




Douglas County Libraries 

2019 ANNUAL REPORT

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Douglas County Libraries 
FINANCIAL STATEMENTS
DECEMBER 31, 2019





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, 2019, 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, 2019, 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.

Other Matters

Required Supplementary Information

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

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.

Eide Bailly LLP

Denver, Colorado
March 20, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

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

Douglas County Libraries (“the District”) was established in November 1990 by resolution of the Board of County Commissioners of Douglas County, pursuant to a vote by the electors of Douglas County in favor of establishing a library district with the authority for a mill levy on real and personal property in Douglas County for the establishment, operation and maintenance of the District. The District includes all property within the boundaries of Douglas County, Colorado.

In order to achieve its vision, Douglas County Libraries provides the following services to all residents of Douglas County:



DESCRIPTION OF SERVICES

Douglas County Libraries serves a population of approximately 358,000 Douglas County residents at libraries in Castle Pines, Castle Rock, Highlands Ranch, Lone Tree, Louviers, Parker, Roxborough, and online at DCL.org. Services may be divided into the following broad categories:

Circulation

Circulation consists of the provision of books, e-books, periodicals, audio, videos and other library content for lending use to the public. More than 5 million physical items circulate annually. In 2020, we surpassed the 1 million mark for digital lending. We continue to be in the top four libraries in the state of Colorado. Our convenient holds service accounts for approximately 14.7% of Douglas County Libraries' annual circulation of physical materials.

Online Services

Virtual services continue to grow in breadth and use. Annually, we enjoy 2 million visits to our website, and 2.2 million visits to our catalog. Downloadable materials now make up 18% of total circulation, including music, books and audiobooks. We offer self-paced online learning programs on languages and computer software, real-time homework and resume help, plus access to full-text magazine and journal articles for students of all ages.

Community Gathering Space

The library serves as a key community gathering place. We are open more than 20,000 hours per year and welcome nearly 1.7 million visitors annually at our seven locations. Our public computers and wireless access offer a comfortable environment in which to work, study, stay up with current events, or keep in touch with friends. Civic groups, nonprofits and organizations of all kinds used our popular meeting rooms 6,770 times in 2019. Most of our libraries offer small meeting rooms that double as office space, tutoring classrooms, or just a quiet place to contemplate or meet friends.

Reader's Advisory Services

Douglas County Libraries places a strong emphasis on encouraging lifelong reading habits. Staff members train and focus on making book recommendations for people of all ages. Our staff collaborates with customers to determine their likes and dislikes and recommend good reads. Through conversation, displays, events and promotion of reading, Douglas County book lovers are introduced to new authors and experiences. Many staff have advanced skills in recommending suitable reading level materials for young people. From picture books to early readers, to research and recreational reading, staff recommend the appropriate books to advance and challenge young readers. The library also hosts a number of book clubs for readers to critically explore stories and discuss their meanings in their lives.





Storytime

We offered nearly 4,900 children's events that reached more than 169,000 attendees in 2019. Storytime attendance alone accounted for 136,153 attendees. Staff trained in preparing children to read emphasize narrative, vocabulary, rhyming and song in a fun and interactive environment that enlivens minds and introduces young people and their caregivers to the joy of reading. The early literacy skills that children learn in Storytime help them translate words to images, develop their brains, and nurture the cognitive, emotional and social skills they need to develop the habits of lifelong learners. We extend this program beyond the library locations with library outreach, Senior Reads and our Book Start program, in which staff and volunteers read and tell stories at child and adult day care centers and schools in Douglas County. Our Cuddle Up & Read program encourages parents of new babies to get baby a library card and begin reading together from day one.

Reference Services

Our staff members provide informational and research assistance to thousands of customers each year. Through in-person interviews, phone requests, instant messaging, email and community interviews, staff respond to requests for information in a timely fashion with well-researched answers. Our collection of current and in-depth reference materials supplements staff efforts and supports the community's interest in pursuing answers on their own. Our DCL for Business program offers dedicated staff and resources trained to support the needs of entrepreneurs and small businesses with timely market analysis, in-depth research, and business startup plans.



Events and Activities

Library events address a variety of interests and are designed to meet the needs of all age groups. Our Summer Reading Program reached more than 14,000 participants in 2019. In addition to Storytimes, children's events employ a wide variety of techniques and activities to allow young children to explore new ideas and develop advanced skills. From pairing teens with struggling young readers, to group reading comprehension competitions, to fun hands-on science experiments, young people have many opportunities to advance their skills in a safe environment. Teen events engage young people in creative activities, such as writing, photography, games and cosplay. Adults benefit from events that highlight adult literacy, High School Equivalency (HSE) and English as a Second Language (ESL), local economic development and current affairs, and technology literacy. Job seekers benefit from events designed to improve their skills. Author events give patrons the opportunity to mingle with writers, celebrate reading, and hear authors read from their latest works.



Community Engagement

Douglas County Libraries strives to create connections throughout our community to help it continue to thrive. We deliver engaging events, offer hospitality services and meeting spaces, build strong civic, community and business partnerships, and provide meaningful community outreach. Our school liaisons stay in regular communication with schools in our communities. As we build partnerships with each school, we promote library services and programs. School liaisons play a crucial role, increasing the library's visibility and usefulness for teachers and children.



Library Content

Our process for selecting materials for our collections is three-pronged, and includes centralized collection development, input from staff, and use of materials requests by customers. Online materials requests allow community-driven purchases and borrowing from other libraries. We received 7,243 customer materials requests in 2019. Of those, 29% were fulfilled by interlibrary loan and 38% led to DCL purchases. Throughout 2019, via Prospector, we loaned 15,835 items, while our customers borrowed 43,676 items.

DCL Archives & Local History

This entity collects and preserves the history of Douglas County in order to provide historical research resources to the public, through reference assistance and events in the library, in schools and for historical societies. Archivists connect with customers in the library, and through outreach, a robust website, and social media.



Volunteers

Volunteers numbered 1,716 in 2019, and combined to contribute 36,823 hours to support activities and operations in the library. Opportunities to work with adult learners, help with book sales, shelving, reading to children and seniors, and preservation of local history make our volunteer services a vibrant program that also provides job skills, personal growth and community involvement.



In order to deliver on its vision, the District operates seven library facilities, comprising 177,000 square feet, throughout Douglas County. In 2019, the District employed a workforce of 240 full-time equivalent persons, who were complemented by approximately 1,716 volunteers who provided 36,823 hours of service at no cost to the District or Douglas County. The District dedicates 87% of its employees, plus all volunteer service, to conducting library operations at its seven branches and providing community relations services. The District allocates 6% of its employees to operating and maintaining its facilities and information technology infrastructure. The remaining 7% of the District's employees are dedicated to providing district-wide support services including executive management, human resource management, and financial management.

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.

In 2018, the District completed the refurbishment of its Roxborough facility, completed the planning phase for a \$6.5 million renovation of its Highlands Ranch facility and began construction on this renovation in the fourth quarter of 2018, and began planning efforts for the renovation of the District's Castle Rock facility. In 2019, the District completed the renovation of its Highlands Ranch facility, completed an initial cost and feasibility study for the renovation of the District's Castle Rock facility, and continued planning efforts for the District's Castle Rock facility, focused primarily on identifying and assessing alternatives for the renovation or replacement of the Castle Rock facility.

The District's financial results for the year ended December 31, 2019, reflect the impact of the following activities:

- Construction costs of \$3.977 million for completion of the renovation of the Highlands Ranch facility. In total, the District expended \$6.312 million for the renovation of the Highlands Ranch facility, completing the project at a savings of \$0.182 million (2.8%).
 - Professional fees of \$0.20 million to complete an initial cost and feasibility study for the refurbishment of the Castle Rock facility.
 - Maintenance of approximately 177,000 square feet of library facilities, and employment of 240 full-time equivalents (FTEs) to operate the District's seven library facilities and provide district-wide support services.
 - Payment of principal and interest obligations totaling \$2.012 million on the District's 2015 Certificates of Participation (2015 CoPs).
- The District's ongoing commitment to the goals enumerated in its facilities master plan, and the financial commitments related thereto, have made it essential to distinguish the results of normal recurring operating activities vs. the financial impact of non-operating transactions such as capital outlays for facility improvements, lease income, and disposals of capital assets. Accordingly, the comparison of year-over-year results in this Discussion and Analysis 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 library operations and routine maintenance of District 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 normal 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 methods of accounting, as required by Government Accounting Standards:

Governmental Fund Financial Statements;
Government Activities Financial Statements.

