
Douglas County Libraries
FINANCIAL STATEMENTS
DECEMBER 31, 2017

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Independent Auditor's Report

Board of Trustees
Douglas County Libraries
Castle Rock, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and the major fund of the Douglas County Libraries as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Library'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 Library as of December 31, 2017, 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 the District's proportionate share of the net pension liability, schedule of the District's contributions to the pension plan and notes to the required supplementary information on pages i through xviii and 29-32, respectively, 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 Library's basic financial statements. The summary of revenues, expenditures and the changes 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.

Handwritten signature of Erik Bailly LLP in cursive script.

Denver, Colorado
March 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

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

As a result of the continued growth in Douglas County and aging library facilities, the Douglas County Libraries (the District's) strategic plan includes a goal centered on crafting the next generation of libraries to support delivery of premium and personal experiences to all library patrons.

During 2016, the District celebrated the opening of three new facilities in Castle Pines, Lone Tree, and Parker. This \$35.702 million construction project was financed in part with District reserves and the issuance of certificates of participation. This focus continued during 2017, with renovations at two additional facilities, the acquisition of property adjacent to the District's Castle Rock facility and the start of planning efforts for the renovation of the District's Highlands Ranch facility. The 2018 budget includes additional funding to continue these efforts.

The District's financial results for the year ended December 31, 2017, reflect the effect of the following related transactions:

- Acquisition of property adjacent to the Castle Rock branch for \$2.559 million for the future expansion and renovation at that site.
- Maintenance of approximately 50,000 additional square feet and the addition of approximately 22 full-time equivalents (FTEs) to staff the District's three new, larger facilities.
- Payment of the District's first full principal and interest obligations totaling \$2.010 million on the 2015 Certificates of Participation (2015 CoPs), issued to partially finance the construction of new libraries in Castle Pines, Lone Tree, and Parker.

Financial results for the year ended December 31, 2016, also reflect the effect of multiple related transactions including:

- Completion of a three-year, \$35.702 million construction project and the opening of new libraries in Castle Pines, Lone Tree, and Parker.
- Receipt of donated land valued at \$2.388 million by the cities of Castle Pines, Lone Tree, and Parker.
- Proceeds from the sale of facilities in Parker and Lone Tree of \$3.600 million and disposal of furniture and equipment used in the three former locations.

These transactions have had significant impact on financial results of the District, distorting comparability and making it difficult to assess the overall financial health of the District and the results of normal recurring operating activities. For this reason, the effect of these transactions has been noted individually and the comparison of year-over-year results has been presented on an 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. In order to ensure that expenditures associated with day-to-day operations, replacement of furniture and equipment, and facility maintenance costs do not exceed annual program and general revenues, the District reports capital expenditures on two separate line items on the financial statements.

- Maintenance capital expenditures are funded from current operating revenues and include those regular, recurring expenditures to replace 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 the new furniture, fixtures and equipment associated with these efforts. Improvement capital expenditures are funded from District reserves.

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

Governmental Fund Financial Statements

These statements are presented on the modified accrual basis of accounting. Under this basis of accounting, transactions are generally recorded when cash is received or expenses are paid. Therefore, financing activities are recorded as revenues in the period cash is received, capital expenditures are reported as a current period expense, and long-term liabilities are recorded when currently payable, rather than when an obligation is incurred.

Statement of Revenues, Expenditures, and Change in Fund Balance

| | 2017 | 2016 |
|---|-----------------------|------------------------|
| Program Expenditures | | |
| Operating | \$ 19,702,049 | \$ 19,026,657 |
| Pension expense | 1,621,275 | 1,483,217 |
| Capital outlay - maintenance | 3,484,197 | 3,641,281 |
| Interest and principal payments | 2,009,800 | 834,800 |
| Total Program Expenditures | <u>26,817,321</u> | <u>24,985,955</u> |
| Program Revenues | | |
| Operating contributions and grants | 321,972 | 363,037 |
| Charges for services | 897,226 | 590,134 |
| Total Program Revenues | <u>1,219,198</u> | <u>953,171</u> |
| Net Program Expenditures | <u>25,598,123</u> | <u>24,032,784</u> |
| General Revenues | | |
| Property taxes | 22,807,820 | 22,436,808 |
| Auto ownership taxes | 2,505,786 | 2,075,618 |
| Investment earnings | 270,315 | 277,689 |
| Total General Revenues | <u>25,583,921</u> | <u>24,790,115</u> |
| Net Change in Fund Balance - As Adjusted | (14,202) | 757,331 |
| Capital outlay - improvement | (2,760,890) | (19,321,690) |
| Lease income, net | 146,842 | — |
| Proceeds from sale of capital assets | — | 3,600,200 |
| Net Change in Fund Balance - As Reported | <u>\$ (2,628,250)</u> | <u>\$ (14,964,159)</u> |

On an adjusted basis, which is more representative of normal recurring operations, the net change in fund balance decreased \$0.771 million, from \$0.757 million for the year ended December 31, 2016, to a deficit of \$0.014 million for the same period in 2017. This decrease is primarily attributable to an increase in program expenditures of \$1.831 million, which was partially offset by increases in general revenues of \$0.794 million and program revenues of \$0.266 million.

Program expenditures increased \$1.831 million, from \$24.986 million for the year ended December 31, 2016, to \$26.817 million for the same period in 2017. This increase is primarily attributable to:

- Interest and principal payments increased \$1.175 million as the District made its first full principal payment of the same amount on the 2015 CoPs in November 2017.
- Salaries, wages, and pension expenses increased \$0.652 million primarily due to the addition of 22 FTEs in late 2016 to staff the District's new, larger libraries.
- Overall, the District's facility and maintenance capital expenditures increased \$0.109 million. With the opening of three new facilities during 2016, the District maintains approximately 50,000 additional square feet and intentionally raised standards of care to ensure a premium customer experience. As a result, floor care and janitorial costs increased, utility costs decreased, and maintenance capital expenditures declined on a year-over-year basis.

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General revenues increased \$0.794 million due primarily to increases in both property and auto ownership tax revenues of \$0.371 million and \$0.430 million, respectively.

- Douglas County assessed property values increased 1.80 percent, due primarily to new residential construction.
- Meanwhile, local car sales increased 26.80 percent year-over-year despite declining trends across the nation.

Program revenues increased \$0.266 million, from \$0.953 million at December 31, 2016, to \$1.219 million for the same period in 2017. This increase is primarily attributable to:

- Expanded District offerings to include hospitality services, event space and meeting room rentals, Camp DCL – summertime and spring break camps for school-age children, and additional author events. These efforts resulted in an increase of program revenues of \$0.177 million on a year-over-year basis.
- Fines were increased from \$0.10 to \$0.20 per day in January 2017, resulting in increased fine revenue of \$0.110 million.

As previously noted, several transactions in 2016 and 2017 had a material effect on the change in fund balance on an as-reported basis. These transactions include:

- Improvement capital expenditures decreased \$16.561 million, from \$19.322 million for the year ended December 31, 2016, to \$2.761 million for the same period in 2017. Improvement capital expenditures during 2016 represent completion of the three-year construction of new libraries in Castle Pines, Lone Tree, and Parker. Improvement capital spending during 2017 was primarily attributable to the acquisition of property adjacent to the Castle Rock branch for \$2.559 million in anticipation of a future remodel.
- During 2017, the District recorded lease income of \$0.147 million from retail space in the newly acquired property adjacent to the Castle Rock branch.
- During 2016, the District recorded proceeds totaling \$3.600 million on the sale of the District's former library facilities in Parker and Lone Tree.

Including the effect of these transactions, the net change in fund balance on an as-reported basis increased \$12.336 million, from a deficit of \$14.964 million for the year ended December 31, 2016, to a deficit of \$2.628 million for the same period in 2017.

