

**FORT COLLINS REGIONAL
LIBRARY DISTRICT**

FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

FORT COLLINS REGIONAL LIBRARY DISTRICT

Financial Statements
For the Year Ended December 31, 2007

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**Board of Trustees
Fort Collins Regional Library District
Fort Collins, Colorado**

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fort Collins Regional Library District (District) as of and for the year ended December 31, 2007, which collectively comprise the Fort Collins Regional Library District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fort Collins Regional Library District as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Affiliate Offices Worldwide

**Board of Trustees
Fort Collins Regional Library District
Fort Collins, Colorado**

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

July 13, 2008

Bondi & Co. LLC
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Fort Collins Regional Library District (the District) offers the readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2007. In addition to this overview and analysis based on currently known facts, decisions and conditions, the District would encourage readers to consider the information presented in the District's financial statements, which begin on page 9 of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the end of the fiscal year ended December 31, 2007 by \$5,348,865 (net assets). Of the net asset balance, \$2,429,365 is unrestricted and is available to meet the government's ongoing obligations in accordance with the District's fund designations and fiscal policies.
- The District's net assets increased by \$3,133,601 from operations and by \$2,215,264 from assets transferred from the City of Fort Collins.
- The General Fund, the District's primary operating fund, reported an increase of \$2,676,843 on a current financial resource basis.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of the following three components:

- 1) Government-wide Financial Statements,
- 2) Fund Financial Statements and
- 3) Notes to the Financial Statements.

Government-wide Financial Statements. The government-wide statements are designed to provide readers with a broad overview of the District's finances using the accrual basis of accounting, the basis of accounting used by most private-sector businesses.

The statement of net assets presents information on all of the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. Over time, increases and decreases in net assets may provide an indication of whether the District's financial position is improving or deteriorating.

The statement of activities presents information reflecting how the District's net assets have changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 9 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District accounts for all of its activities in one Governmental Fund – the General Fund.

Governmental funds. Governmental funds are used to report those same functions reported as governmental activities in the government - wide financial statements. However, unlike the government-wide statements, the fund financial statements are prepared on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and similar long-term items which are recorded when due. Therefore, the focus of the governmental fund financial statements is on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year.

Since the focus of the governmental funds is on near-term resources, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. To facilitate this comparison, reconciliations are provided for both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances.

The District adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 9 of this report.

Notes to the financial statements. The notes to the financial statements are considered an integral part of the basic financial statements since they provide additional information needed to gain a full understanding of the data provided in both the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of December 31, 2007, assets exceeded liabilities by \$5,348,865.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets as of December 31, 2007

Current and other assets	\$ 9,357,904
Capital assets	2,783,835
Total assets	<u>12,141,739</u>
Current liabilities	6,792,874
Total liabilities	<u>6,792,874</u>
Net assets:	
Invested in capital assets, net of related debt	2,783,835
Restricted	135,665
Unrestricted	2,429,365
Total net assets	<u>\$ 5,348,865</u>

For more detailed information see the Statement of Net Assets found on page 9 of this report.

The largest portion of the District's net assets (52%) reflect its investment in capital assets (e.g., the collections of library materials and equipment). The District uses these capital assets to provide library services to citizens; consequently, these assets are not available for future spending.

An additional portion of the District's net assets (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,429,365, may be used to meet the District's ongoing obligations to its citizens and employees.

The District's total net assets increased by \$5,348,865 during the current fiscal year. This increase was due to the implementation of a mill levy which will be more fully used in future years for expanded operations and from a transfer of the library materials collection and equipment from the City of Fort Collins as part of the transition to library services being provided by the District.

Changes in Net Assets

The following table reflects a condensed summary of activities and changes in net assets.

Statement of Activities & Changes in Net Assets Year Ended December 31, 2007

Revenues:	
Program revenues:	
Charges for services	\$ 106,527
Operating grants & contributions	272,808
Capital grants and contributions	2,215,264
General revenues:	
Property and specific ownership taxes	6,635,665
Investment earnings	184,005
Total Revenues	9,414,269
Expenses:	
Library Services	
Contracted through the City of Fort Collins	3,331,200
Incurred directly by the District	734,204
Total expenses	4,065,404
Change in net assets	5,348,865
Net assets - beginning	-
Net assets - ending	\$ 5,348,865

For more detailed information see the Statement of Activities on page 10 of this report.