An analysis of the District’s financial position, and its results of operations, under each of these two methods of accounting is presented below, including the distinctions between the two methods.

Governmental Fund Financial Statements

These statements are presented on the modified accrual basis of accounting. Under this basis of accounting, transactions are generally recorded when cash is received or expenses are paid. Accordingly, funds received through financing activities are recorded as revenues in the period received, expenditures for capital assets are reported as an expense in the period expended, 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

	2019	2018
Program Expenditures		
Operating	\$ 20,330,389	\$ 20,096,798
Pension expense	1,609,972	1,438,549
OPEB Expense	—	115,346
Capital outlay - maintenance	2,319,326	2,817,427
Interest and principal payments	2,012,300	2,011,300
Total Program Expenditures	<u>26,271,987</u>	<u>26,479,420</u>
Program Revenues		
Operating contributions and grants	400,796	367,555
Charges for services	689,313	697,870
Total Program Revenues	<u>1,090,109</u>	<u>1,065,425</u>
Net Program Expenditures	<u>25,181,878</u>	<u>25,413,995</u>
General Revenues		
Property taxes	25,757,166	25,394,616
Auto ownership taxes	2,512,679	2,693,552
Investment earnings	548,596	552,552
Total General Revenues	<u>28,818,441</u>	<u>28,640,720</u>
Net Change in Fund Balance - As Adjusted	3,636,563	3,226,725
Capital outlay - improvement	(4,176,831)	(2,313,408)
Lease income, net	191,914	262,934
Net Change in Fund Balance - As Reported	<u>\$ (348,354)</u>	<u>\$ 1,176,251</u>

On an adjusted basis, the net change in fund balance decreased \$1.525 million, from \$1.176 million for the year ended December 31, 2018, to a deficit of (\$0.348) million for the same period in 2019. This decrease is primarily attributable to an increase in capital outlays for improvement of \$1.863 million, offset by a decrease in program expenditures of (\$0.207) million and an increase in general revenues of \$0.178 million.

Net program expenditures decreased (\$0.232) million, from \$25.414 million for the year ended December 31, 2018, to \$25.182 million for the same period in 2019. This decrease is primarily attributable to:

- Benefits and pension expenses decreased (\$0.492) million primarily due to decreased employee health insurance costs. In 2019, the District replaced its self-insured health insurance plan with a fully-insured plan.
- Compensation costs increased \$0.195 million primarily due to \$0.396 million in District-wide salary and wage increases in 2019, offset by (\$0.262) million in savings from open/unfilled positions in 2019. The remaining net increase of \$0.061 million was due to additional costs for new positions plus paid time off payouts to employees who left the District, offset by savings from employees who did not work during the renovation of the Highlands Ranch branch.

- Facility costs increased \$0.226 million due to increases in common area maintenance and insurance charges for the leased office space, fees for outsourced snow removal and housekeeping services, and minor building repairs.
- Technology and Support costs increased \$0.093 million due to telephone equipment purchases and increased software license fees.
- Programs and Outreach costs increased \$0.117 million due to higher program provider fees, and increased costs for program supplies and prizes, and catering services.
- District-wide support costs decreased by (\$0.164) million due primarily to savings in author event fees.
- Overall, the District's maintenance capital expenditures decreased (\$0.205) million. This decrease was due primarily to a decrease in 2019 of (\$0.069) million for furniture, equipment and computer equipment that was acquired in 2018 for the new Community Relations office space, plus a decrease of (\$0.156) million in new computer equipment acquired for the District in 2019, offset by other District-wide increases of \$0.020 million.
- Program revenues increased by \$0.025 million, primarily due to the District having met the terms of restricted grants due from the Douglas County Libraries Foundation in 2019.

General revenues increased \$0.177 million due primarily to increases in property tax revenues of \$0.363 million, and a decrease in auto ownership taxes of (\$0.181) million.

- Douglas County assessed property values increased 1.6 percent, due primarily to growth in the assessed value of real properties.
- Douglas County auto ownership taxes decreased (6.7) percent, in line with auto industry forecasts in late 2018 which projected that auto sales would be flat to declining for the period 2019-2023.
- Investment earnings remained stable at \$0.549 million. The District made a decision in late 2019 to invest the District's excess reserves in a short-term, liquid investments managed by ColoTrust, as the rates for these investments have consistently exceeded the prevailing rates for fixed-term, fixed-rate money market investments managed by the Colorado Statewide Investment Pool (CSIP).

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

- Improvement capital expenditures increased \$1.863 million, from \$2.313 million for the year ended December 31, 2018, to \$4.177 million for the same period in 2019.

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.

Improvement capital spending during 2019 primarily represents construction costs of \$3.977 million for the completion of the remodel of the Highlands Ranch branch in April 2019, plus \$0.200 million for an initial cost study for a renovation of the Castle Rock branch. Overall, the District completed the Highlands Ranch renovation at a savings of \$0.182 million under the budgeted costs for the project.

- During 2019, the District recorded net lease income of \$0.192 million from the retail property adjacent to the Castle Rock branch, a decrease of (\$0.071) million from 2018. The decrease was primarily due to a downward adjustment in tenant reimbursement rates for common area maintenance (CAM) expenses in 2019 to compensate for over-collection of estimated property taxes in 2018.

When including the effects of these transactions, the net change in fund balance on an as-reported basis decreased (\$1.525) million, from \$1.176 million for the year ended December 31, 2018, to a deficit of (\$0.348) million for the same period in 2019.

Governmental Fund Balance Sheet

	2019	2018
Assets		
Cash and investments	\$ 18,995,227	\$ 20,649,986
Property taxes receivable, net of allowance	29,228,336	25,922,850
Restricted cash	—	28,530
Other assets	449,925	653,074
Total assets	<u>\$ 48,673,488</u>	<u>\$ 47,254,440</u>
Liabilities		
Accounts payable	733,631	1,988,579
Other current liabilities	307,217	600,838
Property tax revenue	28,992,824	25,676,853
Total Liabilities	<u>30,033,672</u>	<u>28,266,270</u>
Fund Balance		
Nonspendable Fund	367,536	619,992
Restricted Fund	891,882	880,158
Committed Fund	—	4,179,439
Assigned Fund	3,300,000	3,500,000
Unassigned Fund	14,080,398	9,808,581
Total Fund Balances	<u>18,639,816</u>	<u>18,988,170</u>
Total Liabilities and Fund Balance	<u>\$ 48,673,488</u>	<u>\$ 47,254,440</u>

Cash and investments decreased (\$1.655) million, from \$20.650 million at December 31, 2018, to \$18.995 million in 2019 due primarily to an increase in property tax revenue, driven by a 1.6 percent increase in the assessed value of real property, offset by disbursements for construction costs of \$3.977 million to complete the renovation of the Highlands Ranch branch. Property taxes receivable increased \$3.305 million, from \$25.923 million at December 31, 2018, to \$29.228 million in 2019 due to a 12.4 percent increase in the assessed value of real and personal properties. Other assets decreased (\$0.203) million, from \$0.653 million at December 31, 2018, to \$0.450 million in 2019 due to a decrease in prepaid expenses for property and liability insurance, software licenses, and healthcare costs.

