, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and the major fund of the Douglas County Libraries (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

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

**Change in Accounting Principle**

As described in Notes 1 and 10 to the financial statements, the District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As discussed in Note 10 to the financial statements, the District has restated its net position as of January 1, 2018, in accordance with this Statement. Our opinions are not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xix, budgetary comparison information on page 37, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Proportionate Share of the Net OPEB Liability on page 38, Schedule of Employer's Contributions to the Pension Plan and Schedule of Employer's Contributions to OPEB on page 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The summary of revenues, expenditures and change in fund balance-general fund, history of assessed valuations, history of mill levies and property tax collections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Denver, Colorado  
March 28, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

Douglas County Libraries elevates our community  
by inspiring a love of reading, discovery and connection.

In order to achieve our vision, Douglas County Libraries (the District) provides a variety of resources, programs and services to the residents of Douglas County, available through our seven locations and online at DCL.org.

The District's circulation includes books, DVDs, and magazines as well as digital media such as e-books, audiobooks, videos and music that can be streamed and/or downloaded to a variety of devices. The full spectrum of library content can also be accessed online through our catalog at DCL.org.

Reference and research resources are readily available through the website's Research page for those seeking help with school work, personal finances, business research, genealogy and more. Friendly and welcoming staff in our branches are available to patrons who need more personalized assistance, and our DCL for Business librarians provide boutique-style information services to meet the needs of local entrepreneurs and small-business owners.

The Archives & Local History department, located in the Castle Rock – Philip S. Miller branch, collects and preserves the history of Douglas County. Our archivists provide research assistance and access to resources, as well as outreach through educational programming and events for schools and community groups.

Our libraries throughout the District continue to offer public computers and free Wi-Fi, and most also offer laptop borrowing. Study rooms, large meeting/conference rooms, and event halls equipped with state-of-the-art technology are available to the public as well. Our buildings also offer beautiful indoor and outdoor event spaces for corporate functions, social gatherings, and personal celebrations.

The District regularly hosts an array of premium events, activities and services that serve our vision. We offer signature programs and author events for all ages, children's Storytimes, reading assistance and skill-building programs, the annual Summer Reading Program and Battle of the Books competition, volunteer opportunities, lifelong learning events for mature adults, children's and teen writing groups, book clubs, adult education and citizenship test prep services, and more. There is something for everyone at our libraries.





In order to deliver on our vision, the District operates seven library facilities, comprising 176,000 square feet, throughout Douglas County. In 2018, the District employed a workforce of 243 full-time equivalent persons, who were complemented by approximately 1,800 volunteers providing 40,000 hours of service at no cost to the District or Douglas County. The District dedicates 79% of our employees, plus all volunteer service, to conducting library operations at our seven branches. The District allcates 6% of our employees to operating and maintaining our facilities and information technology infrastructure.

The remaining 15% of the District's employees are dedicated to providing districtwide support services, such as executive management, community relations, human resource management, and financial management.

In 2018:

- more than 2 million patrons visited the District's facilities;
- the District circulated more than 7 million items from our library content;
- more than 229,000 people participated in over 6,200 programs offered by the District;
- the District hosted more than 7,000 events through our 19 event spaces, and booked over 54,000 reservations for our 25 study rooms, an average of six reservations per day, per room.

In response to continued growth in Douglas County and aging library facilities, the District's strategic plan includes a goal focused on crafting the next generation of libraries to support delivery of premium and personal experiences to all library patrons. In January 2018, the District adopted a facilities master plan to establish the priorities, tasks and budget commitments necessary to construct and maintain facilities that are adequate to meet the needs of Douglas County in the premium and personal fashion embodied in the District's strategic plan.

During 2017, the District acquired retail property adjacent to the District's Castle Rock facility, completed refurbishment at the Louviers facility, began refurbishment of the Roxborough facility, and began planning efforts for renovation of the District's Highlands Ranch facility. In 2018, the District completed the refurbishment of our Roxborough facility, completed the planning phase for a \$6.5 million renovation of our Highlands Ranch facility, began construction on the renovation at Highlands Ranch in the fourth quarter of 2018, and began planning efforts for the renovation of the District's Castle Rock facility.

The District's financial results for the year ended December 31, 2018, reflect the impact of the following activities:

- Construction costs of \$2.313 million for renovation of the Highlands Ranch facility. The District expects the renovation of Highlands Ranch to be complete by the start of the second quarter of 2019.
- Construction costs of \$0.035 million to complete the refurbishment of the Roxborough facility.
- Maintenance of approximately 176,000 square feet of library facilities, and employment of 243 full-time equivalents (FTEs) to operate the District's seven library facilities and provide districtwide support services.

- Payment of principal and interest obligations totaling \$2.011 million on the 2015 Certificates of Participation (2015 CoPs).
- Reporting of Other Postemployment Benefits (OPEB) expense, which represents employer contributions to the Public Employees' Retirement Association (PERA) Health Care Trust Fund (HCTF) to pay health care premium subsidies to benefit recipients who participate in the PERACare Health Benefits program. OPEB expense reporting is new for 2018, as required by Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). In accordance with GASB 75, the beginning net position on the District's Governmental Activities financial statements has been restated to retroactively report the OPEB liability and deferred outflows of resources and OPEB expense related to periods prior to 2018. See also Notes 7 and 10 in the attached financial statements of the District for information related to the OPEB plan and the restatement.

The District's ongoing commitment to the goals enumerated in our facilities master plan, and the financial commitments related thereto, have made it difficult to assess the results of normal recurring operating activities as distinguished from transactions such as capital outlays for facility improvements, lease income, and disposals of capital assets. For this reason, the comparison of year-over-year results in this discussion has been presented on both an as-adjusted and as-reported basis in order to better illustrate the results of normal recurring operating activities.

The District uses a single general operating fund to account for all transactions and financial resources. The District is committed to ensuring that expenditures associated with day-to-day operations and maintenance of facilities, furniture, and equipment do not exceed annual program and general revenues. Accordingly, the District reports capital expenditures on two separate line items on the financial statements.

- Maintenance capital expenditures are funded from current operating revenues and include those regular, recurring expenditures to repair, maintain or upgrade computers, equipment, furniture, carpeting, roofs, parking lots, and heating, ventilation, and air conditioning (HVAC) units.
- Improvement capital expenditures represent facility upgrades, remodels, and new construction including planning and design costs, and new furniture, fixtures and equipment associated with these projects. Improvement capital expenditures are funded from District reserves.

The District maintains financial statements under two separate bases of accounting. An analysis of financial position and results of operations, as well as the distinctions between the two presentations, is presented below for both formats.



### **Governmental Fund Financial Statements**

These statements are presented on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they become available and measurable, and expenditures are recognized in the period the associated liability is incurred. Therefore, financing

activities are recorded as revenues in the period cash is received, capital expenditures are reported as a current period expense, and long-term liabilities are recorded when currently payable, rather than when an obligation is incurred.

### Statement of Revenues, Expenditures, and Change in Fund Balance

	2018	2017
<b>Program Expenditures</b>		
Operating	\$ 20,096,798	\$ 19,702,049
Pension expense	1,438,549	1,621,275
OPEB expense	115,346	—
Capital outlay - maintenance	2,817,427	3,484,197
Interest and principal payments	2,011,300	2,009,800
<b>Total Program Expenditures</b>	<u>26,479,420</u>	<u>26,817,321</u>
<b>Program Revenues</b>		
Operating contributions and grants	367,555	321,972
Charges for services	697,870	897,226
<b>Total Program Revenues</b>	<u>1,065,425</u>	<u>1,219,198</u>
<b>Net Program Expenditures</b>	<u>25,413,995</u>	<u>25,598,123</u>
<b>General Revenues</b>		
Property taxes	25,394,616	22,838,204
Auto ownership taxes	2,693,552	2,475,402
Investment earnings	552,552	270,315
<b>Total General Revenues</b>	<u>28,640,720</u>	<u>25,583,921</u>
<b>Net Change in Fund Balance - As Adjusted</b>	3,226,725	(14,202)
Capital outlay - improvement	(2,313,408)	(2,760,890)
Lease income, net	262,934	146,842
Proceeds from sale of capital assets	—	—
<b>Net Change in Fund Balance - As Reported</b>	<u>\$ 1,176,251</u>	<u>\$ (2,628,250)</u>

On an adjusted basis, the net change in fund balance increased \$3.241 million, from a net deficit of \$0.14 million for the year ended December 31, 2017, to a surplus of \$3.227 million for the same period in 2018. This increase is primarily attributable to an increase in general revenues of \$3.057 million and a decrease in program expenditures of \$0.338 million.

Program expenditures decreased \$0.338 million, from \$26.817 million for the year ended December 31, 2017, to \$26.479 million for the same period in 2018. This decrease is primarily attributable to the following:

- District-wide support costs increased \$0.200 million due primarily to the cost of completing a customer experience survey.
- Salaries, wages and pension expenses increased \$0.197 million due primarily to increased employee health insurance costs.

- Costs for library programs and outreach events decreased by \$0.162 million due to lower author event fees and costs.
- Overall, the District's maintenance capital expenditures decreased \$0.667 million. In 2017, the District incurred non-routine maintenance costs for its older facilities, which resulted in fewer maintenance requirements for these facilities in 2018. In addition, the District incurred few non-routine maintenance costs with respect to its facilities that were constructed in 2016.

General revenues increased \$3.057 million due primarily to increases in property tax revenues of \$2.556 million and auto ownership taxes of \$0.218 million.

- Douglas County assessed property values increased 11.7 percent, due primarily to an increase in the assessed value of real properties.
- Investment earnings increased \$0.282 million (104 percent), due to a decision the District made in March 2018 to invest the District's excess reserves in a program administered by the Colorado Statewide Investment Pool (CSIP) that purchases fixed-term, fixed-rate, high-quality money market investments.

Program revenues decreased \$0.154 million, from \$1.219 million at December 31, 2017, to \$1.065 million for the same period in 2018. This decrease is primarily attributable to implementation of the District's automatic first-time renewal, as well as the shift from print to digital inventories, which resulted in a decrease in book fines of \$0.164 million.

