

Poudre River Public Library District

Financial Report
December 31, 2012

POUDRE RIVER PUBLIC LIBRARY DISTRICT

Financial Statements
For the Year Ended December 31, 2012

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Independent Auditor's Report

To the Board of Trustees
Poudre River Public Library District
Fort Collins, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Poudre River Public Library District (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Poudre River Public Library District, as of December 31, 2012, and the respective changes in financial position and, the budgetary comparisons for the General Fund 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 on pages 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying budgetary comparison schedule for the Capital Projects Fund on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McGladrey LLP

Denver, Colorado
May 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Poudre River Public 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, 2012. 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 8 of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the end of the fiscal year ended December 31, 2012 by \$26,372,244 (net position). Of the net position balance, \$3,527,422 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 position increased by \$66,365 in 2012.
- The General Fund, the District's primary operating fund, reported a fund balance increase of \$276,327 on a current financial resource basis. The General Fund had a fund balance as of December 31, 2012 of \$4,602,980.
- A Capital Projects Fund reported a fund balance decrease of \$2,305,148 in 2012. The decrease was due to the expansion and remodel of Old Town Library. The Capital Projects Fund had a fund balance as of December 31, 2012 of \$309,471.

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 position presents information on all of the District's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, increases and decreases in net position 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 position has changed during the year. All changes in net position 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 8 and 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 two Governmental Funds – the General Fund and a Capital Projects 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 funds. Budgetary comparison statements have been provided for the District’s two funds – the General Fund and the Capital Projects Fund - to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 8-10 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 beginning on page 11 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. As of December 31, 2012, assets exceeded liabilities by \$26,372,244.

Statement of Net Position

The following table reflects the condensed Statement of Net Position as of December 31, 2012 compared with 2011

	2012	2011
Current and other assets	\$ 12,159,508	\$ 15,457,412
Capital assets	21,670,957	19,560,485
Total assets	<u>33,830,465</u>	<u>35,017,897</u>
Current liabilities	<u>550,941</u>	<u>219,474</u>
Deferred inflows of resources	<u>6,907,280</u>	<u>6,911,784</u>
Net Position:		
Invested in capital assets	21,670,957	19,560,485
Restricted	1,173,865	1,116,351
Unrestricted	3,527,422	5,629,043
Total net position	<u>\$ 26,372,244</u>	<u>\$ 26,305,879</u>

For more detailed information, see the Statement of Net Position found on page 8 of this report.

The investment in capital assets (e.g., land, library buildings, the collection of library materials and equipment) is the largest portion of the District's net position and represents 82% of the District's net position. The District uses these capital assets to provide library services to citizens; consequently, these assets are not available for future spending.

The District's unrestricted net position represents 13% of total net position. The District has committed \$1,893,746 of this balance for capital improvements and for the maintenance of adequate operating reserves.

An additional portion of the District's net position (5%) represents resources that are subject to external restrictions on how they may be used.

The District's total net position increased by \$66,365 during the current fiscal year.

Changes in Net Position

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

Statement of Activities & Changes in Net Position Years Ended December 31, 2012 and 2011

Revenues:	2012	2011
Program revenues:		
Charges for services	\$ 217,689	\$ 263,224
Operating grants & contributions	861,196	816,947
Capital grants and contributions	319,935	121,217
General revenues:		
Property and specific ownership taxes	7,393,167	7,345,235
Investment earnings	66,036	156,031
Total Revenues	8,858,023	8,702,654
Expenses:		
Library Services	6,009,630	5,534,900
Administration	1,318,792	1,273,448
Depreciation	1,463,236	1,361,880
Total expenses	8,791,658	8,170,228
Change in net position	66,365	532,426
Net position - beginning	26,305,879	25,773,453
Net position - ending	\$ 26,372,244	\$ 26,305,879

For more detailed information see the Statement of Activities on page 9 of this report.

Financial Analysis of the District's Governmental Funds

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

Governmental Funds. The focus of the District's governmental funds 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, unassigned 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 funds reported an ending fund balance of \$4,912,451. This was a decrease of \$2,028,821. \$1,844,840 (38%) of the ending balance constitutes unassigned fund balance, which is available for spending at the government's discretion. The Board of Trustees has committed \$1,679,500 of the unrestricted fund balance as an operating /working capital reserve and \$214,246 as a capital improvements reserve. The remainder of fund balance, \$1,173,865 (24%) is restricted to indicate that it is not available for new spending because it must only be spent for externally imposed specific purposes.

Budgetary Highlights

Governmental Funds

General Fund. Actual expenditures of \$8,006,438 were below the total budgeted expenditures by \$74,642 which is approximately the amount budgeted for contingency.

Capital Assets

The District's investment in capital assets as of December 31, 2012 was \$21,670,957. Capital assets, net of depreciation increased \$2,110,472 in 2012.

Capital Assets

	<u>2012</u>	<u>2011</u>
Land	\$ 2,256,000	\$ 2,256,000
Buildings & Improvements	14,931,334	11,341,547
Equipment & Furnishings	1,423,746	860,069
Library Materials Collection	2,989,090	3,141,146
Construction in Process	<u>70,787</u>	<u>1,961,723</u>
Total Cost	<u>\$ 21,670,957</u>	<u>\$ 19,560,485</u>

Additional information on the District's capital assets can be found on page 18 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. However, 2012 saw an increase in building activity as the local economy improved. In the City of Fort Collins, building permits increased 17% compared with 2011 and the value of construction for those permits increased 33%. Because of the annual process of levying and collecting property taxes, the revenue impact on the District of changes in the economy is realized more on an annual basis monthly or quarterly impacts that are experienced with other types of local government revenue. Property values are reassessed every two years. 2012 was not a re-assessment year. In a non-reassessment year, property changes are primarily from additions and deletions to the tax roll and, therefore, the assessed valuation for 2012 was substantially unchanged.