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Governmental Fund Balance Sheet

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and investments | \$ 18,478,767 | \$ 22,106,928 |
| Property taxes receivable | 25,522,250 | 22,881,125 |
| Restricted cash | 20,426 | 15,553 |
| Other assets | 429,478 | 495,131 |
| Total assets | <u>\$ 44,450,921</u> | <u>\$ 45,498,737</u> |
| Liabilities | | |
| Accounts payable | 673,890 | 1,825,244 |
| Other current liabilities | 606,399 | 527,648 |
| Property tax revenue | 25,358,713 | 22,705,676 |
| Total Liabilities | <u>26,639,002</u> | <u>25,058,568</u> |
| Fund Balance | | |
| Nonspendable fund balance | 400,097 | 401,793 |
| Restricted fund balance | 814,344 | 790,966 |
| Assigned fund balance | 3,800,000 | 3,200,000 |
| Committed fund balance | — | 3,609,381 |
| Unassigned fund balance | 12,797,478 | 12,438,029 |
| Total Fund Balances | <u>17,811,919</u> | <u>20,440,169</u> |
| Total Liabilities and Fund Balance | <u>\$ 44,450,921</u> | <u>\$ 45,498,737</u> |

With the completion of construction efforts during late 2016, final payments of \$1.084 million were made in early 2017 to vendors and the District's general contractor, resulting in a decrease in both accounts payable and cash and investments from December 31, 2016, to 2017. In addition, the refund of surety bonds and other construction-related deposits in 2017 resulted in a decrease in the amount of other assets reported from December 31, 2016, to 2017.

Property taxes receivable increased \$2.641 million, from \$22.881 million at December 31, 2016, to \$25.522 million in 2017 due to a 2.80 percent increase in residential assessed values attributable to new construction.

Overall, the District's fund balance decreased \$2.628 million for the year ended December 31, 2017, primarily due to the acquisition of property adjacent to the Castle Rock branch for \$2.559 million. Changes to the District's specific fund balance accounts for the year ended December 31, 2017, were as follows:

- Nonspendable fund balance, which represents prepaid expenses and security deposits, decreased \$0.002 million, from \$0.402 million at December 31, 2016, to \$0.400 million at December 31, 2017, due to the refund of construction-related surety bonds and deposits.
- Restricted fund balance, which includes funds held on behalf of Volunteer Connect Douglas County and emergency reserves as required by Article X, Section 20, of the Colorado Constitution, increased \$0.023 million, from \$0.791 million at December 31, 2016, to \$0.814 million at December 31, 2017. This increase is primarily due to an increase

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in emergency reserves, which are calculated as three percent of general revenues, excluding grants.

- Assigned fund balance includes reserves established by the Board of Trustees to fund first-quarter operations due to the timing of property tax receipts and reserves to cover insurance deductibles. Assigned fund balance increased \$0.600 million, from \$3.200 million at December 31, 2016, to \$3.800 million at December 31, 2017, due to increases in the District's annual operating expenditures, primarily attributable to the operation and maintenance of newer, larger facilities.
- Committed fund balance at December 31, 2016, included \$2.525 million payable per the terms of the contract to acquire property adjacent to the District's Castle Rock branch and \$1.084 million in contractual obligations associated with the construction of the new libraries in Castle Pines, Lone Tree, and Parker.
- Unassigned fund balance represents amounts available for any purpose, including debt service for the 2015 CoPs and future capital projects.

2017 Budget vs Actual Results

| | Original Budget | Final Budget | Actual | Variance |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| Revenues | | | | |
| Property taxes | \$ 22,835,676 | \$ 22,835,676 | \$ 22,807,820 | \$ (27,856) |
| Auto ownership taxes | 2,000,000 | 2,000,000 | 2,505,786 | 505,786 |
| Charges for services | 786,434 | 786,434 | 897,226 | 110,792 |
| Contributions and grants | 288,020 | 288,020 | 321,972 | 33,952 |
| Interest | 225,000 | 225,000 | 270,315 | 45,315 |
| Total Revenues | 26,135,130 | 26,135,130 | 26,803,119 | 667,989 |
| Operating Expenditures | | | | |
| Salaries and benefits | 15,094,422 | 15,094,422 | 15,131,960 | (37,538) |
| Library materials | 3,495,800 | 3,495,800 | 3,495,573 | 227 |
| Facilities | 1,525,968 | 1,525,968 | 1,492,179 | 33,789 |
| Technology and support services | 1,402,407 | 1,402,407 | 1,346,219 | 56,188 |
| Programs and outreach | 741,945 | 741,945 | 858,872 | (116,927) |
| Administration | 1,322,125 | 1,322,125 | 1,202,971 | 119,154 |
| Interest and principal payments | 2,009,800 | 2,009,800 | 2,009,800 | — |
| Capital expenditures - maintenance | 1,238,390 | 1,238,390 | 1,279,747 | (41,357) |
| Total Operating Expenditures | 26,830,857 | 26,830,857 | 26,817,321 | 13,536 |
| Excess of Revenues Over (Under) Operating Expenditures | (695,727) | (695,727) | (14,202) | 681,525 |
| Non-Operating Revenues (Expenditures) | | | | |
| Lease income (expenses), net | (245,257) | (245,257) | 146,842 | 392,099 |
| Capital expenditures - improvement | (4,120,253) | (4,120,253) | (2,760,890) | 1,359,363 |
| Total Non-Operating Revenues (Expenditures), net | (4,365,510) | (4,365,510) | (2,614,048) | 1,751,462 |
| Excess of Total Revenues Over (Under) Total Expenditures | \$ (5,061,237) | \$ (5,061,237) | \$ (2,628,250) | \$ 2,432,987 |

The District's 2017 budget anticipated an excess of operating expenditures over revenues of \$0.696 million. Actual 2017 operating expenditures exceeded revenues by only \$0.014 million.

Total revenues exceeded budget by \$0.668 million due primarily to auto ownership tax receipts of \$0.506 million in excess of budget and author event fees and meeting room rentals of \$0.102 million in excess of budget.

Program and outreach expenditures were over budget by \$0.117 million primarily due to additional programming supplies used on the District's expanded offerings, which was offset by below-budget spending on administration expenses by \$0.119 million.

Spending on non-operating expenditures was under budget by \$1.751 million due to the following:

- Improvement capital expenditures were under budget \$1.359 million due to a delay of the \$0.264 million upgrade planned for the Roxborough branch, under-spending on architect fees on design efforts for the Highlands Ranch and the Castle Rock branches of \$0.335 million, and savings on other upgrades totaling \$0.760 million.
- Postponement of the remodel and expansion of the Castle Rock branch and the expected \$0.400 million buyout of retail leases on the adjacent property.

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

| | 2017 | 2016 |
|--|-----------------------|---------------------|
| Expenses | | |
| Operating | \$ 25,096,200 | \$ 23,458,249 |
| Pension expense | 4,980,757 | 2,292,983 |
| Capital outlay | 151,058 | — |
| Interest and principal payments | 639,093 | 749,024 |
| Total Expenses | <u>30,867,108</u> | <u>26,500,256</u> |
| Program Revenues | | |
| Operating contributions and grants | 321,972 | 363,037 |
| Charges for services | 897,226 | 590,134 |
| Total Program Revenues | <u>1,219,198</u> | <u>953,171</u> |
| Net Program Expenses | <u>(29,647,910)</u> | <u>(25,547,085)</u> |
| General Revenues | | |
| Property taxes | 22,807,820 | 22,436,808 |
| Auto ownership taxes | 2,505,786 | 2,075,618 |
| Investment earnings | 253,088 | 277,689 |
| Total General Revenues | <u>25,566,694</u> | <u>24,790,115</u> |
| Change in Net Position - Adjusted Basis | <u>(4,081,216)</u> | <u>(756,970)</u> |
| Lease income, net | 146,842 | — |
| Loss of disposal of capital assets | (38,538) | — |
| Gain from sale of capital assets | — | 1,715,288 |
| Change in Net Position - As Reported | <u>\$ (3,972,912)</u> | <u>\$ 958,318</u> |

As adjusted, which is more representative of normal recurring operations, the change in net position decreased \$3.324 million, from a deficit of \$0.757 million for the year ended December 31, 2016, to a deficit of \$4.081 million over the same period in 2017. This \$3.324 million decline in net position is primarily due to the following:

- Operating expenses increased \$1.638 million, from \$23.458 million at December 31, 2016, to \$25.096 million at December 31, 2017. With the completion of a three-year \$35.702 million construction project and the opening of three new buildings in 2016, the District recorded the first full year of depreciation in 2017, resulting in an increase in depreciation expense of \$1.068 million. The District added approximately 22 FTE employees at an added cost of \$0.652 million.
- Pension expense increased \$2.688 million, from \$2.293 million at December 31, 2016, to \$4.981 million at December 31, 2017, due primarily to the amortization of deferred outflows representing differences between actuarial assumptions and actual investment performance and other variables as required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68).
- Partially offsetting these expenses are increases in general and program revenues of \$0.777 million and \$0.266 million, respectively, from December 31, 2016, to the same period in 2017. The increase in general revenues is attributable to higher property tax revenues driven by new residential construction as well as increased auto ownership tax revenues as

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local car sales have increased on a year-over-year basis. The increase in program revenues is primarily attributable to new and expanded programs now being offered by the District as a result of the expanded space and headcount.