The following transactions had a material effect on the change in fund balance on an as-reported basis:

- Improvement capital expenditures decreased \$0.447 million, from \$2.761 million for the year ended December 31, 2017, to \$2.313 million for the same period in 2018.
- Improvement capital spending during 2017 primarily represents the acquisition, in April 2017, of property adjacent to the Castle Rock branch for \$2.559 million in anticipation of a future remodel of the Castle Rock branch.
- Improvement capital expenditures during 2018 were primarily attributable to planning, design and construction costs for the remodel of the Highlands Ranch branch of \$2.313 million, plus construction costs for refurbishment of the Roxborough branch of \$0.035 million.
- During 2018, the District recorded lease income of \$0.263 million from retail space in the retail property adjacent to the Castle Rock branch, an increase of \$0.116 million from 2017. The increase was due primarily to having collected rents and tenant common area maintenance (CAM) fees for a full 12 months in 2018, plus planned step increases in tenant rents and increases in CAM fees.

When including the effect of these transactions, the net change in fund balance on an as-reported basis increased \$3.805 million, from a deficit of (\$2.628) million for the year ended December 31, 2017, to a surplus of \$1.176 million for the same period in 2018.

### Governmental Fund Balance Sheet

	2018	2017
<b>Assets</b>		
Cash and investments	\$ 20,649,986	\$ 18,478,767
Property taxes receivable, net of allowance	25,922,850	25,522,250
Restricted cash	28,530	20,426
Other assets	653,074	429,478
<b>Total assets</b>	<u>\$ 47,254,440</u>	<u>\$ 44,450,921</u>
<b>Liabilities</b>		
Accounts payable	1,960,049	673,890
Other current liabilities	629,368	606,399
Property tax revenue	25,676,853	25,358,713
<b>Total Liabilities</b>	<u>28,266,270</u>	<u>26,639,002</u>
<b>Fund Balance</b>		
Nonspendable Fund	619,992	400,097
Restricted Fund	880,158	814,344
Committed Fund	4,179,439	—
Assigned Fund	3,500,000	3,800,000
Unassigned Fund	9,808,581	12,797,478
<b>Total Fund Balances</b>	<u>18,988,170</u>	<u>17,811,919</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 47,254,440</u>	<u>\$ 44,450,921</u>

Cash and investments increased \$2.171 million, from \$18.479 million at December 31, 2017, to \$20.650 million in 2018 due to an increase in property tax revenue, driven by an 11.7 percent increase in the assessed value of real properties. Property taxes receivable increased \$0.401 million, from \$25.522 million at December 31, 2017, to \$25.923 million in 2018 due to this same increase in the assessed value of real properties. Other assets increased \$0.224 million, from \$0.429 million at December 31, 2017, to \$0.653 million in 2018 due to an increase in prepaid expenses for health insurance, electronic library content, IT contracts, and liability/casualty insurance.

Accounts payable increased \$1.286 million, from \$0.674 million at December 31, 2017, to \$1.960 million in 2018 due to \$1.236 million payable to the District's general contractor for work performed on the renovation of the Highlands Ranch branch.

Overall, the District's fund balance increased \$2.804 million, from \$44.451 million for the year ended December 31, 2017, to \$47.254 million for the same period in 2018, due primarily to an increase of \$3.057 million in general revenues for 2018 plus a later than expected start in the renovation of the Highlands Ranch branch.

See Note 9 in the attached financial statements of the District for information regarding the nature of each of the District's specific fund balance accounts for the year ended December 31, 2018. Significant changes to certain fund balance accounts of the District during 2018 were as follows:

- Restricted fund balance, which is calculated as three percent of general revenues, excluding grants, increased \$0.066 million, from \$0.814 million at December 31, 2017, to \$0.880 million at December 31, 2018.
- Committed fund balance increased to \$4.179 million at December 31, 2018, representing contractual obligations related to the renovation and refurnishing of the District's existing branch in Highlands Ranch.
- Assigned fund balance decreased \$0.300 million, from \$3.800 million at December 31, 2017, to \$3.500 million at December 31, 2018, due to a decrease in anticipated costs for capital improvement expenditures as compared to the prior year.
- Unassigned fund balance represents amounts available for any purpose, including debt service for the Certificates of Participation and future capital projects.

## 2018 Budget vs Actual Results

	Original Budget	Final Budget	Actual	Variance
<b>Revenues</b>				
Property taxes	\$ 25,488,713	\$ 25,488,713	\$ 25,394,616	\$ (94,097)
Auto ownership taxes	2,895,200	2,895,200	2,693,552	(201,648)
Charges for services	941,767	941,767	697,870	(243,897)
Contributions and grants	326,066	326,066	367,555	41,489
Interest	300,000	300,000	552,552	252,552
<b>Total Revenues</b>	<u>29,951,746</u>	<u>29,951,746</u>	<u>29,706,145</u>	<u>(245,601)</u>
<b>Operating Expenditures</b>				
Salaries and benefits	15,692,416	15,692,416	15,329,173	363,243
Library materials	3,610,500	3,610,500	3,637,645	(27,145)
Facilities	1,446,366	1,446,366	1,584,348	(137,982)
Technology and support services	1,579,221	1,579,221	1,277,527	301,694
Programs and outreach	782,483	783,683	696,395	87,288
Administration	1,448,695	1,544,043	1,402,729	141,314
Interest and principal payments	2,011,300	2,011,300	2,011,300	—
Capital expenditures - maintenance	790,900	844,613	540,303	304,310
<b>Total Operating Expenditures</b>	<u>27,361,881</u>	<u>27,512,142</u>	<u>26,479,420</u>	<u>1,032,722</u>
<b>Excess of Revenues Over (Under) Operating Expenditures</b>	2,589,865	2,439,604	3,226,725	787,121
<b>Non-Operating Revenues (Expenditures)</b>				
Lease income (expenses), net	215,073	215,073	262,934	47,861
Capital expenditures - improvement	(4,000,000)	(3,849,739)	(2,313,408)	1,536,331
<b>Total Non-Operating Revenues (Expenditures), net</b>	<u>(3,784,927)</u>	<u>(3,634,666)</u>	<u>(2,050,474)</u>	<u>1,584,192</u>
<b>Excess of Total Revenues Over (Under) Total Expenditures</b>	<u>\$ (1,195,062)</u>	<u>\$ (1,195,062)</u>	<u>\$ 1,176,251</u>	<u>\$ 2,371,313</u>

The District's final 2018 budget anticipated an excess of revenues over operating expenditures of \$2.439 million. Actual 2018 revenues exceeded operating expenditures by \$3.227 million.

Total revenues were under budget by \$0.246 million due primarily to auto ownership tax receipts and book fines being under budget by \$0.202 million and \$0.221 million, respectively, offset by investment earnings in excess of budget of \$0.253 million.

Salaries and benefits were under budget by \$0.363 million, due primarily to open (unfilled) positions in the District's library operations, and technology and maintenance costs were under budget by \$0.606 million due to lower than expected repair, maintenance and upgrade requirements in 2018.

Spending on non-operating expenditures was under budget by \$1.584 million due to the following:

- Improvement capital expenditures were under budget by \$1.536 million due to a delay in the start of the \$6.494 million upgrade planned for the Highlands Ranch branch, and delays in commencement of the planning process for the remodel and expansion of the Castle Rock branch.
- Lease income from the retail property adjacent to the Castle Rock branch was \$0.048 million over budget.

## Governmental Activities Financial Statements

The governmental activities financial statements measure and report all assets, liabilities, deferred inflows of resources, revenues, expenses, gains, and losses 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. Accordingly, the governmental activities statement of net position includes capital assets and long-term liabilities.

### Statement of Activities

	2018	2017
<b>Expenses</b>		
Operating	\$ 25,371,465	\$ 25,096,200
Pension expense	4,777,698	4,980,757
OPEB expense	139,014	1,720,501
Capital outlay	144,605	151,058
Interest and fees	600,838	639,093
<b>Total Expenses</b>	<u>31,033,620</u>	<u>32,587,609</u>
<b>Program Revenues</b>		
Operating contributions and grants	367,555	321,972
Charges for services	697,870	897,226
<b>Total Program Revenues</b>	<u>1,065,425</u>	<u>1,219,198</u>
<b>Net Program Expenses</b>	<u>(29,968,195)</u>	<u>(31,368,411)</u>
<b>General Revenues</b>		
Property taxes	25,394,616	22,838,204
Auto ownership taxes	2,693,552	2,475,402
Investment earnings	552,552	253,088
<b>Total General Revenues</b>	<u>28,640,720</u>	<u>25,566,694</u>
<b>Change in Net Position - Adjusted Basis</b>	<u>(1,327,475)</u>	<u>(5,801,717)</u>
Lease income, net	262,934	146,842
Loss on disposal of capital assets	(58,565)	(38,538)
Gain from sale of capital assets	—	—
<b>Change in Net Position - As Restated</b>	<u>\$ (1,123,106)</u>	<u>\$ (5,693,413)</u>

As adjusted, which is more representative of normal recurring operations, the change in net position increased \$4.474 million, from a deficit of (\$5.802) million for the year ended December 31, 2017, to a deficit of (\$1.327) million over the same period in 2018. This \$4.474 million increase in net position is due primarily to the following:

- Operating expenses increased \$0.275 million, from \$25.096 million at December 31, 2017, to \$25.371 million at December 31, 2018, due primarily to an increase in employee health insurance costs of \$0.302 million, a decrease in program and outreach costs of \$0.162 million due to lower author event fees and costs, and an increase in district-wide support costs of \$0.200 due to the cost of completing a one-time customer experience survey.

- Pension expense decreased \$0.203 million, from \$4.981 million at December 31, 2017, to \$4.778 million at December 31, 2018, due primarily to lower employment of FTEs related to open positions.
- OPEB expense for the year ending December 31, 2017, increased to \$1.721 million pursuant to the restatement provisions of GASB 75. OPEB expense decreased \$1.581 million, from \$1.721 million at December 31, 2017, to \$0.139 million at December 31, 2018, due to assumptions of the OPEB plan.
- Program revenues decreased \$0.154 million, from \$1.219 million at December 31, 2017, to \$1.065 million for the same period in 2018. This decrease is primarily attributable to implementation of the District's automatic first-time renewal system, as well as the shift from print to digital inventories, which resulted in a decrease in book fines of \$0.164 million.
- General revenues increased \$3.074 million due primarily to increases in property tax revenues of \$2.556 million, auto ownership taxes of \$0.218 million, and investment earnings of \$0.299 million. The increase in property tax revenues is primarily attributable to an increase in Douglas County assessed property values.