Financial Analysis of the District's General Fund

As noted previously, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental (General) fund. The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's

financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental fund reported an ending fund balance of \$2,676,843. Because 2007 was the first year of operations for the District, this amount was also the increase for the year. Approximately \$2,247,547 (84%) of that amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$429,296 (16%) is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period or must only be spent for specific purposes.

Budgetary Highlights

Governmental (General) Fund

General Fund. Actual expenditures of \$4,522,162 were below the total budgeted expenditures by \$1,215,448 due to the following:

- As part of the first year of operations for the District, it was anticipated that service levels would be increased and that additional support staff would be needed. Due to the timing of implementing these changes, increased operating costs did not occur at the level which would have more fully spent the budget.
- Library administration costs were budgeted higher knowing the District would incur up front, one-time costs in its first year of operations and that support services previously provided to the library as a City of Fort Collins service would require payment for services as a separate entity. These costs were not incurred at the level budgeted.

Capital Assets

The District's investment in capital assets as of December 31, 2007 was \$2,783,835. The majority of this balance was for assets (library collection materials and equipment) transferred from the City of Fort Collins at the end of the fiscal year as part of the transfer of operations to the District.

Additional information on the District's capital assets can be found on page 20 of this report.

Economic Factors

The District is dependent on property taxes as its primary source of revenue. While the northern Colorado economy has done well compared to the overall state and the national economy, a slow down in growth and changes in property values has a direct impact on revenue. Because of the annual process of levying and collecting property taxes, the impact is also more on an annual basis rather than the monthly or quarterly impacts of other types of revenue can have on other governments.

This and other factors were considered when the District prepared its 2007 budget.

Financial Contact

The District's financial statements are designed to provide users (citizens, taxpayers, customers, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information presented in this report or requesting additional information should be addressed to the District Finance Officer, 201 Peterson Street, Fort Collins, CO 80524-2990.

BASIC FINANCIAL STATEMENTS

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**FORT COLLINS REGIONAL LIBRARY DISTRICT
GENERAL FUND
BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	<u>Balance Sheet</u>	<u>Adjustments (Note II)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 829,281	\$ -	\$ 829,281
Investments	1,800,784	-	1,800,784
Receivables			
Property taxes	6,704,130	-	6,704,130
Accounts	3,729	-	3,729
Accrued interest	19,980	-	19,980
Property and Equipment, Net	-	2,783,835	2,783,835
Total Assets	<u>\$ 9,357,904</u>	<u>2,783,835</u>	<u>12,141,739</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	13,669	-	13,669
Accrued compensated absences	-	111,813	111,813
Due to other governments	692	-	692
Deferred revenue	6,666,700	-	6,666,700
Total Liabilities	<u>6,681,061</u>	<u>111,813</u>	<u>6,792,874</u>
Fund Balances			
Reserved for:			
Encumbrances	230,000	(230,000)	-
Emergency reserve	135,665	(135,665)	-
Donations	63,631	(63,631)	-
Unreserved			
Undesignated	2,247,547	(2,247,547)	-
Total Fund Balances	<u>2,676,843</u>	<u>(2,676,843)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 9,357,904</u>		
Net Assets:			
Invested in Capital Assets		2,783,835	2,783,835
Restricted for Emergencies		135,665	135,665
Unrestricted		2,429,365	2,429,365
Total Net Assets		<u>\$ 5,348,865</u>	<u>\$ 5,348,865</u>

The notes to the financial statements are an integral part of this statement.

**FORT COLLINS REGIONAL LIBRARY DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE/
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007**

	Statement of Revenue, Expenditures and Change in Fund Balance	Adjustments (Note II)	Statement of Activities
REVENUES			
Taxes	\$ 6,635,665	\$ -	\$ 6,635,665
Intergovernmental	98,825	-	98,825
Fees and charges for services	25,835	-	25,835
Fines	80,692	-	80,692
Earnings on investments	184,005	-	184,005
Donations	173,983	-	173,983
Total Revenues	7,199,005	-	7,199,005
EXPENDITURES			
Current operating			
Personal services	2,527	111,813	114,340
Contractual Services:			
City of Fort Collins	3,899,771	(568,571)	3,331,200
City Support Services	280,202	-	280,202
Direct District Expenses	215,839	-	215,839
Treasurer's Fee	123,593	-	123,593
Commodities	230	-	230
Total Expenditures	4,522,162	(456,758)	4,065,404
Excess of Revenues Over Expenditures	2,676,843	456,758	3,133,601
OTHER FINANCING SOURCES			
Assets transferred from City of Fort Collins	-	2,215,264	2,215,264
Total Other Financing Sources	-	2,215,264	2,215,264
Net Change in Fund Balance/Net Assets	2,676,843	2,672,022	5,348,865
Fund Balance/Net Assets - January 1	-	-	-
Fund Balance/Net Assets - December 31	\$ 2,676,843	\$ 2,672,022	\$ 5,348,865

The notes to the financial statements are an integral part of this statement.