As reported, the change in net position decreased \$4.931 million, from \$0.958 million at December 31, 2016, to a deficit of \$3.973 million at December 31, 2017. This decline in net position is primarily due to the following:

- During 2016, the District reported a gain from sale of fixed assets of \$1.715 million attributable to the sale of land and buildings in Parker and Lone Tree for proceeds of \$3.600 million and with a net book value of \$1.821 million, recognizing a gain of \$1.779 million. In addition, the District disposed of furniture and equipment with a net book value of \$0.064 million for items no longer in use.
- During 2017, the District recorded lease income of \$0.147 million from retail space in the newly acquired property adjacent to the Castle Rock branch.
- During 2017, the District disposed of furniture and equipment with a net book value of \$0.039 million for items no longer in use.

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Statement of Net Position

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and investments | \$ 18,478,767 | \$ 22,106,928 |
| Restricted cash | 20,426 | 15,553 |
| Property taxes receivable, net of allowance | 25,522,250 | 22,881,125 |
| Prepays and other assets | 400,097 | 401,793 |
| Receivable from component unit | 27,943 | 82,676 |
| Other receivables | 1,438 | 27,707 |
| Total Current Assets | <u>44,450,921</u> | <u>45,515,782</u> |
| Long-Term Assets | | |
| Capital assets, net of accumulated depreciation | 47,187,016 | 49,199,063 |
| Capital assets not being depreciated | 6,927,134 | 4,231,892 |
| Total Long-Term Assets | <u>54,114,150</u> | <u>53,430,955</u> |
| Total Assets | <u>98,565,071</u> | <u>98,946,737</u> |
| Deferred Outflows of Resources | | |
| Deferred outflows - pension liability | 7,106,405 | 5,274,333 |
| Total Deferred Outflows of Resources | <u>7,106,405</u> | <u>5,274,333</u> |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | 673,890 | 1,825,244 |
| Certificates of Participation | 1,200,000 | 1,175,000 |
| Accrued salaries and benefits | 585,973 | 512,095 |
| Compensated absences | 643,000 | 465,000 |
| Accrued interest payable | 67,608 | 69,567 |
| Funds held for others | 20,426 | 15,553 |
| Total Current Liabilities | <u>3,190,897</u> | <u>4,062,459</u> |
| Long-Term Liabilities | | |
| Compensated absences | 368,769 | 524,736 |
| Certificates of Participation | 20,501,809 | 21,895,558 |
| Pension liability | 24,917,735 | 19,433,036 |
| Total Long-Term Liabilities | <u>45,788,313</u> | <u>41,853,330</u> |
| Total Liabilities | <u>48,979,210</u> | <u>45,915,789</u> |
| Deferred Inflows of Resources | | |
| Pension liability | 77,978 | 371,118 |
| Property tax revenue | 25,358,713 | 22,705,676 |
| Total Deferred Inflows of Resources | <u>25,436,691</u> | <u>23,076,794</u> |
| Net Position | | |
| Net investment in capital assets | 32,412,341 | 30,360,397 |
| Restricted | 814,344 | 790,966 |
| Unrestricted | (1,971,110) | 4,077,124 |
| Total Net Position | <u>\$ 31,255,575</u> | <u>\$ 35,228,487</u> |

Cash and Investments

Cash and investments decreased \$3.628 million, from \$22.107 million at December 31, 2016, to \$18.479 million at December 31, 2017, primarily due to the purchase of property adjacent to the Castle Rock branch for \$2.559 million as well as the payment of \$1.084 million in remaining

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contractual obligations associated with the construction of the new libraries in Castle Pines, Lone Tree, and Parker.

Property Taxes Receivable

Property taxes receivable increased \$2.641 million, from \$22.881 million at December 31, 2016, to \$25.522 million at December 31, 2017, due primarily to a 2.80 percent increase in residential assessed values attributable to new construction.

Current Liabilities

Overall, the District's current liabilities declined \$0.871 million, from \$4.062 million at December 31, 2016, to \$3.191 million at December 31, 2017, due primarily to the payment of \$1.084 million in remaining contractual obligations associated with the completion of new library construction in late 2016.

Capital Assets

The District's capital assets, net of accumulated depreciation, increased \$0.683 million, from \$53.431 million at December 31, 2016, to \$54.114 million at December 31, 2017. A summary of the District's capital assets are shown below.

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Land | \$ 6,551,798 | \$ 3,962,859 |
| Construction in progress | 171,951 | 54,648 |
| Artwork | 203,385 | 214,385 |
| Buildings and improvements, net | 35,661,487 | 36,807,632 |
| Furniture and equipment, net | 4,821,874 | 5,141,365 |
| Archives and collections, net | 6,703,655 | 7,250,066 |
| Total governmental activities capital assets, net | <u>\$ 54,114,150</u> | <u>\$ 53,430,955</u> |

The increase in capital assets in 2017 resulted primarily from \$6.149 million of additions offset by \$5.372 million in depreciation. Key additions are as follows:

- Castle Rock land purchase of \$2.559 million
- New archives and collections for \$2.205 million
- Upgrades of the branches at Castle Rock, Highlands Ranch, and Louviers for \$0.360 million, \$0.249 million, and \$0.055 million, respectively.
- Information technology infrastructure upgrades totaling \$0.348 million
- Completion of construction project at Castle Pines, Lone Tree, and Parker for \$0.309 million
- Added playscape at the Lone Tree library for \$0.034 million

The District recorded depreciation expense of \$5.372 million for the year ended December 31, 2017, of which \$2.751 million 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.

2015 Series Certificates of Participation

In October 2015, the District issued \$20.655 million in 2015 Series Certificates of Participation and received proceeds of \$23.226 million, which included a premium of \$2.571 million. The 2015 CoPs, which mature in 2030, carry an average coupon rate of 2.545 percent, and maximum annual debt service is \$2.013 million.

The 2015 CoPs were issued pursuant to the terms of a Site and Improvement Lease dated as of October 29, 2015, whereby the District leased the Castle Rock and Highlands Ranch branches to Zions First National Bank, acting as trustee. Concurrent with the execution of the Site and Improvement Lease, the trustee leased these same properties back to the District pursuant to the terms of an annually renewable Lease Purchase Agreement dated as of October 29, 2015. The District owns fee title to these leased properties and the trustee maintains a leasehold interest in the same properties.

The District recorded \$0.194 million and \$0.155 million to amortize the premium on the CoPs at December 31, 2017, and December 31, 2016, respectively. The District made its first principal payment in 2017 of \$1.175 million.

Pension Liability and Related Deferred Outflows and Inflows

The District contributes to a cost-sharing multiple-employer defined benefit plan administered by the Public Employees' Retirement Association (PERA), the PERA defined benefit plan. The District is required to report its proportionate share of the PERA defined benefit plan's net pension liability in addition to the related deferred outflows and inflows noted on the statement of net position in accordance with Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68).

During 2017, the District's proportionate share of the PERA defined benefit plan's net pension liability increased \$5.485 million, from \$19.433 million at December 31, 2016, to \$24.918 million at December 31, 2017. In addition, deferred pension outflows increased \$1.832 million, from \$5.274 million at December 31, 2016, to \$7.106 million at December 31, 2017. Both of these increases are primarily attributable to changes in assumptions used to determine the PERA defined benefit plan's net pension liability as a result of assumption changes approved by the PERA Board in late 2016 to lower the expected rate of investment return to 7.25 percent from 7.50 percent and to adopt new mortality tables to more accurately reflect the actual experience of the PERA membership.