As restated, the change in net position increased \$4.570 million, from a deficit of (\$5.693) million at December 31, 2017, to a deficit of (\$1.123) million at December 31, 2018. This increase in net position is due primarily to the changes noted above in the adjusted change in net position, plus the following:

- During 2017, the District disposed of furniture and equipment with a net book value of \$0.039 million for items no longer in use. In 2018, the District disposed of furniture and equipment with a net book value of \$0.059 million for items no longer in use.
- During 2017, the District recorded lease income of \$0.147 million from retail space in the newly acquired property adjacent to the Castle Rock branch. During 2018, the District recorded lease income of \$0.263 million from this same retail space.

## Statement of Net Position

	2018	2017
<b>Assets</b>		
Current Assets	\$ 47,254,440	\$ 44,450,921
Capital Assets	53,788,862	54,114,150
Total Assets	<u>101,043,302</u>	<u>98,565,071</u>
Deferred Outflows of Resources		
Deferred outflows - pension liability	2,902,365	7,106,405
Deferred outflows - OPEB liability	123,960	116,056
Total Deferred Outflows of Resources	<u>3,026,325</u>	<u>7,222,461</u>
<b>Liabilities</b>		
Current Liabilities	4,729,812	3,190,897
Long-Term Liabilities	41,155,527	47,624,870
Total Liabilities	<u>45,885,339</u>	<u>50,815,767</u>
Deferred Inflows of Resources		
Deferred inflows - pension liability	4,048,727	77,978
Deferred inflows - OPEB liability	46,740	—
Property tax revenue	25,676,853	25,358,713
Total Deferred Inflows of Resources	<u>29,772,320</u>	<u>25,436,691</u>
<b>Net Position</b>		
Net investment in capital assets	33,495,515	32,412,341
Restricted Fund	880,158	814,344
Unrestricted	(5,963,705)	(3,691,611)
<b>Total Net Position</b>	<u>\$ 28,411,968</u>	<u>\$ 29,535,074</u>

Total assets increased \$2.478 million, from \$98.565 million at December 31, 2017, to \$101.043 million at December 31, 2018. The increase in total assets is due primarily to the following:

- Cash and investments increased \$2.171 million, from \$18.479 million at December 31, 2017, to \$20.650 million in 2018 due to an increase in property tax revenue, driven by an 11.7 percent increase in the assessed value of real properties.
- Property taxes receivable increased \$0.401 million, from \$25.522 million at December 31, 2017, to \$25.923 million in 2018 due to the same 11.7 percent increase in the assessed value of real properties.
- Prepays and other assets increased \$0.220 million, from \$0.400 million at December 31, 2017, to \$0.620 million in 2018 due to an increase in prepaid expenses for health insurance, electronic library content, IT contracts, and liability/casualty insurance.
- Capital assets, net of accumulated depreciation, decreased \$0.325 million, from \$54.114 million at December 31, 2017, to \$53.789 million at December 31, 2018. The decrease in capital assets in 2018 resulted primarily from \$5.070 million of additions offset by \$5.253 million in depreciation, plus disposals of capital assets with a net book value of \$0.142 million. Key additions consist of partial completion of the remodel of the Highlands Ranch library for \$2.265 million, and maintenance and

upgrades at other District library facilities of \$0.528 million. The District recorded depreciation expense of \$5.253 million for the year ended December 31, 2018, of which \$2.623 million is attributable to the District's archives and collections, with the remainder being primarily attributable to new facilities that were capitalized in 2016.

Total liabilities decreased \$4.930 million, from \$50.816 million at December 31, 2017, to \$45.885 million at December 31, 2018. The decrease in total liabilities is due primarily to the following:

- Accounts payable increased \$1.286 million, from \$0.674 million at December 31, 2017, to \$1.960 million at December 31, 2018, due primarily to \$1.236 million payable to the District's general contractor for work performed on the renovation of the Highlands Ranch branch.
- Certificates of Participation decreased \$1.657 million, from \$20.502 million at December 31, 2017 to \$18.845 million at December 31, 2018, due to principal paid of \$1.200 million and premium amortization of \$0.208 in 2018.
- Net pension liability decreased \$4.836 million, from \$24.918 million at December 31, 2017, to \$20.082 million at December 31, 2018. This change is attributable to changes in the District's contributions and actuarial assumptions.

#### **Pension Related Deferred Outflows and Inflows**

The District participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension fund administered by PERA, the defined benefit pension plan. See Note 7 of the attached financial statements of the District for further information regarding the District's defined benefit pension plan.

- Deferred pension outflows decreased \$4.204 million, from \$7.106 million at December 31, 2017, to \$2.902 million at December 31, 2018.
- Deferred pension inflows increased \$3.971 million, from \$0.078 million at December 31, 2017, to \$4.049 million at December 31, 2018.

The changes in the plan's deferred outflows and deferred inflows are attributable to differences between the plan's expected vs. actual experience, changed assumptions or other inputs to the plan, differences between contributions recognized vs. actual proportionate share of contributions, and contributions subsequent to the measurement date.

The long-term expected rate of return on plan assets, and the plan's discount rate, remained at 7.25 percent, unchanged from the prior measurement date. In order to illustrate the sensitivity of changes in assumptions, a one percent increase in the discount rate would decrease the District's share of the LGDTF's net pension liability

by \$9.922 million, while a one percent decrease in the discount rate would increase the District's share of the net pension liability by \$11.902 million.

The District has no legal obligation to fund its share of an increase in the net pension liability caused by a decrease in the discount rate, or to pay benefits directly to retirees. The District is obligated to contribute to PERA at those rates established by the Colorado legislature.

### **OPEB Related Deferred Outflows and Inflows**

The District participates in the HCTF, a cost-sharing multiple-employer defined benefit OPEB fund administered by PERA, the OPEB defined benefit plan. See Note 7 of the attached financial statements of the District for further information regarding the District's OPEB defined benefit plan.

- Deferred OPEB outflows increased \$0.008 million from \$0.116 million at December 31, 2017 to \$0.124 million at December 31, 2018.
- Deferred OPEB inflows were recorded at \$0.047 million at December 31, 2018.

The changes in the OPEB plan's deferred outflows and deferred inflows are based on differences between the plan's expected vs. actual experience, changed assumptions or other inputs to the plan, differences between contributions recognized vs. actual proportionate share of contributions, and contributions subsequent to the measurement date.

The long-term expected rate of return on plan assets, and the plan's discount rate was set at 7.25 percent. In order to illustrate the sensitivity of changes in assumptions, a one percent increase in the discount rate would decrease the District's share of the HCTF's net OPEB liability by \$0.138 million, while a one percent decrease in the discount rate would increase the District's share of the net pension liability by \$0.162 million.

The District has no legal obligation to fund its share of an increase in the net OPEB liability caused by a decrease in the discount rate, or to pay benefits directly to retirees. The District is obligated to contribute to PERA at those rates established by the PERA Board.

### **Net Position**

The increase in net investment in capital assets of \$1.083 million, from \$32.412 million at December 31, 2017, to \$33.496 million at December 31, 2018, is due primarily to the 2018 decrease in the remaining principal balance and unamortized premium of the 2015 CoPs, which is an offset to the net investment in capital assets.

Restricted net position reported at December 31, 2017 and 2018, represents emergency reserves the District is required to maintain under Article X, Section 20, of the Colorado Constitution, otherwise known as the Taxpayer's Bill of Rights (TABOR). At December 31, 2018, restricted net position includes emergency reserves of \$0.880 million.

The decrease in unrestricted fund balance of \$2.272 million, from a deficit of (\$3.692) million as of December 31, 2017, to a deficit of (\$5.964) million at December 31, 2018, is primarily attributable to an increase in the District's pension and OPEB liabilities, net of changes in pension- and OPEB-related deferred outflows and inflows, of \$5.083 million, less the surplus in unrestricted fund balance generated through the District's library operations.

### **Factors Affecting Financial Condition**

The historical financial statements and the 2018 budget are best understood when considered from the broader perspective of the specific environment in which the District operates.

#### **Property Tax Revenues and Constitutional Limitations**

The District derives the majority of its revenues from property taxes. In general, the county assessor revalues real estate in odd-numbered years on the basis of comparable sales during the previous two-year period. Property owners are given notice of updated valuations, appeals are processed, and property tax bills are payable the following even-numbered year. As a result, there is a two- to four-year lag between changes in the market value of a property and the date taxing authorities realize the corresponding increase or decrease in property tax revenue. Property tax revenues are also influenced by residential and nonresidential construction activity.

In 1982, Colorado voters adopted a constitutional measure known as the Gallagher amendment, in response to homeowner concerns over rising residential property taxes. The amendment ensures that residential assessed values will comprise no more than 45 percent of the state's overall assessed value, with nonresidential properties making up the remaining 55 percent. To the extent that increases in residential property values outpace increases in nonresidential property values, an adjustment is made to lower residential assessed values to maintain the 45 percent residential to 55 percent nonresidential ratio of statewide-assessed values.

In 1992, Colorado voters approved an amendment to the constitution commonly known as TABOR. In general, TABOR restricts the ability of the state and local governments to increase revenues and spending, impose taxes, and issue debt and certain other types of obligations without voter approval. In 1996, the District's voters approved a referendum that authorizes the District to retain revenues that might otherwise have been refundable to citizens under the TABOR amendment. The District continues to be subject to other provisions of TABOR, including the requirement to maintain an emergency reserve equal to three percent of annual spending and the requirement for elections to approve any tax increase.

Because the TABOR amendment requires that all tax increases require voter approval, residential assessed values can be adjusted downward, but not upward, in order to maintain the statewide 45 percent residential to 55 percent nonresidential assessed value ratio.

Property taxes collected in 2019 are impacted by new construction in 2018, but are not affected by revised property valuations or the limitations of the Gallagher amendment. As such, and based on property values certified by the Douglas County Assessor in late 2018, the District has budgeted for an increase in 2019 property tax revenues of 1.30 percent or \$0.412 million.

### **Operating, Facility Maintenance, and Debt Service Expenditures**

The District has adopted a compensation philosophy that supports competitive wages and benefits, and contributes 12.68 percent of salaries and wages to the LGDTF, and 1.02 percent of salaries and wages to the HCTF.

The District did not open any new library facilities in 2018, nor did the District increase the size of any of its existing library facilities in 2018. The District maintained approximately 176,000 square feet of facilities space and employed approximately 243 FTE employees in 2018.