**FORT COLLINS REGIONAL LIBRARY DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Actual</u>	<u>Budget (Original and Final)</u>	<u>Variance- Positive (Negative)</u>
REVENUES			
Property taxes	\$ 6,080,001	\$ 6,136,020	\$ (56,019)
Specific ownership taxes	544,902	600,000	(55,098)
Property tax interest	10,762	-	10,762
Earnings on investments	184,004	40,000	144,004
Copier charges	25,835	14,600	11,235
Fines	80,693	44,000	36,693
Donations	173,983	105,000	68,983
Intergovernmental	98,825	-	98,825
Total Operating Revenues	<u>7,199,005</u>	<u>6,939,620</u>	<u>259,385</u>
EXPENDITURES/EXPENSES			
Library Administration	418,405	901,000	482,595
Systems Management	106,268	145,000	38,732
Adult Services	361,913	400,500	38,587
Children's Services	208,008	248,000	39,992
Circulation	527,868	583,800	55,932
Combined Expenses	249,025	265,600	16,575
Collection Development	685,954	756,600	70,646
Programming	250,328	270,000	19,672
Harmony Branch	347,917	365,000	17,083
Harmony Circulation	363,368	420,800	57,432
Technical Services	270,365	322,300	51,935
Donations	110,352	125,000	14,648
Operating Costs Reimbursements	<u>3,899,771</u>	<u>4,803,600</u>	<u>903,829</u>
City Support Services	280,202	400,000	119,798
Professional Fees	135,469	175,000	39,531
Treasurer's Fees	123,593	134,720	11,127
Other Contractual	83,127	124,290	41,163
Contingency	-	100,000	100,000
Total Expenditures/Expenses	<u>4,522,162</u>	<u>5,737,610</u>	<u>1,215,448</u>
Net Change in Fund Balance	2,676,843	<u>\$ 1,202,010</u>	<u>\$ 1,474,833</u>
Fund Balances--January 1	<u>-</u>		
Fund Balances--December 31	<u>\$ 2,676,843</u>		

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Fort Collins Regional Library District (the District) was created in 2007 under the provisions of Article 90 of Title 24 of the Colorado Revised Statutes after a successful election in 2006 to authorize the District formation.

The District is administered by a governing board of seven members who are appointed by the City of Fort Collins and Larimer County. The accompanying financial statements present the all of the financial activity for which the District is financially accountable.

B. Government-wide and Fund Financial Statements

The District reports as a special purpose government engaged in a single governmental program. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of government. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program is offset by program revenues. Direct expenses are those that are clearly associated with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Investment earnings and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources 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. As under accrual accounting, expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as those related to compensated absences and incurred claims and judgments, are recorded only when payment is due.

Charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines are considered to be measurable and available only when the cash is received by the District, as a result they are not susceptible to accrual.

D. Financial Statement Presentation

The accounts of the District are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures.

The District reports all of its financial activity in its General Fund. It accounts for all financial resources of the District.

All Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure issued on or before November 30, 1989 generally are followed in the government-wide financial statements, unless those pronouncements conflict with or contradict GASB pronouncements.

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.

E. Assets, Liabilities and Fund Equity

Cash and Investments

The District has stated certain investments at fair value in accordance with GASB No. 31. Fair value is determined utilizing the third party custodian's statements, Wall Street Journal, Bloomberg, and other recognized pricing services.

The District's cash and investments are held in the name of and managed by the City of Fort Collins. Whenever possible, cash is pooled from the District's funds to enhance investment capabilities and maximize investment income. Investments are made taking into consideration cash flow needs, market conditions, and contingency plans. On behalf of the District, the City's investment policies prescribe eligible investments, investment diversification, and maturity and liquidity guidance, which are utilized in managing the investment portfolio.