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 Local Government Division Trust Fund's (LGDTF's) net pension liability by \$9.800 million, while a one percent decrease in the discount rate would increase the District's share of the net pension liability by \$11.800 million.

While the District has no legal obligation to fund this shortfall or to pay benefits to retirees, the District is obligated to contribute to PERA at those rates established by the Colorado legislature, which may be periodically adjusted to reduce the plan's unfunded liability. Under the provisions of Colorado Senate Bill 10-001, if the funded ratio of the LGDTF reaches 90 percent and subsequently falls below 90 percent, an increase in contributions is mandated. Detailed information about the funded status of the PERA benefit plans can be found in PERA's comprehensive annual financial report, which can be obtained at www.copera.org/investments/pera-financial-reports.

For more information regarding proposed changes to the PERA defined benefit plan, see the section titled "Factors Affecting Financial Condition – Long-Range Cash Flow Forecast" below.

Net Position

The increase in net investment in capital assets from \$30.360 million at December 31, 2016, to \$32.412 million at December 31, 2017, is primarily due to 2017 increases in the District's investment in capital assets, net of depreciation, less the total remaining principal balance of the 2015 CoPs and the unamortized premium.

Restricted net position reported at December 31, 2016 and 2017, 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, 2017, restricted net position includes emergency reserves of \$0.794 million and agency funds of \$0.020 million held on behalf of Volunteer Connect Douglas County.

The decrease in unrestricted fund balance of \$6.048 million, from \$4.077 million as of December 31, 2016, to a deficit of \$1.971 million at December 31, 2017, is primarily attributable to an increase in the District's pension liability, net of changes in pension-related deferred outflows and inflows of \$3.359 million, in addition to the use of the District's cash and investment reserves to fund new investments in capital assets.

Factors Affecting Financial Condition

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

Property Tax Revenues and Constitutional Limitations

The District derives the majority of its revenues from property taxes. In general, the county assessor revalues real estate in odd-numbered years on the basis of comparable sales during the previous two-year period. Property owners are given notice of updated valuations, appeals are processed, and property tax bills are payable the following even-numbered year. As a result, there is a two-to-four year lag between changes in the market value of a property and the date taxing authorities realize the corresponding increase or decrease in property tax revenue. Property tax revenues are also influenced by residential and non-residential 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 non-residential properties making up the remaining 55 percent. To the extent that increases in residential property values outpace increases in non-residential property values, an adjustment is made to lower residential assessed values to maintain the 45 percent residential to 55 percent non-residential 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, to impose taxes, and to issue debt and certain other types of obligations without voter approval. In 1996, the District's voters approved a referendum, which 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 non-residential assessed value ratio.

During the two-year period ended June 2016, statewide residential property values increased approximately 21 percent, while non-residential property values increased approximately 13 percent, necessitating an adjustment under the provisions of the Gallagher amendment for 2017 property taxes payable in 2018. Consequently, for those taxing jurisdictions that reported less than eight percent growth in residential property values, assessed values and the corresponding 2018 residential property tax revenue declined.

Douglas County, however, reported increased residential property valuations of approximately 20 percent and increased non-residential property valuations of approximately 21 percent during the two-year period ended June 2016. As such, the District budgeted for an increase in 2018 property tax revenues of 11.80 percent, or \$2.681 million, despite a reduction in residential assessed values as required under the provisions of the Gallagher amendment.

DOUGLAS COUNTY LIBRARIES

Operating, Facility Maintenance, and Debt Service Expenditures

The District has adopted a compensation philosophy that supports competitive wages and benefits and contributes 13.70 percent of salaries and wages to the multi-employer defined benefit plan administered by PERA.

Maximum debt service under the terms of the 2015 CoPs is \$2.000 million. The District made the first full principal and interest payment in 2017.

With the opening of three new, larger libraries in 2016, the District is maintaining approximately 50,000 additional square feet and added approximately 22 FTEs at an annual cost of approximately \$1.038 million.

The chart below illustrates changes to the District's cost structure as a result of the lease purchase financing and the incremental costs associated with staffing, operation, and maintenance of the three new, larger facilities opened in 2016.

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

| | Actual | | | | Budget |
|---|--------------------|---------------------|------------------------|-----------------------|-----------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Statistics | | | | | |
| Circulation | 7,826,863 | 7,310,770 | 6,793,987 | 6,765,069 | — |
| Patron visits | 1,940,955 | 1,933,518 | 1,932,973 | 2,109,991 | — |
| Building square footage | 126,791 | 126,791 | 173,896 | 173,896 | 173,896 |
| Full time equivalent employee headcount | 228 | 229 | 251 | 246 | — |
| Revenues | | | | | |
| Property taxes | \$ 20,365,938 | \$ 21,004,402 | \$ 24,512,426 | \$ 25,313,606 | \$ 28,383,913 |
| Charges for services | 581,959 | 633,202 | 590,134 | 897,226 | 941,767 |
| Contributions and grants | 853,922 | 409,377 | 363,037 | 321,972 | 326,066 |
| Interest income, net | 174,515 | 195,064 | 277,689 | 270,315 | 300,000 |
| Total Revenues | 21,976,334 | 22,242,045 | 25,743,286 | 26,803,119 | 29,951,746 |
| Operating Expenditures | | | | | |
| Salaries and benefits | 12,926,791 | 13,833,369 | 14,480,344 | 15,131,960 | 15,692,416 |
| Library materials | 3,459,743 | 3,554,623 | 3,409,934 | 3,495,573 | 3,610,500 |
| Facilities | 956,142 | 1,130,874 | 1,273,154 | 1,492,179 | 1,446,366 |
| Technology and support services | 1,120,576 | 1,071,145 | 1,388,763 | 1,346,219 | 1,579,221 |
| Programs and outreach | 579,760 | 617,049 | 802,159 | 858,872 | 782,483 |
| Administration | 1,067,171 | 1,053,381 | 1,428,235 | 1,202,971 | 1,448,695 |
| Interest and principal payments | — | 74,205 | 834,800 | 2,009,800 | 2,011,300 |
| Capital expenditures - maintenance | 335,408 | 146,432 | 1,368,566 | 1,279,747 | 790,900 |
| Total Operating Expenditures | 20,445,591 | 21,481,078 | 24,985,955 | 26,817,321 | 27,361,881 |
| Excess of Revenues Over (Under) Operating Expenditures | 1,530,743 | 760,967 | 757,331 | (14,202) | 2,589,865 |
| Non-Operating Revenues (Expenditures) | | | | | |
| Lease income, net | | | | 146,842 | 215,073 |
| Proceeds from lease purchase financing, net | | 23,005,269 | | | |
| Proceeds from sale of capital assets | | | 3,600,200 | | |
| Capital expenditures - improvement | (1,129,700) | (14,032,509) | (19,321,690) | (2,760,890) | (4,000,000) |
| Total Non-Operating Revenues (Expenditures), net | (1,129,700) | 8,972,760 | (15,721,490) | (2,614,048) | (3,784,927) |
| Excess of Total Revenues Over (Under) Total Expenditures | \$ 401,043 | \$ 9,733,727 | \$ (14,964,159) | \$ (2,628,250) | \$ (1,195,062) |

Despite the reduction in property tax revenues to be received in 2018 due to the Gallagher amendment, 2018 budgeted revenues are expected to exceed operating expenditures, interest and principal payments, and the costs to maintain the District's facilities by \$2.600 million.

Other highlights of the District's 2018 budget include:

- Increased property tax revenues of \$2.681 million, or 11.80 percent, after adjustment of residential assessed values under the provisions of the Gallagher amendment
- Increased auto ownership tax revenue of \$0.389 million
- 3.50 percent salary and wage increase, eight percent increase in health insurance premiums
- \$3.000 million for upgrades and remodel of the Highlands Ranch branch in late 2018
- \$1.000 million for upgrades at the District's Roxborough facility, and planning and architectural efforts related to the future remodel and expansion of the Castle Rock facility
- \$0.791 million for projects to maintain equipment and facilities

District Reserves

The District's reserve policy requires that reserves be maintained to fund first-quarter operations prior to the receipt of property tax revenues, 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, 2017, includes \$4.614 million in accordance with the terms of this policy.