Accounts Payable decreased (\$1.254) million, from \$1.989 million at December 31, 2018, to \$0.734 million in 2019 due primarily to disbursement in early January 2019 of \$1.236 million of funds payable to the District's general contractor for work performed on the renovation of the Highlands Ranch branch as of December 31, 2018. Other current liabilities decreased (\$0.294) million, from \$0.601 million at December 31, 2018, to \$0.307 million in 2019 due primarily to accrued salaries and wages.

Overall, the District's fund balance decreased (\$0.348) million for the year ended December 31, 2019. Changes to the District's specific fund balance accounts for the year ended December 31, 2019, were as follows:

- Nonspendable fund balance, which represents prepaid expenses and security deposits, decreased (\$0.252) million, from \$0.620 million at December 31, 2018, to \$0.368 million at December 31, 2019, due to the decreases noted above in prepaid expenses.
- Restricted fund balance is comprised of emergency reserves as required by Article X, Section 20, of the Colorado Constitution, increased \$0.012 million, from \$0.880 million at December 31, 2018, to \$0.892 million at December 31, 2019. Emergency reserves are calculated as three percent of general revenues, excluding grants.
- Committed fund balance decreased by \$4.179 million, from \$4.179 million at December 31, 2018, to \$0 at December 31, 2019, due to payment of all amounts payable pursuant to existing contracts to renovate and furnish the District's existing branch in Highlands Ranch in 2019.
- Assigned fund balance includes reserves established by the Board of Trustees to fund first-quarter operations due to the timing of property tax receipts, plus reserves to cover insurance deductibles. Assigned fund balance decreased (\$0.200) million, from \$3.500 million at December 31, 2018, to \$3.300 million at December 31, 2019, due to a decrease in estimated costs for capital improvement expenditures in 2020.
- Unassigned fund balance represents amounts available for any purpose, including debt service for the Certificates of Participation and future acquisitions of capital assets.

2019 Budget vs Actual Results

	Original Budget	Final Budget	Actual	Variance
Revenues				
Property taxes	\$ 25,806,853	\$ 25,806,853	\$ 25,757,166	\$ (49,687)
Auto ownership taxes	2,642,516	2,642,516	2,512,679	(129,837)
Charges for services	726,134	726,134	689,313	(36,821)
Contributions and grants	334,571	334,571	400,796	66,225
Investment earnings	389,000	389,000	548,596	159,596
Total Revenues	<u>29,899,074</u>	<u>29,899,074</u>	<u>29,908,550</u>	<u>9,476</u>
Operating Expenditures				
Salaries and benefits	15,407,710	15,407,710	15,018,559	389,151
Library materials	3,677,900	3,677,900	3,669,890	8,010
Facilities	1,684,249	1,691,481	1,810,114	(118,633)
Technology and support services	1,348,936	1,393,936	1,370,079	23,857
Programs and outreach	988,133	988,133	813,191	174,942
District-wide support	1,385,554	1,391,999	1,242,742	149,257
Interest and principal payments	2,012,300	2,012,300	2,012,300	—
Capital expenditures - maintenance	505,930	447,253	335,113	112,140
Total Operating Expenditures	<u>27,010,712</u>	<u>27,010,712</u>	<u>26,271,988</u>	<u>738,724</u>
Excess of Revenues Over (Under) Operating Expenditures	2,888,362	2,888,362	3,636,562	748,200
Non-Operating Revenues (Expenditures)				
Lease income (expenses), net	167,182	167,182	191,914	24,732
Capital expenditures - improvement	(7,096,144)	(7,096,144)	(4,176,830)	2,919,314
Total Non-Operating Revenues (Expenditures), net	<u>(6,928,962)</u>	<u>(6,928,962)</u>	<u>(3,984,916)</u>	<u>2,944,046</u>
Excess of Total Revenues Over (Under) Total Expenditures	<u>\$ (4,040,600)</u>	<u>\$ (4,040,600)</u>	<u>\$ (348,354)</u>	<u>\$ 3,692,246</u>

The District's final 2019 budget anticipated an excess of revenues over operating expenditures of \$2.888 million. Actual 2019 revenues exceeded operating expenditures by \$3.637 million.

Total revenues were slightly over budget primarily due to auto ownership tax receipts being under budget by (\$0.130) million, offset by investment earnings in excess of budget by \$0.160 million.

Total Operating Expenditures were under budget by \$0.739 million, due primarily to the following:

- Compensation and benefits costs were under budget by \$0.389 million due primarily to \$0.290 million in savings from a delay in implementing market-based adjustments in salaries and wages, plus other savings from open (unfilled) positions in the District's library operations and lower healthcare costs due to higher than expected mix of employee-only vs. family coverage.

- Programs and outreach costs were under budget by \$0.175 million due to lower than expected program provider fees and supply costs, plus a revision in the District’s advertising plan.
- District-wide support costs were under budget by \$0.149 million primarily due to reductions in training costs.
- Maintenance costs were under budget by \$0.112 million primarily due to fewer computer equipment upgrades in 2019.
- Facilities costs were over budget by (\$0.119) million due to higher than expected costs for snow removal.

Spending on non-operating expenditures was under budget by \$2.944 million due to the following:

- The Highlands Ranch renovation was under budget by \$1.562 million in 2019 primarily due to faster than expected construction progress in December 2018, which resulted in \$1.510 million of construction expenditures in December 2018 that were originally budgeted for 2019. In addition, design costs of \$1.200 million for the renovation of the Castle Rock branch were not expended in 2019, due to a longer than expected timeframe to complete an initial cost/feasibility study for the renovation project in 2019.
- Lease income from the retail property adjacent to the Castle Rock branch was \$0.025 million over budget due to unbudgeted lease renewals.

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

	2019	2018
Expenses		
Operating	\$ 25,896,328	\$ 25,371,465
Pension expense (benefit)	(2,581,335)	4,777,698
OPEB expense	12,516	139,014
Capital outlay	61,865	144,605
Interest and fees	561,472	600,838
Total Expenses	<u>23,950,846</u>	<u>31,033,620</u>
Program Revenues		
Operating contributions and grants	400,796	367,555
Charges for services	689,313	697,870
Total Program Revenues	<u>1,090,109</u>	<u>1,065,425</u>
Net Program Expenses	<u>(22,860,737)</u>	<u>(29,968,195)</u>
General Revenues		
Property taxes	25,757,166	25,394,616
Auto ownership taxes	2,512,679	2,693,552
Investment earnings	548,596	552,552
Total General Revenues	<u>28,818,441</u>	<u>28,640,720</u>
Change in Net Position - As Adjusted	<u>5,957,704</u>	<u>(1,327,475)</u>
Lease income, net	191,914	262,934
Loss on disposal of capital assets	(97,064)	(58,565)
Change in Net Position - As Reported	<u>\$ 6,052,554</u>	<u>\$ (1,123,106)</u>

As adjusted, which is more representative of normal recurring operations, the change in net position increased \$7.285 million, from a deficit of (\$1.327) million for the year ended December 31, 2018, to \$5.958 million over the same period in 2019. The increase in the change in net position is primarily due to the following:

- Operating expenses increased \$0.525 million, from \$25.371 million at December 31, 2018, to \$25.896 million for the same period in 2019, due to the following increases (decreases):
 - compensation costs of \$0.195 million to bring District compensation rates into parity with the Denver metro market rates;
 - E-Audio content costs of \$0.302 million;
 - facility housekeeping costs of \$0.235 million;
 - technology costs of \$0.090 million due to licensing fees;
 - programs and outreach costs of \$0.112 million for fees and supplies;
 - district-wide support costs of \$0.118 million;
 - benefit costs of (\$ 0.548) million due to savings for employee health insurance through switching from self-insured to fully-insured coverage.