Maximum debt service under the terms of the 2015 CoPs is \$2.000 million. The District made a \$1.200 million principal payment plus interest payments of \$0.811 million in 2018.

The chart on the following page illustrates changes to the District's cost structure as a result of the incremental costs associated with staffing, operation and maintenance of its existing library facilities and its lease purchase financing.

## Summary of Revenues, Expenses, and Change in Fund Balance – Governmental Fund

	Actual				Budget
	2015	2016	2017	2018	2019
<b>Statistics</b>					
Circulation	7,310,770	6,793,987	6,765,069	7,146,363	—
Patron visits	1,933,518	1,932,973	2,109,991	2,059,123	—
Building square footage	126,000	176,000	176,000	176,000	176,000
Full time equivalent employee headcount	229	251	246	243	—
<b>Revenues</b>					
Property taxes	\$ 21,004,402	\$ 24,512,426	\$ 25,313,606	\$ 28,088,168	\$ 28,449,369
Charges for services	633,202	590,134	897,226	697,870	726,134
Contributions and grants	409,377	363,037	321,972	367,555	334,571
Interest income, net	195,064	277,689	270,315	552,552	389,000
<b>Total Revenues</b>	<b>22,242,045</b>	<b>25,743,286</b>	<b>26,803,119</b>	<b>29,706,145</b>	<b>29,899,074</b>
<b>Operating Expenditures</b>					
Salaries and benefits	13,833,369	14,480,344	15,131,960	15,329,173	15,407,710
Library materials	3,554,623	3,409,934	3,495,573	3,637,645	3,677,900
Facilities	1,130,874	1,273,154	1,492,179	1,584,348	1,684,249
Technology and support services	1,071,145	1,388,763	1,346,219	1,277,527	1,348,936
Programs and outreach	617,049	802,159	858,872	696,395	988,133
Administration	1,053,381	1,428,235	1,202,971	1,402,729	1,385,554
Interest and principal payments	74,205	834,800	2,009,800	2,011,300	2,012,300
Capital expenditures - maintenance	146,432	1,368,566	1,279,747	540,303	505,930
<b>Total Operating Expenditures</b>	<b>21,481,078</b>	<b>24,985,955</b>	<b>26,817,321</b>	<b>26,479,420</b>	<b>27,010,712</b>
<b>Excess of Revenues Over (Under) Operating Expenditures</b>	<b>760,967</b>	<b>757,331</b>	<b>(14,202)</b>	<b>3,226,725</b>	<b>2,888,362</b>
<b>Non-Operating Revenues (Expenditures)</b>					
Lease income, net	—	—	146,842	262,934	167,182
Proceeds from lease purchase financing, net	23,005,269	—	—	—	—
Proceeds from sale of capital assets	—	3,600,200	—	—	—
Capital expenditures - improvement	(14,032,509)	(19,321,690)	(2,760,890)	(2,313,408)	(7,096,144)
<b>Total Non-Operating Revenues (Expenditures), net</b>	<b>8,972,760</b>	<b>(15,721,490)</b>	<b>(2,614,048)</b>	<b>(2,050,474)</b>	<b>(6,928,962)</b>
<b>Excess of Total Revenues Over (Under) Total Expenditures</b>	<b>\$ 9,733,727</b>	<b>\$ (14,964,159)</b>	<b>\$ (2,628,250)</b>	<b>\$ 1,176,251</b>	<b>\$ (4,040,600)</b>

Despite the impact of the Gallagher amendment on property tax revenues, 2019 budgeted revenues are projected to exceed operating expenditures, interest and principal payments and the costs to maintain the District's facilities by \$2.888 million.

Other highlights of the District's 2019 budget include:

- A 3.00% salary and wage increase, plus market adjustments for selected positions;
- \$0.436 million in savings for health insurance premiums;
- \$5.700 million for completion of remodel and upgrade of the Highlands Ranch branch that was started in the fourth quarter of 2018;
- \$1.400 million for planning and design related to the future remodel and expansion of the Castle Rock branch facility;
- \$0.506 million for projects to maintain equipment and facilities.

## District Reserves

The District's reserve policy requires that reserves be maintained to fund expenditures for the first quarter of the fiscal year or until property taxes remitted by the county treasurer are sufficient to fund monthly operations, deductibles under the District's insurance program, and emergency reserves as required by Article X, Section 20, of the Colorado Constitution. Accordingly, restricted and assigned fund balance as reported on the governmental fund balance sheet at December 31, 2018, includes \$4.380 million in accordance with the terms of the District's reserve policy.

At December 31, 2018, the District has \$9.809 million available for future remodel and expansion efforts. Successful execution of the projects and initiatives detailed above and included in the 2019 budget will require the use of \$1.400 million of the District's reserves.

## Long-Range Forecast

The District is committed to maintaining the infrastructure and finishes of its libraries and has completed a facilities master plan that identifies:

- equipment replacement and infrastructure maintenance needs to be funded from current property tax revenues, and
- facility upgrades and expansion needs to be funded from District reserves.

In addition, the District has developed a long-range forecast in an effort to ensure that operations, debt service obligations, and capital maintenance requirements do not require the use of reserves and can be fully funded from current property tax revenues going forward. Several variables affect the District's forecast of future cash flows.

Preliminary estimates from the December 2018 Economic and Revenue Forecast prepared by the Economics Section of the Colorado Legislative Council Staff forecast that a strong economy and rebound in oil and gas development will increase the nonresidential tax base, thereby relieving some downward pressure on the residential assessment rate in 2019. The Colorado General Assembly sets the Residential Assessment Rate (RAR) to maintain the ratio between residential and nonresidential assessed values. In order to maintain the constitutionally required Gallagher amendment ratio, the RAR is expected to decrease from 7.20 percent to 6.78 percent for 2019 and 2020. Assessed values in Douglas County are determined by the unique mix of properties and economic forces specific to Douglas County. Nevertheless, the downward adjustment of the RAR is indicative of potential continuing downward pressure on residential assessment rates.

Based on the information currently available, the District estimates an increase in property tax revenue of approximately 1.30 percent in 2019 and 6.00 percent in 2020, after the reduction in residential assessed values pursuant to the Gallagher amendment.

As previously indicated, employees of the District are provided with pension benefits through the PERA defined benefit plan. As such, the District is obligated to contribute to PERA at those rates established by the Colorado legislature. During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200, and the bill was signed into law on June 4, 2018. SB 18-200 makes changes to the pension plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years. The District participates in the LGDTE, which is subject to the provisions of SB 18-200. Following is a brief description of some of the major changes to plan provisions required by SB 18-200:

- increases employee contribution rates by a total of two percent (to be phased in over a period of three years starting on July 1, 2019);
- modifies retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019, and raises the retirement age for new employees;
- adjusts member contributions, employer contributions, and annual increases based on certain statutory parameters beginning July 1, 2020, and then each year thereafter to help keep PERA on path to full funding in 30 years;
- expands eligibility to participate in the PERA defined contribution plan to new members hired on or after January 1, 2019, in the Local Government Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the LGDTE will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

The District has identified two capital improvement needs: a remodel and expansion of the Castle Rock facility, and the need for a larger facility in Roxborough to serve projected growth in the area.

In 2017, the District purchased retail property adjacent to the Castle Rock branch for \$2.559 million with the intent to remodel and expand the Castle Rock branch. This project will enable the District to expand public spaces in both the Castle Rock and Highlands Ranch branches and centralize some administrative services and storage facilities. The District's current cash flow forecast supports a \$19 million remodel in 2022 funded with existing reserves and savings over the interim period.

During 2017, construction began on Sterling Ranch, a mixed-use community in southwest Douglas County. At full build-out, Sterling Ranch will cover 3,400 acres and will be home to approximately 33,000 residents, increasing the

population of Roxborough to approximately 50,000 residents. The District's current Roxborough branch is housed in leased space. The District recognizes the eventual need for an expanded Roxborough facility. Timing and extent of any expansion will depend on the pace of build-out of Sterling Ranch and on future growth in assessed values and property tax revenues.

### **Douglas County Libraries Foundation**

The Douglas County Libraries Foundation (the Foundation) was founded in 1992 as a 501c3 nonprofit organization to fund capital improvements and support various programs that enhance the vision and core values of the District.

The Foundation is governed by an independent Board of Directors, which includes the District's Executive Library Director, who serves as the ex-officio executive director of the Foundation; one member from the District's Board of Trustees; and four additional directors.

During 2017, the Foundation granted restricted funds to the District and completed a capital campaign to raise monies in support of the construction of new libraries in Castle Pines, Lone Tree, and Parker. Monies granted to the District in connection with these efforts totaled \$0.042 million for the year ended December 31, 2017. The Foundation granted \$0.050 million of unrestricted funds, plus \$0.022 million of restricted funds, to the District for the year ended December 31, 2018.

### **Requests for Information**

This financial report is designed to provide a general overview of the finances for the District and the Foundation. For questions concerning the information provided in this report or to request a copy of the Foundation's financial statements, please contact the Director of Finance at Douglas County Libraries, 100 South Wilcox Street, Castle Rock, CO 80104.