At December 31, 2017, the District has \$12.797 million available for future remodel and expansion efforts. Successful execution of the projects and initiatives detailed above and included in the 2018 budget will require the use of \$1.195 million of the District's reserves.

Long-Range Cash Flow Forecast

The District is committed to maintaining the infrastructure and finishes of its libraries and recently completed a facilities master plan, which 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.

DOUGLAS COUNTY LIBRARIES

In addition, the District has developed a long-range cash flow 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.

Initial estimates from the December 2017 Economic and Revenue Forecast prepared by the Economics Section of the Colorado Legislative Council Staff forecast that statewide residential property values will have increased approximately 17 percent during the two-year period ending June 2018, while non-residential property values are forecast to increase by only 1.90 percent during the same period, necessitating an adjustment under the provisions of the Gallagher amendment.

Based on the information currently available, the District currently estimates an increase in property tax revenue of approximately 2.30 percent in 2019 and approximately 6.30 percent in 2020 after the reduction in residential assessed values pursuant to the Gallagher amendment.

As previously indicated, employees of the District are provided with pension benefits through the PERA defined benefit plan. As such, the District is obligated to contribute to PERA at those rates established by the Colorado legislature.

In an effort to ensure the plan's long-term sustainability, reduce the plan's net unfunded pension liability, and improve its risk profile, the PERA Board has made a recommendation to the Colorado legislature which would modify benefits and increase employee, working retiree, and employer contribution rates. Under the terms of the PERA Board's recommendation, the District's contribution rate would increase from 12.70 percent to 14.70 percent of pay, or from \$1.800 million to \$2.100 million, on an annual basis. If approved by the Colorado legislature, this increase would take effect in 2020.

Two identified capital improvement needs include the remodel and expansion of the Castle Rock facility and the need for a larger facility in Roxborough to serve projected growth in the area.

In 2017, the District purchased retail property for \$2.559 million with the intent to remodel and expand the adjacent Castle Rock branch, which will enable the District to expand public spaces in both the Castle Rock and Highlands Ranch branches and centralize administrative and storage efforts. The District's current cash flow forecast supports a \$19.000 million remodel in 2022 funded with existing reserves and savings over the interim period.

During 2017, construction began on Sterling Ranch, a mixed-use community in southwest Douglas County. At full build-out, Sterling Ranch will cover 3,400 acres and will be home to approximately 33,000 residents, increasing the population of Roxborough to approximately 50,000 residents. The District's current Roxborough branch is housed in leased space. The District recognizes the eventual need for an expanded Roxborough facility. Timing and extent of any expansion is dependent on the pace of build out and on future growth in assessed values and property tax revenues.

Douglas County Libraries Foundation

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

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

During 2016 and 2017, the Foundation granted unrestricted funds and conducted a capital campaign to raise monies in support of the construction of new libraries in Castle Pines, Lone Tree, and Parker. Monies granted to the District in connection with these efforts totaled \$0.089 million and \$0.042 million for the years ended December 31, 2016 and 2017, respectively.

Requests for Information

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

Basic Financial Statements

BALANCE SHEET
GOVERNMENTAL FUND / STATEMENT OF NET POSITION
December 31, 2017

| | Primary Government | | | Component Unit |
|--|-----------------------------------|----------------------|--|--|
| | General - Governmental Fund | Adjustments | Statement of Net Position - Governmental Activities | Douglas County Libraries Foundation |
| Assets | | | | |
| Cash and investments | \$ 18,478,767 | \$ — | \$ 18,478,767 | \$ 640,852 |
| Property taxes receivable, net of allowance for uncollectible accounts of \$130,000 | 25,522,250 | — | 25,522,250 | — |
| Prepays and other assets | 400,097 | — | 400,097 | 2,500 |
| Receivable from component unit | 27,943 | — | 27,943 | — |
| Other receivables | 1,438 | — | 1,438 | — |
| Restricted cash | 20,426 | — | 20,426 | — |
| Capital assets, net of accumulated depreciation | — | 47,187,016 | 47,187,016 | — |
| Capital assets not being depreciated | — | 6,927,134 | 6,927,134 | — |
| Total Assets | \$ 44,450,921 | 54,114,150 | 98,565,071 | 643,352 |
| Deferred Outflows of Resources | | | | |
| Pension related liability | — | 7,106,405 | 7,106,405 | — |
| Total Deferred Outflows of Resources | — | 7,106,405 | 7,106,405 | — |
| Liabilities | | | | |
| Accounts payable | 673,890 | — | 673,890 | 9,948 |
| Accrued salaries and benefits | 585,973 | — | 585,973 | — |
| Accrued interest payable | — | 67,608 | 67,608 | — |
| Funds held for others | 20,426 | — | 20,426 | — |
| Payable to primary government | — | — | — | 27,943 |
| Noncurrent liabilities | | | | |
| Due within one year | — | 1,843,000 | 1,843,000 | — |
| Due in more than one year | — | 20,870,578 | 20,870,578 | — |
| Net pension liability | — | 24,917,735 | 24,917,735 | — |
| Total Liabilities | 1,280,289 | 47,698,921 | 48,979,210 | 37,891 |
| Deferred Inflows of Resources | | | | |
| Pension related liability | — | 77,978 | 77,978 | — |
| Property tax revenue | 25,358,713 | — | 25,358,713 | — |
| Total Deferred Inflows of Resources | 25,358,713 | 77,978 | 25,436,691 | — |
| Fund Balance/Net Position | | | | |
| Fund balance | | | | |
| Nonspendable fund balance | 400,097 | (400,097) | — | — |
| Restricted fund balance | 814,344 | (814,344) | — | — |
| Assigned fund balance | 3,800,000 | (3,800,000) | — | — |
| Unassigned fund balance | 12,797,478 | (12,797,478) | — | — |
| Total Fund Balances | 17,811,919 | (17,811,919) | — | — |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 44,450,921 | | | |
| Net Position | | | | |
| Net investment in capital assets | | 32,412,341 | 32,412,341 | — |
| Restricted | | 814,344 | 814,344 | — |
| Unrestricted | | (1,971,110) | (1,971,110) | 605,461 |
| Total Net Position | | \$ 31,255,575 | \$ 31,255,575 | \$ 605,461 |

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

For the Year Ended December 31, 2017

| | Primary Government | | | Component Unit |
|--------------------------------------|-----------------------------------|----------------------|--|--|
| | General - Governmental Fund | Adjustments | Statement of Activities - Governmental Activities | Douglas County Libraries Foundation |
| Expenditures/Expenses | | | | |
| Current | | | | |
| Operating | \$ 19,702,049 | \$ 5,394,151 | \$ 25,096,200 | \$ 189,479 |
| Pension expense | 1,621,275 | 3,359,482 | 4,980,757 | — |
| Capital Outlay | 6,245,087 | (6,094,029) | 151,058 | — |
| Debt Service | | | | |
| Principal | 1,175,000 | (1,175,000) | — | — |
| Interest and fees | 834,800 | (195,707) | 639,093 | — |
| Total Expenditures/Expenses | <u>29,578,211</u> | <u>1,288,897</u> | <u>30,867,108</u> | <u>189,479</u> |
| Program Revenues | | | | |
| Operating contributions and grants | 321,972 | — | 321,972 | 213,483 |
| Charges for services | 897,226 | — | 897,226 | 97,957 |
| Total Program Revenues | <u>1,219,198</u> | <u>—</u> | <u>1,219,198</u> | <u>311,440</u> |
| Net Program Expenses | <u>(28,359,013)</u> | <u>(1,288,897)</u> | <u>(29,647,910)</u> | <u>121,961</u> |
| General Revenues | | | | |
| Property taxes | 22,807,820 | — | 22,807,820 | — |
| Auto ownership taxes | 2,505,786 | — | 2,505,786 | — |
| Investment earnings | 270,315 | (17,227) | 253,088 | 2,308 |
| Total General Revenues | <u>25,583,921</u> | <u>(17,227)</u> | <u>25,566,694</u> | <u>2,308</u> |
| Other Financing Sources | | | | |
| Loss on disposal of capital assets | — | (38,538) | (38,538) | — |
| Lease income, net | 146,842 | — | 146,842 | — |
| Total Other Financing Sources | <u>146,842</u> | <u>(38,538)</u> | <u>108,304</u> | <u>—</u> |
| Net Change in Fund Balance | <u>(2,628,250)</u> | <u>2,628,250</u> | <u>—</u> | <u>—</u> |
| Change in Net Position | <u>—</u> | <u>(3,972,912)</u> | <u>(3,972,912)</u> | <u>124,269</u> |
| Fund Balance/Net Position | | | | |
| Beginning of Year | <u>20,440,169</u> | <u>28,180,308</u> | <u>35,228,487</u> | <u>481,192</u> |
| End of Year | <u>\$ 17,811,919</u> | <u>\$ 26,835,646</u> | <u>\$ 31,255,575</u> | <u>\$ 605,461</u> |

**RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
December 31, 2017**

Fund Balance - Governmental Fund \$ 17,811,919

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 | 69,744,338 | |
| Accumulated depreciation | <u>(15,630,188)</u> | 54,114,150 |

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 | (19,480,000) | |
| Premium, Certificates of Participation Series 2015 | (2,221,809) | |
| Accrued interest | <u>(67,608)</u> | (21,769,417) |

Pension liability is not due and payable in the current
period and, therefore, is not reported in the governmental fund.

| | | |
|-----------------------------------|---------------------|--------------|
| Pension related deferred outflows | 7,106,405 | |
| Pension related deferred inflows | (77,978) | |
| Pension liability | <u>(24,917,735)</u> | (17,889,308) |

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

(1,011,769)

Net Position of Governmental Activities

\$ 31,255,575

**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, 2017**

Net Change in Fund Balance - Governmental Fund \$ (2,628,250)

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 | 6,094,029 | |
| Depreciation | (5,372,268) | |
| Capital asset disposals | <u>(38,538)</u> | 683,223 |

Compensated absences do not require use of current financial
resources and, therefore, are not reported as expenditures in the
governmental fund. (22,035)

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 | 1,175,000 | |
| Amortization of premium | 193,749 | |
| Accrued interest | <u>2,110</u> | 1,370,859 |

Interest accrual on expired Certificate of Deposit does not require
use of current financial resources and, therefore, is not reported
in the governmental fund. (17,227)

Pension liability does not require use of current financial
resources and, therefore, is not reported as expenditures
in the governmental fund (3,359,482)

Change in Net Position of Governmental Activities \$ (3,972,912)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Governmental Activities and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The governmental activities financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The governmental activities financial statements do not include fiduciary funds or component units that are fiduciary in nature.

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

Cash and Investments

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

The District limits its exposure to credit risk, which is the risk of loss due to the failure of the security issuer or backer, by diversifying the investment portfolio so that potential losses on individual securities will be minimized and by limiting investments to specified credit ratings. Management believes at December 31, 2017, no investments subject the District to credit concentration risk. The District's interest rate risk is related only to its investment with the Colorado Local Government Liquid Asset Trust (COLOTRUST).

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, 2017, the District had deposits with a book balance of \$901,305 and a bank balance of \$303,306, of which \$257,735 was covered by the FDIC. Deposits held by a single depository institution may not exceed 25 percent of the District's total investment portfolio.

At December 31, 2017, the Foundation had deposits with a book balance of \$640,852 and a bank balance of \$639,278, of which \$429,810 was insured by the FDIC. From time to time, cash and investments held by the Foundation may exceed the limits of depository insurance coverage provided by the FDIC.

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

Property Taxes Receivable

Property tax receivables are shown net of an allowance for uncollectible accounts. Property values are assessed and a lien placed on the property as of January 1. Property taxes are levied no later than December 22. Taxes are payable in the following year, either in full by April 30, or in two equal installments due February 28 and June 15. Property taxes levied in the current year and payable in the following year are reported as a receivable at December 31. Property taxes are reported as deferred inflows of resources and recognized as revenue upon collection.

Prepays

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

Capital Assets

Capital assets, which include land, buildings, furniture, equipment, and library materials, are reported in the governmental activities financial statements. In the governmental fund financial statements, capital assets are charged to expenditures when purchased. Capital assets, which are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year, are recorded at historical cost, with the exception of library materials, which are capitalized regardless of cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. The District values donated capital assets at the estimated acquisition value of the item at the date of donation.

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

| <u>Asset</u> | <u>Years</u> |
|--------------------------|--------------|
| 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 GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 71).

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 and GASB 68.

Fund Balance/Net Position

The District reports fund balance and net position in accordance with the provisions of GASB 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.

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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.

2. Cash and Investments

At December 31, 2017, the District had the following cash and investments:

| | <u>Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|--|-------------------|----------------------|----------------------|
| Short-Term Cash and Investments | | | |
| Cash | \$ 20,426 | \$ 883,873 | \$ 904,299 |
| Local government investment pool | — | 17,594,894 | 17,594,894 |
| Total Short-Term Cash and Investments | <u>\$ 20,426</u> | <u>\$ 18,478,767</u> | <u>\$ 18,499,193</u> |

Amounts held by the local government investment pool are invested with COLOTRUST, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state regulations governing local government investment pools. COLOTRUST operates similarly to a money market fund, is rated AAA by Standard & Poor's, and each share is equal in value to \$1.00. Financial statements and additional information about COLOTRUST are available at <http://www.colotrust.com/about>.

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

3. Funds Held for Others

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

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

| | |
|---|-------------------------|
| | 2017 |
| Partner contributions | <u>\$ 59,675</u> |
| Portal expenses paid | <u>54,802</u> |
| Change in balance | <u>4,873</u> |
| Funds held for others, beginning of year | <u>15,553</u> |
| Funds held for others, end of year | <u><u>\$ 20,426</u></u> |

4. Capital Assets

During 2017, the District completed an acquisition of property adjacent to the Castle Rock branch for \$2,558,939 for the future expansion and renovation at that site. Additionally, the District disposed of furniture and equipment, primarily related to the replacement of carpet and shelving at the Castle Rock branch, with a net book value of \$38,538.

The District recorded depreciation expense of \$5,372,268 for the year ended December 31, 2017, of which \$2,751,195 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.

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Capital asset activity for the year ended December 31, 2017:

| | Balance 12/31/2016 | Additions | Deductions | Balance 12/31/2017 |
|--|-----------------------|--------------------|--------------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,962,859 | \$ 2,588,939 | | \$ 6,551,798 |
| Construction in progress | 54,648 | 171,951 | (54,648) | 171,951 |
| Artwork | 214,385 | | (11,000) | 203,385 |
| Total capital assets not being depreciated | 4,231,892 | 2,760,890 | (65,648) | 6,927,134 |
| Capital assets being depreciated: | | | | |
| Buildings | 43,377,861 | | | 43,377,861 |
| Building improvements | 705,854 | 321,523 | | 1,027,377 |
| Computers | 3,587,695 | 470,339 | (238,119) | 3,819,915 |
| Shelving | 1,513,094 | 265,629 | (231,433) | 1,547,290 |
| Furniture | 1,707,374 | 91,538 | (66,505) | 1,732,407 |
| Equipment and machinery | 2,906,113 | 33,946 | | 2,940,059 |
| Library materials | 8,810,677 | 2,204,784 | (2,643,166) | 8,372,295 |
| Total capital assets being depreciated | 62,608,668 | 3,387,759 | (3,179,223) | 62,817,204 |
| Accumulated depreciation: | | | | |
| Buildings | (6,969,423) | (1,421,990) | | (8,391,413) |
| Building improvements | (306,660) | (45,678) | | (352,338) |
| Computers | (1,597,961) | (688,435) | 232,615 | (2,053,781) |
| Shelving | (593,465) | (112,789) | 231,433 | (474,821) |
| Furniture | (403,423) | (145,771) | 44,471 | (504,723) |
| Equipment and machinery | (1,978,062) | (206,410) | | (2,184,472) |
| Archives and collections | (1,560,611) | (2,751,195) | 2,643,166 | (1,668,640) |
| Total accumulated depreciation | (13,409,605) | (5,372,268) | 3,151,685 | (15,630,188) |
| Total capital assets being depreciated, net | 49,199,063 | (1,984,509) | (27,538) | 47,187,016 |
| Governmental activities capital assets, net | \$ 53,430,955 | \$ 776,381 | \$ (93,186) | \$ 54,114,150 |