- Pension expense decreased (\$7.359) million, from \$4.778 million at December 31, 2018, to (\$2.581) million for the same period in 2019, due to changes in the District's contributions and actuarial assumptions.
- OPEB expense decreased (\$0.126) million, from \$0.139 million at December 31, 2018, to \$0.013 million for the same period in 2019, due to changes in the District's contributions and actuarial assumptions.
- Capital outlay decreased (\$0.083) million, from \$0.144 million at December 31, 2018, to \$0.062 million for the same period in 2019, due primarily to decreases of (\$0.101) million for computer equipment across the District, offset by increases in artwork of \$0.017 million across the District.
- Interest and fees expense decreased (\$0.039) million, from \$0.601 million at December 31, 2018, to \$0.561 million for the same period in 2019, due to decreases in interest charges and bond amortization on the 2015 CoP's.
- Program revenues increased \$0.025 million, from \$1.065 million at December 31, 2018, to \$1.090 million for the same period in 2019. This increase is primarily attributable to the District having met the terms of restricted grants due from the Douglas County Libraries Foundation in 2019.
- General revenues increased \$0.178 million, from \$28.641 million at December 31, 2018, to \$28.818 million for the same period in 2019. This increase is primarily attributable to increases in property tax revenues of \$0.363 million, offset by decreases in auto ownership taxes of (\$0.181) million. The increase in property tax revenues is primarily attributable to an increase in Douglas County assessed property values.

As reported, the change in net position increased \$7.176 million, from a deficit of (\$1.123) million at December 31, 2018, to \$6.053 million at December 31, 2019. This increase in net position is due to the changes noted above in the adjusted change in net position, plus the following:

- In 2018, the District disposed of furniture and equipment with a net book value of \$0.059 million for items no longer in use. In 2019, the District disposed of furniture and equipment with a net book value of \$0.097 million for items no longer in use.
- During 2018, the District recorded lease income of \$0.263 million from retail space in the newly acquired property adjacent to the Castle Rock branch. During 2019, the District recorded lease income of \$0.191 million from this same retail space.

Statement of Net Position

	2019	2018
Assets		
Current Assets	\$ 48,673,488	\$ 47,254,440
Capital Assets	<u>54,531,366</u>	<u>53,788,862</u>
Total Assets	<u>103,204,854</u>	<u>101,043,302</u>
Deferred Outflows of Resources		
Deferred outflows - pension liability	5,214,721	2,902,365
Deferred outflows - OPEB liability	<u>149,326</u>	<u>123,960</u>
Total Deferred Outflows of Resources	<u>5,364,047</u>	<u>3,026,325</u>
Liabilities		
Current Liabilities	3,216,152	4,729,812
Long-Term Liabilities	<u>41,232,548</u>	<u>41,155,527</u>
Total Liabilities	<u>44,448,700</u>	<u>45,885,339</u>
Deferred Inflows of Resources		
Deferred inflows - pension liability	575,969	4,048,727
Deferred inflows - OPEB liability	86,886	46,740
Property tax revenue	<u>28,992,824</u>	<u>25,676,853</u>
Total Deferred Inflows of Resources	<u>29,655,679</u>	<u>29,772,320</u>
Net Position		
Net investment in capital assets	35,686,806	33,495,515
Restricted Fund	891,882	880,158
Unrestricted	<u>(2,114,166)</u>	<u>(5,963,705)</u>
Total Net Position	<u>\$ 34,464,522</u>	<u>\$ 28,411,968</u>

Assets and Liabilities

Total assets increased \$2.162 million, from \$101.043 million at December 31, 2018, to \$103.205 million at December 31, 2019. The increase in total assets is due primarily to the following:

- Cash and investments decreased (\$1.655) million, from \$20.650 million at December 31, 2018, to \$18.995 million in 2019 primarily due to disbursements for construction costs of \$3.977 million to complete the renovation of the Highlands Ranch branch in 2019.
- Property taxes receivable increased \$3.305 million, from \$25.923 million at December 31, 2018, to \$29.228 million in 2019 due to a 12.4 percent increase in the assessed value of real and personal properties.

- Prepays and other current assets decreased (\$0.252) million, from \$0.620 million at December 31, 2018, to \$0.368 million in 2019 due to an increase in restricted grants due from the Douglas County Libraries Foundation, less decreases for property and liability insurance, software licenses, and healthcare costs.
- Capital assets, net of accumulated depreciation, increased \$0.743 million, from \$53.789 million at December 31, 2018, to \$54.531 million at December 31, 2019. The increase in capital assets in 2019 resulted primarily from \$6.434 million of additions offset by \$5.595 million in depreciation, plus disposals of capital assets with a net book value of \$0.097 million.

Key additions consist of completion of the remodel of the Highlands Ranch library for \$3.997 million, additions to the District's archives and collections of \$1.984 million, and maintenance and upgrades at other District library facilities of \$0.481 million. The District recorded depreciation expense of \$5.595 million for the year ended December 31, 2018, of which \$2.541 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 (\$1.436) million, from \$45.885 million at December 31, 2018, to \$44.449 million at December 31, 2019. The decrease in total liabilities is due primarily to the following:

- Accounts payable decreased (\$1.255) million, from \$1.989 million at December 31, 2018, to \$0.734 million at December 31, 2019, due primarily to disbursement in early January 2019 of \$1.236 million of funds payable to the District's general contractor for work performed on the renovation of the Highlands Ranch branch as of December 31, 2018.
- Certificates of Participation decreased (\$1.449) million, from \$20.293 million at December 31, 2018, to \$18.845 million at December 31, 2019, due to principal paid of \$1.225 million and premium amortization of \$0.224 in 2019.
- Net pension liability increased \$1.594 million, from \$20.082 million at December 31, 2018, to \$21.676 million at December 31, 2019. This change is attributable to changes in the District's contributions and actuarial assumptions.
- Net Other Postemployment Benefits (OPEB) liability decreased (\$0.002) million, from \$1.821 million at December 31, 2018, to \$1.819 million at December 31, 2019. 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 the Public Employees' Retirement Association (PERA), the defined benefit pension plan. See note 6 of the attached financial statements of the District for further information regarding the District's defined benefit pension plan.

- The deferred pension outflows asset increased \$2.312 million, from \$2.902 million at December 31, 2018, to \$5.215 million at December 31, 2019.

- The deferred pension inflows liability decreased \$3.473 million, from \$4.049 million at December 31, 2018, to \$0.576 million at December 31, 2019.

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 \$9.607 million, while a one percent decrease in the discount rate would increase the District's share of the net pension liability by \$11.484 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 Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by PERA, the OPEB defined benefit plan. See note 6 of the attached financial statements of the District for further information regarding the District's OPEB defined benefit plan.

- The deferred OPEB outflows asset increased \$0.025 million from \$0.124 million at December 31, 2018, to \$0.149 million at December 31, 2019.
- The deferred OPEB inflows liability increased \$0.040 million from \$0.047 million at December 31, 2018, to \$0.087 million at December 31, 2019.

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 \$0.185 million, while a one percent decrease in the discount rate would increase the District's share of the net pension liability by \$0.216 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 \$2.191 million, from \$33.496 million at December 31, 2018, to \$35.687 million at December 31, 2019, is due primarily to the 2019 decrease in the remaining principal balance and unamortized premium of the 2015 CoPs, which are an offset to the net investment in capital assets.

Restricted net position reported at December 31, 2018 and 2019, 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, 2019, restricted net position includes emergency reserves of \$0.892 million.

The increase in unrestricted fund balance of \$3.850 million, from a deficit of (\$5.964) million as of December 31, 2018, to a deficit of (\$2.114) million at December 31, 2019, is primarily attributable to expenditures in excess of revenues of (\$1.607) million, plus other non-operating adjustments (reserves, District pension and OPEB assets and liabilities) totaling \$5.456 million.

Factors Affecting Financial Condition

The historical financial statements and the 2019 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 2020 are impacted by revised property valuations, the limitations of the Gallagher amendment, and new construction in 2019. As such, and based on property values certified by the Douglas County Assessor in late 2019, the District has budgeted for an increase in 2020 property tax revenues of 13.1 percent or \$3.365 million.

Operating, Facility Maintenance, and Debt Service Expenditures

The District has adopted a compensation strategy 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, which rates are unchanged from 2018.