# BASIC FINANCIAL STATEMENTS

**BALANCE SHEET**  
**GOVERNMENTAL FUND / STATEMENT OF NET POSITION**  
**December 31, 2018**

	Primary Government			Component Unit
	General - Governmental Fund	Adjustments	Statement of Net Position - Governmental Activities	Douglas County Libraries Foundation
<b>Assets</b>				
Cash and investments	\$ 20,649,986	\$ —	\$ 20,649,986	\$ 728,714
Property taxes receivable, net of allowance	25,922,850	—	25,922,850	—
Prepays and other assets	619,992	—	619,992	—
Receivable from component unit	30,128	—	30,128	—
Other receivables	2,954	—	2,954	—
Restricted cash	28,530	—	28,530	—
Capital assets, net of accumulated depreciation	—	44,680,790	44,680,790	—
Capital assets not being depreciated	—	9,108,072	9,108,072	—
<b>Total Assets</b>	<b>\$ 47,254,440</b>	<b>53,788,862</b>	<b>101,043,302</b>	<b>728,714</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - net pension liability	—	2,902,365	2,902,365	—
Deferred outflows - net OPEB liability	—	123,960	123,960	—
<b>Total Deferred Outflows of Resources</b>	<b>—</b>	<b>3,026,325</b>	<b>3,026,325</b>	<b>—</b>
<b>Liabilities</b>				
Accounts payable	1,960,049	—	1,960,049	1,680
Accrued salaries and benefits	600,838	—	600,838	—
Accrued interest payable	—	65,608	65,608	—
Funds held for others	28,530	—	28,530	—
Payable to primary government	—	—	—	30,128
Noncurrent liabilities				
Due within one year	—	2,074,787	2,074,787	—
Due in more than one year	—	19,252,044	19,252,044	—
Net pension liability	—	20,082,094	20,082,094	—
Net OPEB liability	—	1,821,389	1,821,389	—
<b>Total Liabilities</b>	<b>2,589,417</b>	<b>43,295,922</b>	<b>45,885,339</b>	<b>31,808</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - net pension liability	—	4,048,727	4,048,727	—
Deferred inflows - net OPEB liability	—	46,740	46,740	—
Property tax revenue	25,676,853	—	25,676,853	—
<b>Total Deferred Inflows of Resources</b>	<b>25,676,853</b>	<b>4,095,467</b>	<b>29,772,320</b>	<b>—</b>
<b>Fund Balance/Net Position</b>				
Fund balance				
Nonspendable Fund	619,992	(619,992)	—	—
Restricted Fund	880,158	(880,158)	—	—
Committed Fund	4,179,439	(4,179,439)	—	—
Assigned Fund	3,500,000	(3,500,000)	—	—
Unassigned fund balance	9,808,581	(9,808,581)	—	—
<b>Total Fund Balances</b>	<b>18,988,170</b>	<b>(18,988,170)</b>	<b>—</b>	<b>—</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 47,254,440</b>			
<b>Net Position</b>				
Net investment in capital assets	—	33,495,515	33,495,515	—
Restricted Fund	—	880,158	880,158	15,250
Unrestricted	—	(5,963,705)	(5,963,705)	681,656
<b>Total Net Position</b>	<b>\$ —</b>	<b>\$ 28,411,968</b>	<b>\$ 28,411,968</b>	<b>\$ 696,906</b>

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND  
BALANCE – GOVERNMENTAL FUND / STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2018

	Primary Government			Component Unit
	General - Governmental Fund	Adjustments	Statement of Activities - Governmental Activities	Douglas County Libraries Foundation
<b>Expenditures/Expenses</b>				
<b>Current</b>				
Operating	\$ 20,096,798	\$ 5,274,667	\$ 25,371,465	\$ 148,005
Pension expense	1,438,549	3,339,149	4,777,698	—
OPEB expense	115,346	23,668	139,014	—
<b>Capital Outlay</b>	5,130,835	(4,986,230)	144,605	—
<b>Debt Service</b>	—	—	—	—
Principal	1,200,000	(1,200,000)	—	—
Interest and fees	811,300	(210,462)	600,838	—
<b>Total Expenditures/Expenses</b>	<u>28,792,828</u>	<u>2,240,792</u>	<u>31,033,620</u>	<u>148,005</u>
<b>Program Revenues</b>				
Operating contributions and grants	367,555	—	367,555	85,315
Charges for services	697,870	—	697,870	172,131
<b>Total Program Revenues</b>	<u>1,065,425</u>	<u>—</u>	<u>1,065,425</u>	<u>257,446</u>
<b>Net Program Revenues/(Expenses)</b>	<u>(27,727,403)</u>	<u>(2,240,792)</u>	<u>(29,968,195)</u>	<u>109,441</u>
<b>General Revenues/(Expenses)</b>				
Property taxes	25,394,616	—	25,394,616	—
Auto ownership taxes	2,693,552	—	2,693,552	—
Investment earnings	552,552	—	552,552	(17,996)
<b>Total General Revenues/(Expenses)</b>	<u>28,640,720</u>	<u>—</u>	<u>28,640,720</u>	<u>(17,996)</u>
<b>Other Financing Sources</b>				
Loss on disposal of capital assets	—	(58,565)	(58,565)	—
Lease income, net	262,934	—	262,934	—
<b>Total Other Financing Sources</b>	<u>262,934</u>	<u>(58,565)</u>	<u>204,369</u>	<u>—</u>
<b>Net Change in Fund Balance</b>	1,176,251	(1,176,251)	—	—
<b>Change in Net Position</b>		(1,123,106)	(1,123,106)	91,445
<b>Fund Balance/Net Position</b>				
<b>Beginning of Year, as restated</b>	<u>17,811,919</u>	<u>11,723,155</u>	<u>29,535,074</u>	<u>605,461</u>
<b>End of Year</b>	<u>\$ 18,988,170</u>	<u>\$ 9,423,798</u>	<u>\$ 28,411,968</u>	<u>\$ 696,906</u>

**RECONCILIATION OF THE BALANCE SHEET –  
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION**

**For the Year Ended December 31, 2018**

<b>Fund Balance - Governmental Fund</b>		<b>\$ 18,988,170</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.		
Assets	70,870,811	
Accumulated depreciation	<u>(17,081,949)</u>	53,788,862
Certificates of Participation are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
Principal, Certificates of Participation Series 2015	(18,280,000)	
Premium, Certificates of Participation Series 2015	(2,013,347)	
Accrued interest	<u>(65,608)</u>	(20,358,955)
Pension liability is not due and payable in the current period and, therefore, is not reported in the governmental fund.		
Pension related deferred outflows	2,902,365	
Pension related deferred inflows	(4,048,727)	
Net Pension liability	<u>(20,082,094)</u>	(21,228,456)
OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental fund.		
OPEB related deferred outflows	123,960	
OPEB related deferred inflows	(46,740)	
Net OPEB liability	<u>(1,821,389)</u>	(1,744,169)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
		<u>(1,033,484)</u>
<b>Net Position of Governmental Activities</b>		<b><u><u>\$ 28,411,968</u></u></b>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE  
IN FUND BALANCE – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2018**

<b>Net Change in Fund Balance - Governmental Fund</b>	<b>\$ 1,176,251</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental fund reports 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 disposals.	
Capital asset additions	5,069,446
Construction in progress deduction	(83,216)
Depreciation	(5,252,951)
Capital asset disposals	(58,565)
	<u>(325,286)</u>
Compensated absences do not require use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.	(21,716)
Interest and payment activities on the 2015 CoPs do not require use of current financial resources and, therefore, are not reported in the governmental fund.	
Principal payment	1,200,000
Amortization of premium	208,462
Accrued interest	2,000
	<u>1,410,462</u>
Pension liability does not require use of current financial resources and, therefore, is not reported as expenditures in the governmental fund	(3,339,149)
OPEB liability does not require use of current financial resources and, therefore, is not reported as expenditures in the governmental fund	(23,668)
	<u>(23,668)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ (1,123,106)</u></u></b>

## NOTES TO FINANCIAL STATEMENTS

### December 31, 2018

#### 1. Summary of Significant Accounting Policies

##### Reporting Entity

Douglas County Libraries (the District) was established in 1990 to provide library services within Douglas County, Colorado. A seven-member Board of Trustees, appointed by the Douglas County Commissioners, governs the District.

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

**Discretely Presented Component Unit.** The Douglas County Libraries Foundation (the Foundation) is a nonprofit organization whose sole purpose is to support the District by funding opportunities above and beyond the District's normal operating budget. The Foundation is governed by a seven-member Board of Directors led by the Foundation's and District's Executive Director. Separately issued financial statements of the Foundation may be obtained by contacting the Foundation's offices at 100 South Wilcox Street, Castle Rock, Colorado 80104.

##### Governmental Activities and Fund Financial Statements

The basic financial statements are presented in a combined format for both the fund and governmental activities level. These include the balance sheet governmental fund/statement of net position and the statement of revenues, expenditures, and change in fund balance governmental fund/statement of activities.

The statement of activities demonstrates the degree to which the expenses of the District are offset by program revenues. Program revenues include operating contributions and grants and charges to users of the District's services.

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

The governmental activities financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses 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 governmental activities financial statements do not include fiduciary funds or component units that are fiduciary in nature.

The general operating fund is the District's only fund and is used to account for all financial resources of the District.

### **Cash and Investments**

Colorado Revised Statutes (CRS) authorize the District to invest in certain obligations of the U.S. Treasury and U.S. agencies, commercial paper, repurchase agreements, local government investment pools, and other specified investments. The District's investment policy is to follow state statutes regarding investments, which generally limit investments to those instruments with maturities of five years or less, unless the governing body of the District authorizes investment for a longer period. All District investments are held in a local government investment pool and are reported at net asset value. Securities with maturities of 12 months or less from the balance sheet date are reported as short-term investments.

The District limits its exposure to credit risk, which is the risk of loss due to the failure of the security issuer or backer, by diversifying the investment portfolio so that potential losses on individual securities will be minimized and by limiting investments to specified credit ratings. Management believes at December 31, 2018, no investments subject the District to credit concentration risk. The District's interest rate risk is related only to its investments with the Colorado Local Government Liquid Asset Trust (COLOTRUST) and Colorado Statewide Investment Pool (CSIP).

In addition, District funds may only be deposited in banks that are members of the Federal Deposit Insurance Corporation (FDIC) or have been designated by the State Banking Board as an eligible public depository under the Colorado Public Deposit Protection Act (PDPA). Under the provisions of PDPA, amounts on deposit in excess of federal insurance levels must be collateralized by the depository using securities with a market value of 102 percent of the aggregate uninsured deposits. The State Regulatory Commission for banks and financial services is required by statute to qualify eligible PDPA depositories, limit the types of securities that can be used for collateral, and monitor the reporting of uninsured deposits and assets maintained in the collateral pools.

At December 31, 2018, the District had deposits with a book balance of \$601,285 and a bank balance of \$680,357, of which \$485,306 was covered by the FDIC. Deposits held by a single depository institution may not exceed 25 percent of the District's total investment portfolio.

At December 31, 2018, the Foundation had deposits with a book balance of \$728,714 and a bank balance of \$728,714, of which \$500,000 was insured by the FDIC. From time to time, cash and investments held by the Foundation are allowed to exceed the limits of depository insurance coverage provided by the FDIC.

Effective January 1, 2016, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurements and Application (GASB 72), which is effective for financial statement periods beginning after June 30, 2015. GASB 72 defines a hierarchy of inputs used to determine fair value and requires disclosure of the valuation techniques and the nature of inputs employed to determine fair value.

### **Property Taxes Receivable**

Property tax receivables are shown net of an allowance for uncollectible accounts. Property values are assessed and a lien placed on the property as of January 1. Property taxes are 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 taxes are reported as deferred inflows of resources and recognized as revenue upon collection.