The City, on behalf of the District, invests in derivatives and similar securities. Derivatives are generally defined as contracts, whose value depend on, or derives from, the value of an underlying asset, reference rate, or index. The City, on behalf of the District, holds bonds with floating interest rates, which are considered derivatives, and similar mortgage-backed securities.

Capital Assets

Capital assets, which are acquired or constructed, are reported at historical cost or estimated historical cost in the applicable governmental or business-type activities' columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of five years or greater. In addition, materials added annually to the library materials collection are capitalized in the aggregate. Once fully depreciated, an annual addition to the collection is deleted. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets other than land and impaired assets are depreciated. Depreciation is computed using the straight-line method with estimated useful lives as follows:

- Machinery and equipment 5-15 years
- Library materials collection..... 5 years

Compensated Absences

The District allows employees to accumulate unused vacation pay and to defer overtime pay by accumulating compensatory leave up to maximum limits. Unused sick pay is not recognized as a liability because it does not meet the criteria for accrual. The liability associated with these benefits is reported in the government-wide financial statements.

Fund Balance

In the fund financial statements, fund balances of the District's governmental funds are classified either as reserved or unreserved. The unreserved portion may be further classified as either designated or undesignated. Designated fund balances represent amounts identified by management for the future use of current resources.

Reserved fund balances indicate that a portion of fund equity has been segregated for future use and is not an available spendable resource or is an amount which is legally required to be segregated in accordance with legal and contractual provisions.

Property Taxes Receivable

Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in the subsequent year in two installments on February 28 and June 15, or in total on April 30. Property taxes are billed and collected by Larimer County, Colorado. Taxes for the following year are levied no later than December 15 and are recorded as a receivable with a corresponding offset to deferred revenue.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE II. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Fund balance per Balance Sheet	\$2,676,843
Inclusion of Capital Assets which are not financial resources and therefore not reported in the fund	2,783,835
Inclusion of liability for compensated absences budgeted in the fund in future year	<u>(111,813)</u>
Net Assets per Statement of Net Assets	<u>\$5,348,865</u>
Net change in Fund Balance per Statement of Revenue, Expenditures and change in Fund Balance	\$2,676,843
Transfer of capital assets from City of Fort Collins	2,215,264
Capitalization of current year addition to the library materials collection	568,571
Inclusion of liability for Compensated Absences	<u>(111,813)</u>
Change in Net Assets per Statement of Activities	<u>\$5,348,865</u>

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgetary Accounting and Control

The budget for the General Fund is adopted on a basis which is consistent with generally accepted accounting principles (GAAP).

Legal Level of Control

The legal level of budgetary control is at the individual fund level.

Lapsing Appropriations

All appropriations unexpended or unencumbered lapse at the end of the year. Appropriations which are encumbered at year end are carried over to the ensuing year at which time they are matched with their corresponding expenditures.

Budgetary Procedures

The District's budget is approved by the governing board prior to the commencement of the fiscal year. The District's management may transfer any unused budgeted amount or portion thereof from one budget category to any other budget category at the legal level of budgetary control without approval of the Board. Other budget amendments must be approved in the form of a resolution by the Board.

No budget amendments were needed in 2007.

Encumbrances

Encumbrance accounting is utilized by the District to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

NOTE IV. DETAILED FUND NOTES

A. Deposits and Investments

The District's deposits and investments are held in the name of and managed by the City of Fort Collins. As such, they are not evidenced by accounts or securities in the District's name that exist in physical or book entry form. The District has adopted the same investment policy as the City. The following deposit and investment disclosures are for the District's share of the City's pooled cash and investments.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be returned. Due to the federal deposit insurance and the collateral, no deposits for the District were exposed to custodial credit risk.

Investments

Investment policies are governed by Colorado statute and the District's own investment policies and procedures. Investments of the District may include:

- Obligations of the United States such as T-bills, notes and bonds
- Bonds or other interest-bearing obligations of which the principal and interest are unconditionally guaranteed by the United States government, such as GNMA bonds, GNMA participation certificates and GNMA pass throughs.
- Debentures or similar obligations issued by a federal intermediate credit bank or by a bank for cooperatives
- Notes or bonds secured by mortgages or trust deeds insured pursuant to Title II of the "National Housing Act" (the Act), obligations of national mortgage associations or similar credit institutions organized under Title III of the Act and debentures issued by the Federal Housing Administration under Section 204-A of the Act
- Repurchase agreements of any marketable security, where the market value of such security is at all times at least equal to the moneys involved and there is assignment of such security to the District or its agent.