The District did not open any new library facilities, or increase the size of any existing library facilities in 2019. The District maintained approximately 176,000 square feet of facilities space, including the Highlands Ranch facility that was renovated in 2019, and employed approximately 243 FTE employees in 2019.

Maximum debt service under the terms of the 2015 CoPs is \$2.000 million. The District made a \$1.225 million principal payment plus interest payments of \$0.787 million in 2019.

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
	2016	2017	2018	2019	2020
Statistics					
Circulation	6,793,987	6,765,069	7,146,363	6,802,062	—
Patron visits	1,932,973	2,109,991	2,059,123	1,695,361	—
Building square footage	176,000	176,000	176,000	176,000	176,000
Full time equivalent employee headcount	251	246	243	238	—
Revenues					
Property and auto ownership taxes	\$ 24,512,426	\$ 25,313,606	\$ 28,088,168	\$ 28,269,845	\$ 31,639,241
Charges for services	590,134	897,226	697,870	689,313	743,150
Contributions and grants	363,037	321,972	367,555	400,796	321,652
Investment earnings	277,689	270,315	552,552	548,596	350,000
Total Revenues	<u>25,743,286</u>	<u>26,803,119</u>	<u>29,706,145</u>	<u>29,908,550</u>	<u>33,054,043</u>
Operating Expenditures					
Salaries and benefits	14,480,344	15,131,960	15,329,173	15,018,559	16,060,636
Library materials	3,409,934	3,495,573	3,637,645	3,669,890	3,889,201
Facilities	1,273,154	1,492,179	1,584,348	1,810,114	1,907,231
Technology and support services	1,388,763	1,346,219	1,277,527	1,370,079	1,593,975
Programs and outreach	802,159	858,872	696,395	813,191	1,016,078
District-wide support	1,428,235	1,202,971	1,402,729	1,242,742	1,533,099
Interest and principal payments	834,800	2,009,800	2,011,300	2,012,300	2,012,800
Capital expenditures - maintenance	1,368,566	1,279,747	540,303	335,113	799,700
Total Operating Expenditures	<u>24,985,955</u>	<u>26,817,321</u>	<u>26,479,420</u>	<u>26,271,988</u>	<u>28,812,720</u>
Excess of Revenues Over (Under) Operating Expenditures	757,331	(14,202)	3,226,725	3,636,562	4,241,323
Non-Operating Revenues (Expenditures)					
Lease income, net	—	146,842	262,934	191,914	146,846
Proceeds from sale of capital assets	3,600,200	—	—	—	—
Capital expenditures - improvement	(19,321,690)	(2,760,890)	(2,313,408)	(4,176,830)	(1,115,255)
Total Non-Operating Revenues (Expenditures), net	<u>(15,721,490)</u>	<u>(2,614,048)</u>	<u>(2,050,474)</u>	<u>(3,984,916)</u>	<u>(968,409)</u>
Excess of Total Revenues Over (Under) Total Expenditures	<u>\$ (14,964,159)</u>	<u>\$ (2,628,250)</u>	<u>\$ 1,176,251</u>	<u>\$ (348,354)</u>	<u>\$ 3,272,914</u>

Despite the impact of the Gallagher amendment on property tax revenues, 2020 budgeted revenues are projected to exceed operating expenditures, interest and principal payments and the costs to maintain the District's facilities by \$3.273 million.

Other highlights of the District's 2020 budget include:

- A 3.00% salary and wage increase;
- A 6.4% increase in health insurance premiums;

- \$1.115 million for capital asset improvements, including additional design work for the renovation of the Castle Rock branch, replacement of material handling equipment for the District, and new computer hardware for the District;
- \$0.800 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, 2019, includes \$4.192 million in accordance with the terms of the District's reserve policy.

At December 31, 2019, the District has \$14.080 million available for future remodel and expansion efforts. Successful execution of the projects and initiatives detailed above and included in the 2020 budget will require the use of \$1.915 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 2019 Economic and Revenue Forecast prepared by the Economics Section of the Colorado Legislative Council Staff forecast that growth rates in the assessed value of properties will moderate somewhat based on expected growth in oil and gas production in the state, and that the residential assessment rate for 2021 may decline from 7.15 percent to 7.13 percent. 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 decreased from 7.20 percent to 7.15 percent for 2020. In order to relieve downward pressure on the residential assessment rate in 2021 and beyond, and lacking any action in the Colorado legislature to change the Gallagher amendment, the Colorado economy will need to remain strong in order to increase the nonresidential tax base. Although assessed values in Douglas County are determined by the unique mix of properties and economic forces specific to Douglas County, downward adjustment of the RAR is indicative of potential continuing downward pressure on residential assessment rates.

Based on historical trends for the District for 2014-2019, and information currently available, the District estimates an increase in property tax revenue of approximately 13.1 percent in 2020 and 2.0 percent in 2021, 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 LGDTF, 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); this increase was waived in 2019 for the Local Government Division of the pension trust fund, of which the District is a member;
- 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 LGDTF 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.

The District has identified two capital improvement needs: a renovation and expansion of the Castle Rock facility, and the eventual 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 the Castle Rock branch and centralize some administrative services and storage facilities. The District's current forecast supports a renovation of the Castle Rock branch by 2024 funded with existing reserves and savings over the 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, future growth in assessed values and property tax revenues, and execution of the renovation of the Castle Rock branch.

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 2018, the Foundation granted \$0.050 million of unrestricted funds, plus \$0.022 million of restricted funds, to the District. The Foundation granted \$0.050 million of unrestricted funds, plus \$0.064 million of restricted funds, to the District for the year ended December 31, 2019.

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 internal 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, 2019



	Primary Government		Statement of Net Position - Governmental Activities	Component Unit
	General - Governmental Fund	Adjustments		Douglas County Libraries Foundation
Assets				
Cash and investments	\$ 18,995,227	\$ —	\$ 18,995,227	\$ 966,550
Property taxes receivable, net of allowance	29,228,336	—	29,228,336	—
Prepays and other assets	367,536	—	367,536	—
Receivable from component unit	78,822	—	78,822	—
Other receivables	3,567	—	3,567	—
Capital assets, net of accumulated depreciation	—	47,514,165	47,514,165	—
Capital assets not being depreciated	—	7,017,201	7,017,201	—
Total Assets	\$ 48,673,488	54,531,366	103,204,854	966,550
Deferred Outflows of Resources				
Deferred outflows - net pension liability	—	5,214,721	5,214,721	—
Deferred outflows - net OPEB liability	—	149,326	149,326	—
Total Deferred Outflows of Resources	—	5,364,047	5,364,047	—
Liabilities				
Accounts payable	733,631	—	733,631	—
Accrued salaries and benefits	307,217	—	307,217	—
Accrued interest payable	—	63,566	63,566	—
Payable to primary government	—	—	—	78,822
Noncurrent liabilities				
Due within one year	—	2,111,738	2,111,738	—
Due in more than one year	—	17,737,522	17,737,522	—
Net pension liability	—	21,675,902	21,675,902	—
Net OPEB liability	—	1,819,124	1,819,124	—
Total Liabilities	1,040,848	43,407,852	44,448,700	78,822
Deferred Inflows of Resources				
Deferred inflows - net pension liability	—	575,969	575,969	—
Deferred inflows - net OPEB liability	—	86,886	86,886	—
Property tax revenue	28,992,824	—	28,992,824	—
Total Deferred Inflows of Resources	28,992,824	662,855	29,655,679	—
Fund Balance/Net Position				
Fund balance				
Nonspendable Fund	367,536	(367,536)	—	—
Restricted Fund	891,882	(891,882)	—	—
Assigned Fund	3,300,000	(3,300,000)	—	—
Unassigned fund balance	14,080,398	(14,080,398)	—	—
Total Fund Balances	18,639,816	(18,639,816)	—	—
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 48,673,488			
Net Position				
Net investment in capital assets	—	35,686,806	35,686,806	—
Restricted Fund	—	891,882	891,882	—
Unrestricted	—	(2,114,166)	(2,114,166)	887,728
Total Net Position	\$ —	\$ 34,464,522	\$ 34,464,522	\$ 887,728