### **Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental fund and governmental activities financial statements.

### **Capital Assets**

Capital assets, which include land, buildings, furniture, equipment, and library materials, are reported in the governmental activities 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 \$5,000 or more and an estimated useful life of more than one year, are recorded at historical cost, with the exception of library materials, which are capitalized regardless of cost. 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. The District values donated capital assets at the estimated acquisition value of the item at the date of donation. Capital assets of the District 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:

<b>Asset</b>	<b>Years</b>
Buildings	30
Building improvements	15
Shelving	10
Furniture	10
Equipment and machinery	5
Computers	4
Archives and collections	4

### Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused personal time off (PTO). All PTO is accrued when earned in the governmental activities financial statements. A liability for these amounts is reported in the governmental fund statements only if they are due, for example, as a result of employee resignations and retirements.

### Long-Term Debt

In the governmental activities financial statements, long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method.

In the governmental fund financial statements, bond premiums and discounts are recognized during the current period. The face amount of the debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources or uses. Issuance costs are reported as current period expenditures.

### Pensions

The District participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the fiduciary net position of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources until then. The District has recognized deferred outflows of resources in the governmental activities financial statements in accordance with the presentation requirements for Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27 (GASB 68), and Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (GASB 71) and Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions (GASB 75).

### **Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources until then. The District has recognized deferred inflows of resources in the governmental activities financial statements in accordance with the presentation requirements for property taxes, GASB 68 and GASB 75.

### **Fund Balance/Net Position**

The District reports fund balance and net position in accordance with the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement identifies fund balance categories to make the nature and extent of the constraints placed on a governmental entity's fund balances more transparent.

The following classifications describe the relative strength of the spending constraints under GASB 54:

- Nonspendable fund balance represents amounts that are nonspendable in form or are legally or contractually required to be maintained intact.
- Restricted fund balance represents amounts constrained to specific purposes by external parties, such as grantors, contributors, or through constitutional provisions. Restricted fund balance also includes revenues raised pursuant to legislation that restricts the use of funds to a specific purpose.
- Committed fund balance represents contractual obligations and those amounts constrained to specific purposes by the District's Board of Trustees. To be reported as committed, amounts cannot be used for any other purpose unless the District's Board of Trustees takes action to remove or change

the constraint. Fund balance commitments are established, modified, or rescinded by the adoption of Board resolutions.

- Assigned fund balance represents amounts the District intends to use for a specific purpose. Intent can be expressed by either the District's Board of Trustees or by an official or body to which the Board delegates the authority.

Assigned fund balance is established through adoption of a Board resolution or the amendment of the budget as intended for a specific purpose, such as the purchase of fixed assets, construction, debt service, etc.

- Unassigned fund balance represents amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When amounts in multiple unrestricted fund balance classifications could be used, the District considers committed funds to be used first, then assigned, and finally unassigned fund balances.

### **Implementation of GASB 75**

As of January 1, 2018, the District adopted GASB 75. The implementation of this standard replaces the requirements of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45), and requires that governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan, which include the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The effect of the implementation of this standard on beginning net position is disclosed in Note 10 and the additional disclosures required by this standard are included in Note 7.

The District participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by PERA. The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position, and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

## **2. Cash and Investments**

At December 31, 2018, the District had the following cash and investments:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
<b>Short-Term Cash and Investments</b>			
Cash	\$28,530	\$ 572,755	\$ 601,285
Local government investment pool	—	20,077,231	20,077,231
<b>Total Short-Term Cash and Investments</b>	<u>\$28,530</u>	<u>\$ 20,649,986</u>	<u>\$ 20,678,516</u>

Amounts held by the local government investment pool are invested with COLOTRUST and CSIP, which are investment vehicles established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state regulations governing local government investment pools. COLOTRUST and the CSIP Liquid Portfolio operate similarly to a money market fund, are rated AAA by Standard & Poor's, and each share is equal in value to \$1.00. The CSIP Term portfolio invests only in securities permissible under Colorado law and is rated AA+ by Fitch Ratings. The CSIP Term portfolio offers fixed-rate, fixed-term investments with maturities of 90-365 days. The rate is fixed for the full term of the investment, and there may be a penalty for early redemption. The CSIP Term portfolio has a goal of \$1.00 per share net asset value at maturity, however the value may fluctuate prior to maturity. Financial statements and additional information about COLOTRUST are available at <http://www.colotruster.com/about>. Financial statements and additional information about CSIP are available at <http://www.csipinvest.com>.

The District holds investments in external government investment pools which are stated at net asset value which approximate fair value. At this time, the District does not hold investments carried at fair value as defined by GASB 72.

### 3. Funds Held for Others

The District serves as fiscal agent in connection with Volunteer Connect Douglas County, a project to develop a countywide volunteer website. The project is funded by members of the Partnership of Douglas County Governments.

Transactions related to agency funds are recorded as changes in the funds held for others liability and are not included in the statement of activities. The changes in that liability are summarized as follows:

	<b>2018</b>
Partner contributions	\$ 64,713
Portal expenses paid	56,609
Change in balance	8,104
<b>Funds held for others, beginning of year</b>	<u>20,426</u>
<b>Funds held for others, end of year</b>	<u>\$ 28,530</u>

#### 4. Capital Assets

In late 2018, the District began a remodel of the Highlands Ranch branch for \$2,265,155. Additionally, the District disposed of furniture and shelving and replaced network servers and security system components with a net book value of \$58,566.

The District recorded depreciation expense of \$5,252,951 for the year ended December 31, 2018, of which \$2,622,736 is attributable to the District's archives and collections and the remainder being primarily attributable to the newly capitalized facilities, due to the age of the District's other facilities.

Capital asset activity for the year ended December 31, 2018:

	<b>Balance</b>			<b>Balance</b>
	<b>12/31/2017</b>	<b>Additions</b>	<b>Deductions</b>	<b>12/31/2018</b>
<b>Capital assets not being depreciated:</b>				
Land	\$ 6,551,798	\$ —	\$ —	\$ 6,551,798
Construction in progress	171,951	2,265,155	(83,217)	2,353,889
Artwork	203,385	—	(1,000)	202,385
<b>Total capital assets not being depreciated</b>	<b>6,927,134</b>	<b>2,265,155</b>	<b>(84,217)</b>	<b>9,108,072</b>
<b>Capital assets being depreciated:</b>				
Buildings	43,377,861	—	—	43,377,861
Building improvements	1,027,377	102,394	(48,619)	1,081,152
Computers	3,819,915	213,534	(654,684)	3,378,765
Shelving	1,547,290	14,257	(169,604)	1,391,943
Furniture	1,732,407	93,924	(116,794)	1,709,537
Equipment and machinery	2,940,059	103,055	(14,638)	3,028,476
Library materials	8,372,295	2,277,127	(2,854,415)	7,795,007
<b>Total capital assets being depreciated</b>	<b>62,817,204</b>	<b>2,804,291</b>	<b>(3,858,754)</b>	<b>61,762,741</b>
<b>Accumulated depreciation:</b>				
Buildings	(8,391,413)	(1,421,990)	—	(9,813,403)
Building improvements	(352,338)	(61,139)	37,528	(375,949)
Computers	(2,053,781)	(651,476)	620,139	(2,085,118)
Shelving	(474,821)	(123,589)	161,842	(436,568)
Furniture	(504,723)	(152,876)	112,760	(544,839)
Equipment and machinery	(2,184,472)	(219,145)	14,504	(2,389,113)
Archives and collections	(1,668,640)	(2,622,736)	2,854,415	(1,436,961)
<b>Total accumulated depreciation</b>	<b>(15,630,188)</b>	<b>(5,252,951)</b>	<b>3,801,188</b>	<b>(17,081,951)</b>
<b>Total capital assets being depreciated, net</b>	<b>47,187,016</b>	<b>(2,448,660)</b>	<b>(57,566)</b>	<b>44,680,790</b>
<b>Governmental activities capital assets, net</b>	<b>\$54,114,150</b>	<b>\$ (183,505)</b>	<b>\$ (141,783)</b>	<b>\$ 53,788,862</b>

## 5. Commitments

### Operating Lease Commitments

The District leases library facilities and equipment under operating leases. Total costs for such leases were \$154,248 for the year ended December 31, 2018. The future minimum payments for these leases are shown on the following page:

<b>Year Ended December 31,</b>	
2019	\$169,484
2020	147,939
2021	46,522
2022	31,617
<b>Total</b>	<b>\$395,562</b>

### Construction Commitments

As of December 31, 2018, the District has commitments totaling \$4,179,439 which are the remaining contractual obligations pertaining to the Highlands Ranch branch remodel.

### 6. Long-Term Debt

In 2015, the District issued \$20,655,000 in Certificates of Participation (2015 CoPs) to partially fund the construction of three new libraries. The 2015 CoPs carry an average coupon rate of 2.545 percent. Interest payments are due semi-annually in June and December. Principal payments are due annually in December, through 2030.

Annual debt service requirements are as follows as of December 31, 2018:

<b>Year Ended December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$1,225,000	\$787,300	\$2,012,300
2020	1,250,000	762,800	2,012,800
2021	1,270,000	743,425	2,013,425
2022	1,320,000	692,625	2,012,625
2023	1,385,000	626,625	2,011,625
2024 - 2028	8,025,000	2,023,125	10,048,125
2029 - 2030	3,805,000	219,500	4,024,500
	<b>\$18,280,000</b>	<b>\$5,855,400</b>	<b>\$24,135,400</b>

### Changes in Long-Term Debt

Changes in the District's long-term obligations consisted of the items on the following page for the year ended December 31, 2018:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>1/1/2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>12/31/2018</b>	<b>One Year</b>
<b>Governmental Activities:</b>					
Compensated absences	\$ 1,011,768	\$ 715,585	\$ 693,869	\$ 1,033,484	\$ 626,000
2015 Certificates of Participation	19,480,000	—	1,200,000	18,280,000	1,225,000
2015 Premium	2,221,809	—	208,462	2,013,347	223,787
<b>Total</b>	<b>\$22,713,577</b>	<b>\$ 715,585</b>	<b>\$2,102,331</b>	<b>\$21,326,831</b>	<b>\$2,074,787</b>

The general fund is used to liquidate compensated absences.