In accordance with GASB Statement No. 40, the District's investments are subject to interest rate and credit risk as described below:

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits at least 80 percent of the District's investment portfolio to maturities of less than five years and at least five percent of the District's operating investment portfolio to maturities of 120 days or less. Based on the current rate environment, the District assumes that all callable securities will be called on the first call date.

Credit Risk

The District's investment policy limits investments in corporate bonds to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2007, the City's investment on behalf of the District in corporate bonds were rated AA or better by Standard & Poor's and Aa2 or better by Moody's Investors Service. The District's investment policy also allows for the District to invest in local government investment pools.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the City, on behalf of the District, may invest in any one issuer. At the end of 2007, the District had its investments in Federal Home Loan Bank (FHLB) agency securities, rated AAA.

Custodial Credit Risk for Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy restrict holding of securities by counterparties.

As of December 31, 2007, the City, on behalf of the Authority, had the following investments:

<u>Investment Type</u>	Fair <u>Value</u>	<u>Investment Maturities</u>	
		Up to <u>120 days</u>	121 days <u>to 5 years</u>
Repurchase Agreement	\$ 411,885	\$ 411,885	\$ -
Instrumentality			
Federal Home Loan Bank (FHLB) AAA	<u>1,388,899</u>	<u>-</u>	<u>1,388,899</u>
Total Investments Controlled by the City on Behalf of the Authority	<u>\$ 1,800,784</u>	<u>\$ 411,885</u>	<u>\$ 1,388,899</u>
Percent of Total		22.9%	77.1%

The carrying amounts of deposits and investments are reflected in the accompanying government-wide statement of net assets as:

Cash and cash equivalents	\$ 829,281
Investments	<u>1,800,784</u>
Total	<u>\$ 2,630,065</u>

The City, on behalf of the District, invests in GNMA's and other mortgage-backed securities. Mortgage-backed securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. If interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

A change in interest rates on variable (floating) rate bonds likewise affects the amount of interest received on those securities.

B. Capital Assets

A summary of changes in capital assets for the year follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets, being depreciated				
Machinery & Equipment	\$ -	\$ 137,984	\$ -	\$ 137,984
Library Materials Collection	\$ -	2,645,851	-	2,645,851
Total	<u>\$ -</u>	<u>\$ 2,783,835</u>	<u>\$ -</u>	<u>\$ 2,783,835</u>

Capital assets were acquired at the end of the fiscal year from the City of Fort Collins. Therefore, for 2007, there is no depreciation expense and no difference between cost and net book value.

B. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated Absences	<u>\$ -</u>	<u>\$ 111,813</u>	<u>\$ -</u>	<u>\$ 111,813</u>	<u>\$ 111,813</u>

NOTE V. OTHER INFORMATION

A. Risk Management

Property, Liability, and Workers Compensation

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and injuries to employees and natural disasters.

The District purchases commercial insurance for risks of loss in excess of deductible amounts. Settlements did not exceed insurance coverage in 2007.

B. Related Party Transactions

For 2007, the District entered into an intergovernmental agreement with the City of Fort Collins to provide library services to the public and to provide support services to the District. The District reimbursed the City \$3,899,771 for the personnel, commodities and contractual services costs incurred for library services in 2007. The District also paid the City \$280,202 for support services including accounting, budgeting, treasury management, accounts payable, payroll, facility maintenance, human resources, purchasing, information technology and risk management. In 2008, the District has taken over library service operations including the transfer of library employees to the District and direct payment of all other operating costs. The City continues to provide support services similar to 2007 and the District provides employee benefits through the City's Human Resources Department.

In prior years, the citizens of Fort Collins have approved a sales tax specifically for library technology as part of the City's Building Community Competencies program. In 2007, \$513,759 was spent by the City on Library services from this revenue source.

D. Legal Matters

Pending Litigation

The Town of Wellington has filed suit against the District asking that as future land is annexed into the Town, it be removed from the District. The District's legal council holds the opinion that once property is included in the District, it will stay in the district regardless of other governments' annexations.

Tax, Spending, and Debt Limitations

Article X, Section 20, of the State Constitution, has several limitations, including those for revenue, expenditures, property taxes, and issuance of debt. The Amendment is complex and subject to judicial interpretation. As part of the ballot language that formed the District, permission to retain all revenue generated by the current mill levy and other operating revenue. The District is required to comply with all other aspects of this amendment included needing voter approval to increase tax rates or issue debt.

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