STATEMENT OF
REVENUES,
EXPENDITURES, AND
CHANGE IN FUND

BALANCE -
GOVERNMENTAL
FUND / STATEMENT
OF ACTIVITIES

For the Year Ended
December 31, 2019



	Primary Government			Component Unit
	General - Governmental Fund	Adjustments	Statement of Activities - Governmental Activities	Douglas County Libraries Foundation
Expenditures/Expenses				
Current				
Operating	\$ 20,330,389	\$ 5,565,939	\$ 25,896,328	\$ 195,762
Pension expense	1,609,972	(4,191,307)	(2,581,335)	—
OPEB expense	—	12,516	12,516	—
Capital Outlay	6,496,157	(6,434,292)	61,865	—
Debt Service				
Principal	1,225,000	(1,225,000)	—	—
Interest and fees	787,300	(225,828)	561,472	—
Total Expenditures/Expenses	<u>30,448,818</u>	<u>(6,497,972)</u>	<u>23,950,846</u>	<u>195,762</u>
Program Revenues				
Operating contributions and grants	400,796	—	400,796	112,228
Charges for services	689,313	—	689,313	168,524
Total Program Revenues	<u>1,090,109</u>	<u>—</u>	<u>1,090,109</u>	<u>280,752</u>
Net Program Revenues/(Expenses)	<u>(29,358,709)</u>	<u>6,497,972</u>	<u>(22,860,737)</u>	<u>84,990</u>
General Revenues/(Expenses)				
Property taxes	25,757,166	—	25,757,166	—
Auto ownership taxes	2,512,679	—	2,512,679	—
Investment earnings	548,596	—	548,596	105,832
Total General Revenues/(Expenses)	<u>28,818,441</u>	<u>—</u>	<u>28,818,441</u>	<u>105,832</u>
Other Financing Sources				
Loss on disposal of capital assets	—	(97,064)	(97,064)	—
Lease income, net	191,914	—	191,914	—
Total Other Financing Sources	<u>191,914</u>	<u>(97,064)</u>	<u>94,850</u>	<u>—</u>
Net Change in Fund Balance	<u>(348,354)</u>	<u>348,354</u>	<u>—</u>	<u>—</u>
Change in Net Position		<u>6,052,554</u>	<u>6,052,554</u>	<u>190,822</u>
Fund Balance/Net Position				
Beginning of Year	<u>18,988,170</u>	<u>9,423,798</u>	<u>28,411,968</u>	<u>696,906</u>
End of Year	<u>\$ 18,639,816</u>	<u>\$ 15,824,706</u>	<u>\$ 34,464,522</u>	<u>\$ 887,728</u>

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

December 31, 2019



Fund Balance - Governmental Fund		\$ 18,639,816
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	73,965,336	
Accumulated depreciation	<u>(19,433,970)</u>	54,531,366
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	(17,055,000)	
Premium, Certificates of Participation Series 2015	(1,789,560)	
Accrued interest	<u>(63,566)</u>	(18,908,126)
Pension liability is not due and payable in the current period and, therefore, is not reported in the governmental fund.		
Pension related deferred outflows	5,214,721	
Pension related deferred inflows	(575,969)	
Net Pension liability	<u>(21,675,902)</u>	(17,037,150)
OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental fund.		
OPEB related deferred outflows	149,326	
OPEB related deferred inflows	(86,886)	
Net OPEB liability	<u>(1,819,124)</u>	(1,756,684)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
		<u>(1,004,700)</u>
Net Position of Governmental Activities		<u>\$ 34,464,522</u>

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, 2019



Net Change in Fund Balance - Governmental Fund		\$ (348,354)
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	6,434,292	
Depreciation	(5,594,722)	
Capital asset disposals	<u>(97,064)</u>	742,506
Compensated absences do not require use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.		28,783
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	1,225,000	
Amortization of premium	223,787	
Accrued interest	<u>2,041</u>	1,450,828
Pension liability does not require use of current financial resources and, therefore, is not reported as expenditures in the governmental fund		4,191,307
OPEB liability does not require use of current financial resources and, therefore, is not reported as expenditures in the governmental fund		<u>(12,516)</u>
Change in Net Position of Governmental Activities		<u>\$ 6,052,554</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 internal 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, 2019, 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, 2019, the District had deposits with a book balance of \$245,162 and a bank balance of \$400,716, of which \$372,094 was covered by the FDIC. Deposits held by a single depository institution may not exceed 25 percent of the District's total investment portfolio.

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.

The Foundation funds may also only be deposited in a bank that is a member of the FDIC or has been designated by the State Banking Board as an eligible public depository under the Colorado PDPA. At December 31, 2019, the Foundation had deposits with a book and bank balance of \$181,052 which were insured by the FDIC. Deposits held by a single depository institution may not exceed 25 percent of the Foundation's total

investment portfolio. The Foundation currently invests excess cash in an investment account with Bank of Oklahoma where funds are used to purchase a mix of equities, mutual funds, bonds, Real Estate Investment Trusts (REITs), as well as cash.

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:

Asset	Years
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.

As a nonprofit organization operating under the Financial Accounting Standards Board (FASB), the Foundation reports net position with restricted or unrestricted funds, in accordance with donor requests.

2. Cash and Investments

At December 31, 2019, the District had the following cash and investments:

	Unrestricted
Short-Term Cash and Investments	
Cash	\$ 245,162
Local government investment pool	18,750,065
Total Short-Term Cash and Investments	\$ 18,995,227

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 approximates fair value. At this time, the District does not hold investments carried at fair value as defined by GASB 72.

The Foundation holds the following cash and investments at December 31, 2019:

	Unrestricted
Short-Term Cash and Investments	
Cash	\$ 181,052
Investments	785,498
Total Short-Term Cash and Investments	\$ 966,550

As a nonprofit organization operating under the FASB, the Foundation reports investments, all of which are considered to be Level 1, at market value as an approximation of fair value on December 31, 2019.

3. Capital Assets

The District completed a remodel of the Highlands Ranch branch, spending \$3,976,830 in 2019. There were disposals of items with a net book value totaling \$97,064 comprised mostly of building materials from the remodel that were no longer needed, as well as laptops District-wide that were replaced as part of a routine renewal and upgrade plan.

The District recorded depreciation expense of \$5,594,722 for the year ended December 31, 2019, of which \$2,540,905 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, 2019:

	Balance 12/31/2018	Additions	Deductions	Balance 12/31/2019
Capital assets not being depreciated:				
Land	\$ 6,551,798	\$ 39,549	\$ —	\$ 6,591,347
Construction in progress	2,353,889	200,000	(2,353,889)	200,000
Artwork	202,385	23,469	—	225,854
Total capital assets not being depreciated	9,108,072	263,018	(2,353,889)	7,017,201
Capital assets being depreciated:				
Buildings	43,377,861	—	(113,589)	43,264,272
Building Improvements	1,081,152	4,951,400	(85,509)	5,947,043
Computers	3,378,765	326,994	(326,559)	3,379,200
Shelving	1,391,943	225,331	(48,218)	1,569,056
Furniture	1,709,537	927,796	(88,211)	2,549,122
Equipment and machinery	3,028,476	109,426	(31,821)	3,106,081
Library materials	7,795,007	1,984,214	(2,645,860)	7,133,361
Total capital assets being depreciated	61,762,741	8,525,161	(3,339,767)	66,948,135
Accumulated depreciation:				
Buildings	(9,813,403)	(1,421,627)	60,699	(11,174,331)
Building Improvements	(375,949)	(306,872)	62,947	(619,874)
Computers	(2,085,118)	(721,037)	314,466	(2,491,689)
Shelving	(436,568)	(140,018)	48,057	(528,529)
Furniture	(544,839)	(223,643)	79,474	(689,008)
Equipment and machinery	(2,389,113)	(240,620)	31,200	(2,598,533)
Library materials	(1,436,961)	(2,540,905)	2,645,860	(1,332,006)
Total accumulated depreciation	(17,081,951)	(5,594,722)	3,242,703	(19,433,970)
Total capital assets being depreciated, net	44,680,790	2,930,439	(97,064)	47,514,165
Governmental activities capital assets, net	\$ 53,788,862	\$ 3,193,457	\$ (2,450,953)	\$ 54,531,366