5. Commitments

Operating Lease Commitments

The District leases library facilities and equipment under operating leases. Total costs for such leases were \$133,739 for the year ended December 31, 2017. The future minimum payments for these leases are as follows:

| Year Ending December 31, | |
|---------------------------------|-------------------|
| 2018 | \$ 118,259 |
| 2019 | 117,952 |
| 2020 | 102,772 |
| Total | \$ 338,983 |

6. Long-Term Debt

In 2015, the District issued \$20,655,000 in Certificates of Participation (2015 CoPs) to partially fund the construction of three new libraries. The 2015 CoPs carry an average coupon rate of

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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, 2017:

| Year Ending December 31, | Principal | Interest | Total |
|---------------------------------|---------------------|--------------------|---------------------|
| 2018 | 1,200,000 | 811,300 | 2,011,300 |
| 2019 | 1,225,000 | 787,300 | 2,012,300 |
| 2020 | 1,250,000 | 762,800 | 2,012,800 |
| 2021 | 1,270,000 | 743,425 | 2,013,425 |
| 2022 | 1,320,000 | 692,625 | 2,012,625 |
| 2023 - 2027 | 7,645,000 | 2,405,375 | 10,050,375 |
| 2028 - 2030 | 5,570,000 | 463,875 | 6,033,875 |
| | <u>\$19,480,000</u> | <u>\$6,666,700</u> | <u>\$26,146,700</u> |

Changes in Long-Term Debt

Changes in the District's long-term obligations consisted of the following for the year ended December 31, 2017:

| | Balance 12/31/2016 | Additions | Reductions | Balance 12/31/2017 | Due Within One Year |
|------------------------------------|-------------------------------|-------------------|---------------------|-------------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Compensated absences | \$ 989,736 | \$ 731,585 | \$ 709,552 | \$ 1,011,769 | \$ 643,000 |
| 2015 Certificates of Participation | 20,655,000 | — | 1,175,000 | 19,480,000 | 1,200,000 |
| 2015 Premium | 2,415,558 | — | 193,749 | 2,221,809 | — |
| Total | <u>\$24,060,294</u> | <u>\$ 731,585</u> | <u>\$ 2,078,301</u> | <u>\$22,713,578</u> | <u>\$ 1,843,000</u> |

The general fund is used to liquidate compensated absences.

7. Employee Retirement Plans

Defined Benefit Pension Plan

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

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 \$1,496,320 for the year ended December 31, 2017.

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

At December 31, 2017, the District reported a liability of \$24,917,735 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on District contributions to the LGDTF for the calendar year 2016 relative to the total contributions of participating employers to the LGDTF.

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At December 31, 2016, the District's proportion was 1.845 percent, which was an increase of 0.081 percent from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the District recognized pension expense of \$4,980,757 and reported pension related deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ 2,864,737 | \$ — |
| Difference between expected and actual experience | 442,114 | — |
| Changes of assumptions or other inputs | 1,767,463 | (68,893) |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 535,771 | (9,085) |
| Contributions subsequent to the measurement date | 1,496,320 | — |
| Total | <u>\$ 7,106,405</u> | <u>\$ (77,978)</u> |

Contributions subsequent to the measurement date of \$1,496,320 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | |
|--|---------------------|
| 2018 | 3,266,050 |
| 2019 | 1,365,868 |
| 2020 | 837,332 |
| 2021 | 62,859 |
| | <u>\$ 5,532,109</u> |

Actuarial assumptions. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions and other inputs:

| Actuarial Cost Method | Entry Age |
|---|------------------|
| Price inflation | 2.80% |
| Real wage growth | 1.10% |
| Wage inflation | 3.90% |
| Salary increases, including wage inflation | 3.90-10.85% |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.50% |
| Discount rate | 7.50% |

Post-retirement benefit increases:

| | |
|--|---------------------|
| PERA benefit structure hired prior to 1/1/07, and DPS benefit structure (automatic) | 2.00% |
| PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic) | Financed by the AIR |

Based on the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016, and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016:

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

Mortality rates used in the December 31, 2015, valuation were based on the RP-2000 Combined Mortality Table for males or females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020, with males set back one year and females set back two years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back two years for males and set back two years for females) was assumed.

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013, and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016, to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the

measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

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 changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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. As a result of the October 28, 2016, actuarial assumptions workshop and the November 18, 2016, PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses, to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

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 by the investment consultant 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 November 18, 2016, adoption of the long-term expected rate of return by the PERA Board, the target 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 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:

- Updated economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total

covered payroll was assumed to increase annually at a rate of 3.50 percent.

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 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 end of the month.

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following table 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:

| | <u>1% Decrease (6.25%)</u> | <u>Current Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
|--|--------------------------------|--|--------------------------------|
| Proportionate share of the net pension liability | \$36,740,059 | \$24,917,735 | \$15,127,556 |

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. The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer health care trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA-participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, establishes the HCTF and 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 health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding policy. The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the CRS, as amended. For the years ending December 31, 2017, 2016, and 2015, the District contributions to the HCTF were \$120,366, \$109,774, and \$101,879, respectively, equal to their required contributions for each year.

8. Deferred Inflows of Resources

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

At December 31, 2017, the District has recorded a deferred inflow for property tax revenues to be levied and collected in 2018 of \$25,358,713. 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, 2017, the District has recorded a deferred inflow for pension related liabilities of \$77,978. 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.

9. Fund Balance/Net Position

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

Amounts reported as nonspendable fund balance at December 31, 2017, include prepaids of \$375,311 considered nonspendable in form and \$24,786 of security deposits required under the provisions of an easement and a lease.

At December 31, 2017, the District reported restricted fund balance of \$814,344, which includes emergency reserves of \$793,918 required by Article X, Section 20, of the Colorado Constitution, and agency funds of \$20,426 held on behalf of Volunteer Connect Douglas County as described in Note 3.

The District reports there were no committed funds at December 31, 2017.

Assigned fund balance at December 31, 2017, includes \$3,800,000, which is pursuant to the District's reserve policy to establish reserves to cover first-quarter obligations prior to receipt of property tax revenues, contingencies, and insurance deductibles.

Net position as reported at December 31, 2017, includes a net investment in capital assets of \$32,412,341. This amount represents the District's investment in capital assets of \$54,114,150, net of the District's remaining obligation under the 2015 CoPs at December 31, 2017, of \$19,480,000, which is net of unamortized premium of \$2,221,809.

10. Risk Management

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

11. 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.