## 7. Employee Retirement Plans

### Defined Benefit Pension Plan

*Plan description.* Eligible employees of the District are provided with pension benefits through LGDTF, a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51, of the CRS, administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado state law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Benefits provided.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at CRS § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.50 percent and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.50 percent and then multiplied by years of service credit.

- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases, the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers, waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit have been obtained, and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the CRS. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007, and all benefit recipients of the DPS benefit structure receive an annual increase of two percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of two percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of two percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the LGDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

*Contributions.* Eligible employees of the District are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under CRS § 24-51-401, et seq. Eligible employees are required to contribute 8 percent of their PERA-includable salary.

The employer contribution requirements are summarized in the table below:

	Rate
Employer Contribution Rate <sup>1</sup>	10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in CRS § 24-51-208(1)(f) <sup>1</sup>	(1.02)%
Amount Apportioned to the LGDTF <sup>1</sup>	8.98%
Amortization Equalization Disbursement (AED) as specified in CRS § 24-51-4111	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in CRS § 24-51-4111	1.50%
<b>Total Employer Contribution Rate to the LGDTF<sup>1</sup></b>	<b>12.68%</b>
<sup>1</sup> Rates are expressed as a percentage of salary as defined in CRS § 24-51-101(42).	

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the District were \$1,433,907 for the year ended December 31, 2018.

#### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2018, the District reported a liability of \$20,082,094 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The District's proportion of the net pension liability was based on District contributions to the LGDTF for the calendar year 2017 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2017, the District's proportion was 1.803 percent, which was a decrease of 0.042 percent from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the District recognized pension expense of \$3,339,149 and reported pension related deferred outflows of resources and deferred inflows of resources as shown on the following page:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 1,256,315	\$ —
Changes of assumptions or other inputs	212,143	—
Net difference between projected and actual earnings on pension plan investments	—	3,903,476
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	145,251
Contributions subsequent to the measurement date	1,433,907	—
<b>Total</b>	<b><u>\$ 2,902,365</u></b>	<b><u>\$ 4,048,727</u></b>

Contributions subsequent to the measurement date of \$1,433,907 and reported as deferred outflows of resources related to pensions will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31,</b>	
2019	\$ 771,548
2020	(520,045)
2021	(1,418,984)
2022	(1,412,788)
	<b><u>\$ (2,580,269)</u></b>

*Actuarial assumptions.* The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions and other inputs:

<b>Actuarial Cost Method</b>	<b>Entry Age</b>
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50-10.45%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07, and DPS benefit structure (automatic)	2.00%
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the AIR

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the LGDTE, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the table on the following page:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10-Year Expected Geometric Real Rate of Return</b>
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
<b>Total</b>	<b>100.00%</b>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cash method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 100 percent, at which point the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions included reductions for funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e. the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e. the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments are estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and, therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The table below presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Proportionate share of the net pension liability	\$ 31,984,265	\$ 20,082,094	\$ 10,159,924

*Pension plan fiduciary net position.* Detailed information about the LGDTF's fiduciary net position is available in PERA's comprehensive annual financial report, which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

### **Other Post Employment Benefits**

#### **Health Care Trust Fund**

*Plan description.* Eligible employees of the District are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the CRS, as amended. Colorado state law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the CRS, as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado state law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Benefits provided.* The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans; however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the DPS Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

CRS § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll in the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

*PERA Benefit Structure.* The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, CRS § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the CRS, as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the District were \$115,346 for the year ended December 31, 2018.

#### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At December 31, 2018, the District reported a liability of \$1,821,389 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2017. The District's proportion of the net OPEB liability was based on the District contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the District's proportion was 0.140 percent, which was a decrease of 0.002 percent from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the District recognized OPEB expense of \$139,015. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 8,614	\$ —
Changes of assumptions or other inputs	—	—
Net difference between projected and actual earnings on pension plan investments	—	30,471
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	16,269
Contributions subsequent to the measurement date	115,346	—
	<u>\$ 123,960</u>	<u>\$ 46,740</u>

The District reported \$115,346 as deferred outflows of resources related to OPEB, which resulted from contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended December 31,</b>	
2019	\$ (9,122)
2020	(9,122)
2021	(9,122)
2022	(9,122)
2023	(1,638)
	<u>\$ (38,126)</u>

*Actuarial assumptions.* The total OPEB liability in the December 31, 2016, actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	

Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to more closely reflect actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.

- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees who qualify for the “No Part A Subsidy” but have not reached age 65 were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to more closely reflect actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
<b>Total</b>	<b>100.00%</b>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

*Sensitivity of the District's proportionate share of the net OPEB liability to changes in the health care cost trend rates.* The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<b>1% Decrease in Trend Rates</b>	<b>Current Trend Rates</b>	<b>1% Increase in Trend Rates</b>
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB liability	\$ 1,771,275	\$ 1,821,389	\$ 1,881,747

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate; therefore, the discount rate is 7.25 percent.

*Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Proportionate share of the net OPEB liability	\$ 2,047,814	\$ 1,821,389	\$ 1,628,129

*OPEB plan fiduciary net position.* Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report, which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

## 8. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources or revenue until that time.

At December 31, 2018, the District has recorded a deferred inflow for property tax revenues to be levied and collected in 2019 of \$25,676,853. Accordingly, the District has presented these unavailable revenues as a deferred inflow of resources in the balance sheet – governmental fund/statement of net position as prescribed under Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65).

Additionally, at December 31, 2018, the District has recorded a deferred inflow for pension and OPEB-related liabilities of \$4,048,727 and \$46,740, respectively. Accordingly, the District has presented these unavailable revenues as a deferred inflow of resources in the balance sheet – governmental fund/statement of net position as prescribed under GASB 68 and GASB 75.

## 9. Fund Balance/Net Position

The District reports fund balance and net position in accordance with GASB 54. This statement redefines the elements of fund balance in governmental funds and more clearly describes the different types of governmental funds.

Amounts reported as nonspendable fund balance at December 31, 2018, include prepaids of \$602,043 considered nonspendable in form and \$17,949 of security deposits required under the provisions of an easement and a lease.

At December 31, 2018, the District reported restricted fund balance of \$880,158, which is the emergency reserve as required by Article X, Section 20, of the Colorado Constitution.

The District reported committed fund balance at December 31, 2018, of \$4,179,439, which are contractual obligations pertaining to the Highlands Ranch branch remodel.

Assigned fund balance at December 31, 2018, includes \$3,500,000, which is pursuant to the District's reserve policy to establish reserves to cover first-quarter obligations prior to receipt of property tax revenues, contingencies, and insurance deductibles.

Net position as reported at December 31, 2018, includes a net investment in capital assets of \$33,495,515. This amount represents the District's investment in capital assets of \$53,788,862, net of the District's remaining obligation under the 2015 CoPs at December 31, 2018, of \$20,293,347, which is net of unamortized premium of \$2,013,347.

## 10. Change in Accounting Principle - Restatement of Beginning Net Position

As of January 1, 2018, the District adopted GASB 75. The implementation of this standard replaces the requirements of GASB 45 and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to adopt the provisions of GASB 75 to report the beginning net OPEB liability and deferred inflows and outflows of resources related to contributions made after the measurement date as follows:

	Governmental Activities
Net Position at December 31, 2017, as previously reported	\$ 31,255,575
Deferred outflows of resources (OPEB)/OPEB expense	116,056
Net OPEB Liability/OPEB expense	(1,836,557)
Net position, January 1, 2018, as restated	\$ 29,535,074

## 11. Risk Management

The District 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 District carries commercial and workers' compensation insurance. Settled claims have not exceeded coverage in the past three fiscal years.

## 12. 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 District 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 district that holds a vote pursuant to statute to obtain such voter approval.

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**Required Supplementary  
Information**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**For the Year Ended December 31, 2018**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Operating</b>				
Salaries and benefits	\$ 15,692,416	\$ 15,692,416	\$ 15,329,173	\$ 363,243
Library materials	3,610,500	3,610,500	3,637,645	(27,145)
Facilities	1,446,366	1,446,366	1,584,348	(137,982)
Technology and support services	1,579,221	1,579,221	1,277,527	301,694
Programs and outreach	782,483	783,683	696,395	87,288
Administration	1,448,695	1,544,043	1,402,729	141,314
<b>Capital Outlay</b>	4,790,900	4,694,352	2,853,711	1,840,641
<b>Debt Service</b>	2,011,300	2,011,300	2,011,300	—
<b>Total Expenses</b>	<u>31,361,881</u>	<u>31,361,881</u>	<u>28,792,828</u>	<u>2,569,053</u>
<b>Program Revenues</b>				
Operating contributions and grants	326,066	326,066	367,555	41,489
Charges for services	941,767	941,767	697,870	(243,897)
<b>Total Program Revenues</b>	<u>1,267,833</u>	<u>1,267,833</u>	<u>1,065,425</u>	<u>(202,408)</u>
<b>Net Program Expenses</b>	<u>30,094,048</u>	<u>30,094,048</u>	<u>27,727,403</u>	<u>2,366,645</u>
<b>General Revenues</b>				
Property taxes	25,488,713	25,488,713	25,394,616	(94,097)
Auto ownership taxes	2,895,200	2,895,200	2,693,552	(201,648)
Investment earnings	300,000	300,000	552,552	252,552
<b>Total General Revenues</b>	<u>28,683,913</u>	<u>28,683,913</u>	<u>28,640,720</u>	<u>(43,193)</u>
<b>Other Financing Sources</b>				
Lease income, net	215,073	215,073	262,934	47,861
<b>Total Other Financing Sources</b>	<u>215,073</u>	<u>215,073</u>	<u>262,934</u>	<u>47,861</u>
<b>Net Change in Fund Balance</b>	(1,195,062)	(1,195,062)	1,176,251	2,371,313
<b>Fund Balance, Beginning of Year</b>	<u>17,811,919</u>	<u>17,811,919</u>	<u>17,811,919</u>	<u>—</u>
<b>Fund Balance, End of Year</b>	<u>\$ 16,616,857</u>	<u>\$ 16,616,857</u>	<u>\$ 18,988,170</u>	<u>\$ 2,371,313</u>

See Note 1 to the Required Supplementary Information.

See the accompanying independent auditor's report.