4. Commitments

Operating Lease Commitments

The District leases library facilities and equipment under operating leases. Total costs for such leases were \$167,706 for the year ended December 31, 2019. The future minimum payments for these leases are shown on the following page:

Year Ended December 31,	
2020	\$154,964
2021	46,522
2022	31,617
Total	\$233,103

5. 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, 2019:

Year Ending December 31,	Principal	Interest	Total
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	1,455,000	557,375	2,012,375
2025 - 2029	8,425,000	1,621,875	10,046,875
2030	1,950,000	63,375	2,013,375
	\$17,055,000	\$5,068,100	\$22,123,100

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, 2019:

	Balance 1/1/2019	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 1,033,484	\$ 661,165	\$ 689,949	\$ 1,004,700	\$ 622,000
2015 Certificates of Participation	18,280,000	—	1,225,000	17,055,000	1,250,000
2015 Premium	2,013,346	—	223,786	1,789,560	239,738
Total	\$ 21,326,830	\$ 661,165	\$ 2,138,735	\$ 19,849,260	\$ 2,111,738

The general fund is used to liquidate compensated absences.

6. 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.

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 ¹	10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in CRS § 24-51-208(1)(f) ¹	(1.02)%
Amount Apportioned to the LGDTF ¹	8.98%
Amortization Equalization Disbursement (AED) as specified in CRS § 24-51-411 ¹	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in CRS § 24-51-411 ¹	1.50%
Total Employer Contribution Rate to the LGDTF ¹	12.68%

¹Rates 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 \$1,485,563 for the year ended December 31, 2019.

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

At December 31, 2019, the District reported a liability of \$21,675,902 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll forward the total pension liability to December 31, 2018. The District's proportion of the net pension liability was based on District contributions to the LGDTF for the calendar year 2018 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2018, the District's proportion was 1.724 percent, which was a decrease of 0.079 percent from its proportion measured as of December 31, 2017.

For the year ended December 31, 2019, the District recognized pension expense that was reduced by (\$4,191,307) and reported pension related deferred outflows of resources and deferred inflows of resources as shown in the following table:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 906,337	\$ —
Net difference between projected and actual earnings on pension plan investments	2,822,821	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	575,969
Contributions subsequent to the measurement date	1,485,563	—
Total	<u>\$ 5,214,721</u>	<u>\$ 575,969</u>

Contributions subsequent to the measurement date of \$1,485,563 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	
2020	\$ 1,242,025
2021	240,796
2022	157,292
2023	1,513,076
	<u>\$ 3,153,189</u>

Actuarial assumptions. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs:

<u>Actuarial Cost Method</u>	<u>Entry Age</u>
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)	0% through 2019 and 1.50% compounded annually thereafter
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, 2017, 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 LGDTF, 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:

Asset Class	Target Allocation	10-Year Expected Geometric Real Rate of Return
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%
Total	100.00%	

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%.

- 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 103 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 middle of the year.

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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 33,159,650	\$ 21,675,902	\$ 12,068,587

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.

Other Post Employment Benefits

Health Care Trust Fund

Plan description. Eligible employees of the District are provided with other post-employment benefits (OPEB) through the Health Care Trust Fund (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 Colorado Revised Statutes (C.R.S.), 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 C.R.S., 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.

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 Denver Public Schools (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.

C.R.S. § 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, C.R.S. § 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 C.R.S., 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 \$119,501 for the year ended December 31, 2019.

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

At December 31, 2019, the District reported a liability of \$1,819,124 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2018. The District’s proportion of the net OPEB liability was based on the District contributions to the HCTF for the calendar year 2018 relative to the total contributions of participating employers to the HCTF.

At December 31, 2018, the District’s proportion was 0.134 percent, which was a decrease of (0.006) percent from its proportion measured as of December 31, 2017.

For the year ended December 31, 2019, the District recognized OPEB expense of \$12,516. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 6,602	\$ 2,769
Changes of assumptions or other inputs	12,761	—
Net difference between projected and actual earnings on OPEB plan investments	10,462	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	—	84,117
Contributions subsequent to the measurement date	119,501	—
	<u>\$ 149,326</u>	<u>\$ 86,886</u>

The District reported \$119,501 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	
2020	\$ (13,169)
2021	(13,169)
2022	(13,169)
2023	(5,551)
2024	(12,004)
	<u><u>\$ (57,062)</u></u>

Actuarial assumptions. The total OPEB liability in the December 31, 2017, actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00%
PERACare Medicare plans	5.00%
Medicare Part A premiums	3.25% for 2018, gradually rising to 5.00% in 2025
DPS benefit structure:	
Service-based premium subsidy	0.00%
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, 2017, 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
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

Mortality assumptions for the determination of the total OPEB 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 2018 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, 2017, 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:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
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%
Total	100.00%	

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:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Net OPEB Liability	\$ 1,768,891	\$ 1,819,124	\$ 1,876,901

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, 2018, 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%.
- 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 middle of the year.

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:

	1% Decrease	Current	1% Increase
	(6.25%)	Discount Rate	(7.25%)
		(7.25%)	(8.25%)
Proportionate share of the net OPEB liability	\$ 2,035,442	\$ 1,819,124	\$ 1,634,193

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.

7. 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, 2019, the District has recorded a deferred inflow for property tax revenues to be levied and collected in 2020 of \$28,922,824. 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, 2019, the District has recorded a deferred inflow for pension and OPEB-related liabilities of \$575,969 and \$86,886, 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.

8. 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, 2019, include prepaids of \$349,381 considered nonspendable in form and \$18,155 of security deposits required under the provisions of an easement and a lease.

At December 31, 2019, the District reported restricted fund balance of \$891,882, which is the emergency reserve as required by Article X, Section 20, of the Colorado Constitution.

Assigned fund balance at December 31, 2019, includes \$3,300,000, 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.

The District reported unassigned fund balance at December 31, 2019, of \$14,080,398.

Net position as reported at December 31, 2019, includes a net investment in capital assets of \$35,686,806. This amount represents the District’s investment in capital assets of \$54,531,366, net of the District’s remaining obligation under the 2015 CoPs at December 31, 2019, of \$18,844,560, which is net of unamortized premium of \$1,789,559.

The Foundation reported net position at December 31, 2019, comprised of unrestricted funds, of \$887,728.

9. 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 for property, liability, or workers’ compensation deductibles in the past four fiscal years. In the 2020 Budget, the District has added funds to explore providing limited medical benefits for volunteers who are committed to their communities, in lieu of workers’ compensation for which volunteers are ineligible.

10. 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.

11. Subsequent Events

General Operations

In March, 2020, prior to the issuance of these financial statements, the state of Colorado began to experience a public health emergency in conjunction with the COVID-19 virus. In conjunction with that health emergency, and in compliance with State of Colorado, Douglas County, and public health department directives, the District closed all of its library facilities on March 17, 2020, until further notice. Upon closure, many of the library staff and the District’s support staff began working on a remote, virtual basis. The closure did not affect the District’s ability to continue to serve its patrons through the District’s digital collections. The library has pursued new initiatives to streamline the issuance of library cards, expand its digital collections offerings, and investigate making a “virtual” library experience available to its patrons. In addition, the District began collaborations with the Douglas County School District and Douglas County to assist the community in dealing with the health emergency. Although the District is not able to predict when the health emergency will subside, the District is prepared to rapidly resume normal operations when so made possible by the governing authorities.