Required Supplementary Information

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended December 31, 2017

| | Original Budget | Final Budget | Actual | Variance |
|--|----------------------------|-------------------------|----------------------|---------------------|
| Expenditures | | | | |
| Current | | | | |
| Operating | | | | |
| Salaries and benefits | \$ 15,094,422 | \$ 15,094,422 | \$ 15,131,960 | \$ (37,538) |
| Library materials | 3,495,800 | 3,495,800 | 3,495,573 | 227 |
| Facilities | 1,525,968 | 1,525,968 | 1,492,179 | 33,789 |
| Technology and support services | 1,402,407 | 1,402,407 | 1,346,219 | 56,188 |
| Programs and outreach | 741,945 | 741,945 | 858,872 | (116,927) |
| Administration | 1,322,125 | 1,322,125 | 1,202,971 | 119,154 |
| Capital Outlay | 5,358,643 | 5,358,643 | 4,040,637 | 1,318,006 |
| Debt Service | 2,009,800 | 2,009,800 | 2,009,800 | — |
| Total Expenses | <u>30,951,110</u> | <u>30,951,110</u> | <u>29,578,211</u> | <u>1,372,899</u> |
| Program Revenues | | | | |
| Operating contributions and grants | 288,020 | 288,020 | 321,972 | 33,952 |
| Charges for services | 786,434 | 786,434 | 897,226 | 110,792 |
| Total Program Revenues | <u>1,074,454</u> | <u>1,074,454</u> | <u>1,219,198</u> | <u>144,744</u> |
| Net Program Expenses | <u>29,876,656</u> | <u>29,876,656</u> | <u>28,359,013</u> | <u>1,517,643</u> |
| General Revenues | | | | |
| Property taxes | 22,835,676 | 22,835,676 | 22,807,820 | (27,856) |
| Auto ownership taxes | 2,000,000 | 2,000,000 | 2,505,786 | 505,786 |
| Investment earnings | 225,000 | 225,000 | 270,315 | 45,315 |
| Total General Revenues | <u>25,060,676</u> | <u>25,060,676</u> | <u>25,583,921</u> | <u>523,245</u> |
| Other Financing Sources | | | | |
| Lease income, net | (245,257) | (245,257) | 146,842 | 392,099 |
| Total Other Financing Sources | <u>(245,257)</u> | <u>(245,257)</u> | <u>146,842</u> | <u>392,099</u> |
| Net Change in Fund Balance | <u>(5,061,237)</u> | <u>(5,061,237)</u> | <u>(2,628,250)</u> | <u>2,432,987</u> |
| Fund Balance, Beginning of Year | <u>20,440,169</u> | <u>20,440,169</u> | <u>20,440,169</u> | <u>—</u> |
| Fund Balance, End of Year | <u>\$ 15,378,932</u> | <u>\$ 15,378,932</u> | <u>\$ 17,811,919</u> | <u>\$ 2,432,987</u> |

See Notes 1 and 2 to the Required Supplementary Information.

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|---------------|
| District's proportion of the net pension liability (asset) | 1.845% | 1.764% | 1.759% |
| District's proportionate share of the net pension liability (asset) | \$ 24,917,735 | \$ 19,433,036 | \$ 15,770,396 |
| District's covered-employee payroll | \$ 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 | 223% | 194% | 164% |
| Plan fiduciary net position as a percentage of the total pension liability | 81% | 81% | 81% |

See Note 2 to the Required Supplementary Information.

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
TO THE PENSION PLAN**

For the Years Ended December 31,

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------|---------------|---------------|
| Contractually required contribution | & 1,496,320 | \$ 1,364,600 | \$ 1,270,376 |
| Contributions in relation to the contractually required contribution | (1,496,320) | (1,364,600) | (1,270,376) |
| Contribution Deficiency (Excess) | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| District's covered-employee payroll | \$ 11,800,629 | \$ 11,184,779 | \$ 10,018,742 |
| Contributions as a percentage of covered-employee payroll | 12.68% | 12.20% | 12.68% |

See Note 2 to the Required Supplementary Information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

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 Related Disclosures

GASB Statement No. 68 was adopted during fiscal year 2015 and requires 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)**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---------------|---------------|---------------|---------------|---------------|
| Expenditures | | | | | |
| Current | | | | | |
| Operating | | | | | |
| Salaries and benefits | \$ 12,663,463 | \$ 12,926,791 | \$ 13,833,369 | \$ 14,480,344 | \$ 15,131,960 |
| Library materials | 3,437,724 | 3,459,743 | 3,554,623 | 3,409,934 | 3,495,573 |
| Facilities | 1,027,896 | 956,142 | 1,130,874 | 1,273,154 | 1,492,179 |
| Technology and support services | 1,092,074 | 1,120,576 | 1,071,145 | 1,388,763 | 1,346,219 |
| Programs and outreach | 578,654 | 579,760 | 617,049 | 802,159 | 858,872 |
| Administration | 1,089,778 | 1,067,171 | 1,053,381 | 1,428,235 | 1,202,971 |
| Capital Outlay | 830,703 | 1,465,108 | 14,178,941 | 20,690,256 | 4,040,637 |
| Debt Service | | | 74,205 | 834,800 | 2,009,800 |
| Total Expenses | 20,720,292 | 21,575,291 | 35,513,587 | 44,307,645 | 29,578,211 |
| Program Revenues | | | | | |
| Operating contributions and grants | 292,181 | 853,922 | 409,377 | 363,037 | 321,972 |
| Charges for services | 615,626 | 581,959 | 633,202 | 590,134 | 897,226 |
| Total Program Revenues | 907,807 | 1,435,881 | 1,042,579 | 953,171 | 1,219,198 |
| Net Program Expenses | (19,812,485) | (20,139,410) | (34,471,008) | (43,354,474) | (28,359,013) |
| General Revenues | | | | | |
| Property taxes | 18,211,226 | 18,670,817 | 19,151,234 | 22,436,808 | 22,807,820 |
| Auto ownership taxes | 1,550,800 | 1,695,121 | 1,853,168 | 2,075,618 | 2,505,786 |
| Investment earnings | 167,902 | 174,515 | 195,064 | 277,689 | 270,315 |
| Total General Revenues | 19,929,928 | 20,540,453 | 21,199,466 | 24,790,115 | 25,583,921 |
| Other Financing Sources | | | | | |
| Lease income, net | | | | | 146,842 |
| Proceeds from lease purchase financing, net | | | 23,005,269 | | |
| Proceeds from sale of capital assets | | | | 3,600,200 | |
| Total Other Financing Sources | — | — | 23,005,269 | 3,600,200 | 146,842 |
| Net Change in Fund Balance | 117,443 | 401,043 | 9,733,727 | (14,964,159) | (2,628,250) |
| Fund Balance, Beginning of Year | 25,152,115 | 25,269,558 | 25,670,601 | 35,404,328 | 20,440,169 |
| Fund Balance, End of Year | \$ 25,269,558 | \$ 25,670,601 | \$ 35,404,328 | \$ 20,440,169 | \$ 17,811,919 |

**HISTORY OF ASSESSED VALUATIONS
(Unaudited)**

| Levy / Collection Year | Assessed Valuation | Percent Change | Statutory "Actual" Value |
|-----------------------------------|-------------------------------|---------------------------|-------------------------------------|
| 2012/2013 | \$4,547,847,091 | 1.0% | \$ 39,681,968,077 |
| 2013/2014 | \$4,685,095,079 | 3.0% | \$ 40,752,191,474 |
| 2014/2015 | \$4,776,804,579 | 2.0% | \$ 41,706,831,768 |
| 2015/2016 | \$5,587,841,999 | 17.0% | \$ 49,748,694,494 |
| 2016/2017 | \$5,686,174,292 | 1.8% | \$ 50,989,716,383 |
| 2017/2018 | \$6,338,899,010 | 11.5% | \$ 60,820,530,833 |

**HISTORY OF MILL LEVIES
(Unaudited)**

| Levy / Collection Year | General Fund | Special Abatement | Total Levy |
|-----------------------------------|-------------------------|------------------------------|-------------------|
| 2012/2013 | 4.000 | 0.068 | 4.068 |
| 2013/2014 | 4.000 | 0.029 | 4.029 |
| 2014/2015 | 4.000 | 0.032 | 4.032 |
| 2015/2016 | 4.000 | 0.035 | 4.035 |
| 2016/2017 | 4.000 | 0.016 | 4.016 |
| 2017/2018 | 4.000 | 0.021 | 4.021 |

**PROPERTY TAX COLLECTIONS
(Unaudited)**

| Levy / Collection Year | Taxes Levied | Current Tax Collections | Collection Rate |
|-----------------------------------|-------------------------|------------------------------------|----------------------------|
| 2011/2012 | \$18,185,614 | \$ 17,944,507 | 98.67% |
| 2012/2013 | \$18,500,642 | \$ 18,298,676 | 98.91% |
| 2013/2014 | \$18,876,248 | \$ 18,703,548 | 99.09% |
| 2014/2015 | \$19,260,076 | \$ 19,209,461 | 99.74% |
| 2015/2016 | \$22,546,942 | \$ 22,441,945 | 99.53% |
| 2016/2017 | \$22,835,676 | \$ 22,836,855 | 100.01% |