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**For the Years Ended December 31,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion (percentage) of the collective net pension liability (asset)	1.80%	1.85%	1.76%	1.76%
District's proportionate share of the collective pension liability (asset)	\$20,082,094	\$24,917,735	\$19,433,036	\$15,770,396
Covered payroll	11,800,629	11,184,779	10,018,742	9,641,175
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	170.18%	222.78%	193.97%	163.57%
Plan fiduciary net pension as a percentage of the total pension liability	79.37%	73.60%	76.90%	62.80%

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**For the Years Ended December 31,**

	<u>2018</u>	<u>2017</u>
District's proportion (percentage) of the collective net OPEB liability (asset)	0.14%	0.14%
District's proportionate share of the collective OPEB liability (asset)	\$ 1,821,389	\$ 1,836,557
Covered payroll	11,800,629	11,184,779
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	15.43%	16.42%
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%	

See Note 2 to the Required Supplementary Information.

See the accompanying independent auditor's report.

**SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
TO THE PENSION PLAN  
For the Years Ended December 31,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,433,907	\$ 1,496,320	\$ 1,364,600	\$ 1,270,376
Contributions in relation to the statutorily required contribution	<u>1,433,907</u>	<u>1,496,320</u>	<u>1,364,600</u>	<u>1,270,376</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	11,308,418	11,800,629	11,184,779	10,018,742
Contribution as a percentage of covered payroll	12.68%	12.68%	12.20%	12.68%

**SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
TO OPEB  
For the Years Ended December 31,**

	<u>2018</u>	<u>2017</u>
Statutorily required contributions	\$ 115,346	\$ 116,056
Contributions in relation to the statutorily required contribution	<u>115,346</u>	<u>116,056</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	11,308,418	11,800,629
Contribution as a percentage of covered payroll	1.02%	0.98%

See Note 2 to the Required Supplementary Information.

See the accompanying independent auditor's report.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2018**

**1. Stewardship, Compliance, and Accountability**

The District's Board of Trustees holds a public hearing in the fall each year to approve the budget for the general fund and appropriate the funds for the ensuing year. Expenditures may not legally exceed amounts appropriated by fund. Any change in the budget for a particular fund requires approval by the Board of Trustees. Management is authorized to make transfers between line items within a fund.

This budgetary comparison schedule is presented on a basis in conformity with generally accepted accounting principles (GAAP).

**2. Pension and OPEB Related Disclosures**

GASB 68, adopted during fiscal year 2015, and GASB 75, implemented during fiscal year 2018, require disclosure of the District's proportionate share of the net pension liability at the measurement date and contributions to the pension plan for the previous 10-year period. Until a full 10-year trend is compiled, the District is presenting information for those years for which information is available.

**Supplementary  
Information**

**SUMMARY OF REVENUES, EXPENDITURES, AND CHANGE  
IN FUND BALANCE - GENERAL FUND  
For the Years Ended December 31,  
(Unaudited)**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Expenditures</b>					
<b>Current</b>					
<b>Operating</b>					
Salaries and benefits	\$ 12,926,791	\$ 13,833,369	\$ 14,480,344	\$ 15,131,960	\$ 15,329,173
Library materials	3,459,743	3,554,623	3,409,934	3,495,573	3,637,645
Facilities	956,142	1,130,874	1,273,154	1,492,179	1,584,348
Technology and support services	1,120,576	1,071,145	1,388,763	1,346,219	1,277,527
Programs and outreach	579,760	617,049	802,159	858,872	696,395
Administration	1,067,171	1,053,381	1,428,235	1,202,971	1,402,729
<b>Capital Outlay</b>	1,465,108	14,178,941	20,690,256	4,040,637	2,853,711
<b>Debt Service</b>	—	74,205	834,800	2,009,800	2,011,300
<b>Total Expenses</b>	<b>21,575,291</b>	<b>35,513,587</b>	<b>44,307,645</b>	<b>29,578,211</b>	<b>28,792,828</b>
<b>Program Revenues</b>					
Operating contributions and grants	853,922	409,377	363,037	321,972	367,555
Charges for services	581,959	633,202	590,134	897,226	697,870
<b>Total Program Revenues</b>	<b>1,435,881</b>	<b>1,042,579</b>	<b>953,171</b>	<b>1,219,198</b>	<b>1,065,425</b>
<b>Net Program Expenses</b>	<b>(20,139,410)</b>	<b>(34,471,008)</b>	<b>(43,354,474)</b>	<b>(28,359,013)</b>	<b>(27,727,403)</b>
<b>General Revenues</b>					
Property taxes	18,670,817	19,151,234	22,436,808	22,807,820	25,394,616
Auto ownership taxes	1,695,121	1,853,168	2,075,618	2,505,786	2,693,552
Investment earnings	174,515	195,064	277,689	270,315	552,552
<b>Total General Revenues</b>	<b>20,540,453</b>	<b>21,199,466</b>	<b>24,790,115</b>	<b>25,583,921</b>	<b>28,640,720</b>
<b>Other Financing Sources</b>					
Lease income, net	—	—	—	146,842	262,934
Proceeds from lease purchase financing, net	—	23,005,269	—	—	—
Proceeds from sale of capital assets	—	—	3,600,200	—	—
<b>Total Other Financing Sources</b>	<b>—</b>	<b>23,005,269</b>	<b>3,600,200</b>	<b>146,842</b>	<b>262,934</b>
<b>Net Change in Fund Balance</b>	<b>401,043</b>	<b>9,733,727</b>	<b>(14,964,159)</b>	<b>(2,628,250)</b>	<b>1,176,251</b>
<b>Fund Balance, Beginning of Year</b>	<b>25,269,558</b>	<b>25,670,601</b>	<b>35,404,328</b>	<b>20,440,169</b>	<b>17,811,919</b>
<b>Fund Balance, End of Year</b>	<b>\$ 25,670,601</b>	<b>\$ 35,404,328</b>	<b>\$ 20,440,169</b>	<b>\$ 17,811,919</b>	<b>\$ 18,988,170</b>

## HISTORY OF ASSESSED VALUATIONS (Unaudited)

Levy / Collection Year	Assessed Valuation	Percent Change	Statutory "Actual" Value
2013/2014	\$4,685,095,079	3.00%	\$40,752,191,474
2014/2015	4,776,804,579	1.96%	41,706,831,768
2015/2016	5,587,841,999	16.98%	49,748,694,494
2016/2017	5,686,174,292	1.76%	50,989,716,383
2017/2018	6,338,899,010	11.48%	60,820,530,833
2018/2019	6,438,835,604	1.58%	62,315,982,391

## HISTORY OF MILL LEVIES (Unaudited)

Levy / Collection Year	General Fund	Special Abatement	Total Levy
2013/2014	4.000	0.029	4.029
2014/2015	4.000	0.032	4.032
2015/2016	4.000	0.035	4.035
2016/2017	4.000	0.016	4.016
2017/2018	4.000	0.021	4.021
2018/2019	4.000	0.008	4.008

## PROPERTY TAX COLLECTIONS (Unaudited)

Levy / Collection Year	Taxes Levied	Current Tax Collections	Collection Rate
2012/2013	\$ 18,500,642	\$ 18,298,676	98.91%
2013/2014	18,876,248	18,703,548	99.09%
2014/2015	19,260,076	19,209,461	99.74%
2015/2016	22,546,942	22,441,945	99.53%
2016/2017	22,835,676	22,836,855	100.01%
2017/2018	25,488,713	25,488,019	100.00%

## Our Reach

**1.7 million** Annual visitors (DCL is the fifth most visited cultural attraction in the Denver area, according to Denver Business Journal.)

**462,000** Website visits in 2017

**3.4** More items circulated per capita than the next nearest Colorado library

**72,000** Unique visits to our website each month

**\$926,261** The value of 39,315 hours contributed by 1,626 volunteers 2017

**43,584** eNewsletter subscribers

**155,000** Cardholders

**7,580** Facebook fans

**3,663** Twitter followers

**330** Staff members



## Our Impact

**75%+** Douglas County households including at least one DCL cardholder

**70%** Cardholders who checked out at least one item in 2017

**30%** Physical items checked out and in patrons' homes at any given time

**11** Times each physical picture book in our collection is checked out each year

**6** Times the entire physical juvenile nonfiction collection is checked out each year

**11,796** Adults attending 480 events and activities in 2017

**1,591** Teens attending 153 events and activities in 2017

**130,734** People attending 4,005 Storytimes

**41,853** People attending 972 non-Storytime events and activities for children



## Our Materials

**7 million** Items we circulate each year

**634,000** Physical items in our collections

**212,000** Physical adult nonfiction cooking, travel and self-improvement items checked out in 2017

**512,000** Children's DVDs checked out in 2017

**700,000** Picture books checked out in 2017



**70%** Portion of circulation attributed to books, audiobooks and periodicals

**36,000** Music tracks patrons downloaded from Freegal and Hoopla in 2017

**40%** Growth in OverDrive audiobook circulation from 2016 to 2017

**30%** Portion of circulation attributed to movies, music and games

**14%** Physical adult nonfiction circulation represented by new titles

**30** Times a popular mystery or thriller may be checked out in a year

**38%** Physical adult fiction circulation represented by new titles



Douglas County Libraries elevates our community by inspiring  
**a love of reading, discovery & connection.**

# Our Leadership

**Bob Pasicznyuk**  
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**Patti Owen-DeLay**  
Executive Administrator  
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303-688-7656

# Our Board of Trustees

**Sean Duffy**  
President  
District III, Term Expires 12/20

**John Beckwith**  
At Large, Term Expires 1/19

**Ron Cole**  
District II, Term Expires 12/21

**Lawrence Falter**  
District II, Term Expires 12/19

**Bob Morris**  
District I, Term Expires 1/20

**Meghann Silverthorn**  
District I, Term Expires 12/21

**Louise Wood**  
District III, Term Expires 12/21



**Douglas County Libraries** operates as an independent tax district, established by voters in 1990, and funded by a designated mill levy.



## Our Seven Locations

- **Castle Rock, Philip S Miller**  
Public Library & Library Administration  
100 S Wilcox St  
Castle Rock, CO 80104
- **Castle Pines**  
360 Village Square Lane  
Castle Pines, CO 80108
- **Highlands Ranch, James H. LaRue**  
9292 S Ridgeline Blvd  
Highlands Ranch, CO 80129
- **Lone Tree**  
10055 Library Way  
Lone Tree, CO 80124
- **Louviers**  
7885 Louviers Blvd  
Louviers, CO 80131
- **Parker**  
20105 E Mainstreet  
Parker, CO 80138
- **Roxborough**  
8357 N Rampart Range Rd, #200  
Littleton, CO 80125