REQUIRED SUPPLEMENTARY INFORMATION



BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance
Expenditures				
Current				
Operating				
Salaries and benefits	\$ 15,407,710	\$ 15,407,710	\$ 15,018,559	\$ 389,151
Library materials	3,677,900	3,677,900	3,669,890	8,010
Facilities	1,684,249	1,691,481	1,810,114	(118,633)
Technology and support services	1,348,936	1,393,936	1,370,079	23,857
Programs and outreach	988,133	988,133	813,191	174,942
District-wide support	1,385,554	1,391,999	1,242,742	149,257
Capital Outlay	7,602,074	7,543,397	4,511,943	3,031,454
Debt Service	2,012,300	2,012,300	2,012,300	—
Total Expenses	<u>34,106,856</u>	<u>34,106,856</u>	<u>30,448,818</u>	<u>3,658,038</u>
Program Revenues				
Operating contributions and grants	334,571	334,571	400,796	66,225
Charges for services	726,134	726,134	689,313	(36,821)
Total Program Revenues	<u>1,060,705</u>	<u>1,060,705</u>	<u>1,090,109</u>	<u>29,404</u>
Net Program Expenses	<u>33,046,151</u>	<u>33,046,151</u>	<u>29,358,709</u>	<u>3,687,442</u>
General Revenues				
Property taxes	25,806,853	25,806,853	25,757,166	(49,687)
Auto ownership taxes	2,642,516	2,642,516	2,512,679	(129,837)
Investment earnings	389,000	389,000	548,596	159,596
Total General Revenues	<u>28,838,369</u>	<u>28,838,369</u>	<u>28,818,441</u>	<u>(19,928)</u>
Other Financing Sources				
Lease income, net	167,182	167,182	191,914	24,732
Total Other Financing Sources	<u>167,182</u>	<u>167,182</u>	<u>191,914</u>	<u>24,732</u>
Net Change in Fund Balance	(4,040,600)	(4,040,600)	(348,354)	3,692,246
Fund Balance, Beginning of Year	<u>18,988,170</u>	<u>18,988,170</u>	<u>18,988,170</u>	<u>—</u>
Fund Balance, End of Year	<u>\$ 14,947,570</u>	<u>\$ 14,947,570</u>	<u>\$ 18,639,816</u>	<u>\$ 3,692,246</u>

See Notes 1 and 2 to the Required Supplementary Information.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion (percentage) of the collective net pension liability (asset)	1.72%	1.80%	1.85%	1.76%	1.76%
District's proportionate share of the collective pension liability (asset)	\$21,675,902	\$20,082,094	\$24,917,735	\$19,433,036	\$15,770,396
Covered payroll	\$11,308,418	\$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	192%	170%	223%	194%	164%
Plan fiduciary net pension as a percentage of the total pension liability	75.96%	79.37%	73.60%	76.90%	62.80%

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion (percentage) of the collective net OPEB liability (asset)	0.13%	0.14%	0.14%
District's proportionate share of the collective OPEB liability (asset)	\$1,819,124	\$1,821,389	\$1,836,557
Covered payroll	\$11,308,418	\$11,800,629	\$11,184,779
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.09%	15.43%	16.42%
Plan fiduciary net OPEB as a percentage of the total pension liability	17.03%	17.53%	

See Note 2 to the Required Supplementary Information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,485,563	\$ 1,433,907	\$ 1,496,320	\$ 1,364,600	\$ 1,270,376
Contributions in relation to the statutorily required contribution	1,485,563	1,433,907	1,496,320	1,364,600	1,270,376
Contribution Deficiency (Excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
District's covered payroll	\$ 11,715,798	\$ 11,308,418	\$ 11,800,629	\$ 11,184,779	\$ 10,018,742
Contributions as a percentage of covered payroll	12.68%	12.68%	12.68%	12.20%	12.68%

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contributions	\$ 119,501	\$ 115,346	\$ 116,056
Contributions in relation to the statutorily required contribution	119,501	115,346	116,056
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 11,715,798	\$ 11,308,418	\$ 11,800,629
Contribution as a percentage of covered payroll	1.02%	1.02%	0.98%

See Note 2 to the Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2019

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)

	2015	2016	2017	2018	2019
Expenditures					
Current					
Operating					
Salaries and benefits	\$ 13,833,369	\$ 14,480,344	\$ 15,131,960	\$ 15,329,173	\$ 15,018,559
Library materials	3,554,623	3,409,934	3,495,573	3,637,645	3,669,890
Facilities	1,130,874	1,273,154	1,492,179	1,584,348	1,810,114
Technology and support services	1,071,145	1,388,763	1,346,219	1,277,527	1,370,079
Programs and outreach	617,049	802,159	858,872	696,395	813,191
District-wide support	1,053,381	1,428,235	1,202,971	1,402,729	1,242,742
Capital Outlay	14,178,941	20,690,256	4,040,637	2,853,711	4,511,943
Debt Service	74,205	834,800	2,009,800	2,011,300	2,012,300
Total Expenses	<u>35,513,587</u>	<u>44,307,645</u>	<u>29,578,211</u>	<u>28,792,828</u>	<u>30,448,818</u>
Program Revenues					
Operating contributions and grants	409,377	363,037	321,972	367,555	400,796
Charges for services	633,202	590,134	897,226	697,870	689,313
Total Program Revenues	<u>1,042,579</u>	<u>953,171</u>	<u>1,219,198</u>	<u>1,065,425</u>	<u>1,090,109</u>
Net Program Expenses	<u>(34,471,008)</u>	<u>(43,354,474)</u>	<u>(28,359,013)</u>	<u>(27,727,403)</u>	<u>(29,358,709)</u>
General Revenues					
Property taxes	19,151,234	22,436,808	22,807,820	25,394,616	25,757,166
Auto ownership taxes	1,853,168	2,075,618	2,505,786	2,693,552	2,512,679
Investment earnings	195,064	277,689	270,315	552,552	548,596
Total General Revenues	<u>21,199,466</u>	<u>24,790,115</u>	<u>25,583,921</u>	<u>28,640,720</u>	<u>28,818,441</u>
Other Financing Sources					
Lease income, net	—	—	146,842	262,934	191,914
Proceeds from lease purchase financing, net	23,005,269	—	—	—	—
Proceeds from sale of capital assets	—	3,600,200	—	—	—
Total Other Financing Sources	<u>23,005,269</u>	<u>3,600,200</u>	<u>146,842</u>	<u>262,934</u>	<u>191,914</u>
Net Change in Fund Balance	9,733,727	(14,964,159)	(2,628,250)	1,176,251	(348,354)
Fund Balance, Beginning of Year	<u>25,670,601</u>	<u>35,404,328</u>	<u>20,440,169</u>	<u>17,811,919</u>	<u>18,988,170</u>
Fund Balance, End of Year	<u>\$ 35,404,328</u>	<u>\$ 20,440,169</u>	<u>\$ 17,811,919</u>	<u>\$ 18,988,170</u>	<u>\$ 18,639,816</u>

HISTORY OF ASSESSED VALUATIONS

(Unaudited)

Levy / Collection Year	Assessed Valuation	Percent Change	Statutory "Actual" Value
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
2019/2020	7,239,081,296	12.43%	72,076,633,311

HISTORY OF MILL LEVIES

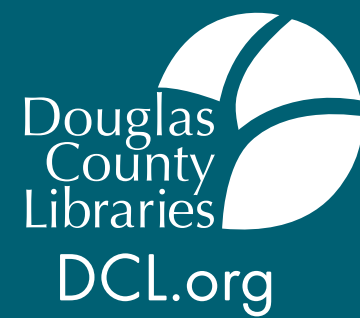
(Unaudited)

Levy / Collection Year	General Fund	Special Abatement	Total Levy
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
2019/2020	4.000	0.023	4.023

PROPERTY TAX COLLECTIONS

(Unaudited)

Levy / Collection Year	Taxes Levied	Current Tax Collections	Collection Rate
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%
2018/2019	25,806,853	25,849,883	100.17%



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