Another significant source of revenue for the District is specific ownership taxes. This is a portion of the fees paid on vehicle licensing. This revenue fluctuates based on the level of new vehicle sales and other factors. For 2012, the District collected 9% (\$38,828) more specific ownership taxes than in 2011.

These and other factors were considered when the District prepared its 2012 and 2013 budgets.

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, 301 E. Olive Street, Fort Collins, CO 80524.

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BASIC FINANCIAL STATEMENTS

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**POUDRE RIVER PUBLIC LIBRARY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2012**

	General Fund	Capital Projects Fund	Total	Adjustments (Note II)	Statement of Net Position
ASSETS					
Cash and cash equivalents	\$ 524,888	\$ 28,339	\$ 553,227	\$ -	\$ 553,227
Investments	4,315,186	251,431	4,566,617	-	4,566,617
Receivables					
Property taxes	6,907,280	-	6,907,280	-	6,907,280
Accounts	42,145	77,550	119,695	-	119,695
Accrued interest	12,038	651	12,689	-	12,689
Land	-	-	-	2,256,000	2,256,000
Construction in progress	-	-	-	70,787	70,787
Other capital assets, net of accumulated depreciation	-	-	-	19,344,170	19,344,170
Total Assets	\$ 11,801,537	\$ 357,971	\$ 12,159,508	\$ 21,670,957	\$ 33,830,465
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Current Liabilities					
Accounts payable	\$ 153,207	\$ 48,500	\$ 201,707	\$ -	\$ 201,707
Accrued wages payable	110,446	-	110,446	-	110,446
Accrued compensated absences	-	-	-	211,164	211,164
Unearned revenue	27,624	-	27,624	-	27,624
Total Liabilities	291,277	48,500	339,777	211,164	550,941
Deferred Inflows of Resources					
Unavailable revenue - property taxes	6,907,280	-	6,907,280	-	6,907,280
Fund Balances					
Restricted fund balance	1,078,640	95,225	1,173,865	(1,173,865)	-
Committed fund balance	1,679,500	214,246	1,893,746	(1,893,746)	-
Unassigned fund balance	1,844,840	-	1,844,840	(1,844,840)	-
Total Fund Balances	4,602,980	309,471	4,912,451	(4,912,451)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 11,801,537	\$ 357,971	\$ 12,159,508		
Net Position:					
Invested in Capital Assets				21,670,957	21,670,957
Restricted for Emergencies				242,200	242,200
Restricted for Capital				109,718	109,718
Restricted for Collection Development				85,897	85,897
Restricted for Library Technology				736,050	736,050
Unrestricted				3,527,422	3,527,422
Total Net Position				\$ 26,372,244	\$ 26,372,244

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

**POUDRE RIVER PUBLIC LIBRARY DISTRICT
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Capital Projects Fund	Total	Adjustments (Note II)	Statement of Activities
EXPENDITURES/EXPENSES					
Current operating					
Personal services	\$ 4,959,949	\$ -	\$ 4,959,949	\$ 15,286	\$ 4,975,235
Contractual Services:					
City Support Services	407,540	-	407,540	-	407,540
Treasurer's Fee	141,559	-	141,559	-	141,559
Other Contractual	1,102,522	-	1,102,522	-	1,102,522
Commodities:					
Collection Development	1,015,223	-	1,015,223	(680,663)	334,560
Other Commodities	345,384	-	345,384	-	345,384
Depreciation	-	-	-	1,463,236	1,463,236
Capital outlay	34,261	2,880,406	2,914,667	(2,893,045)	21,622
Total Expenditures/Expenses	8,006,438	2,880,406	10,886,844	(2,095,186)	8,791,658
PROGRAM REVENUES					
Charges for services	217,689	-	217,689	-	217,689
Operating grants and contributions	861,196	-	861,196	-	861,196
Capital grants and contributions	-	319,935	319,935	-	319,935
Total Program Revenues	1,078,885	319,935	1,398,820	-	1,398,820
GENERAL REVENUES					
Property taxes	6,903,435	-	6,903,435	-	6,903,435
Specific ownership taxes	489,732	-	489,732	-	489,732
Earnings on investments	62,763	3,273	66,036	-	66,036
TRANSFERS	(252,050)	252,050	-	-	-
Total General Revenues and Transfers	7,203,880	255,323	7,459,203	-	7,459,203
Excess (Deficiency) of Revenues and Transfers In					
Over Expenditures and Transfers Out	276,327	(2,305,148)	(2,028,821)	2,028,821	-
Change in Net Position				66,365	66,365
FUND BALANCE/NET POSITION					
Beginning of year	4,326,653	2,614,619	6,941,272	19,364,607	26,305,879
End of year	\$ 4,602,980	\$ 309,471	\$ 4,912,451	\$ 21,459,793	\$ 26,372,244

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

**POUDRE RIVER PUBLIC LIBRARY DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Actual	Budget (Original)	Budget (Final)	Variance
REVENUES				
Property taxes	\$ 6,891,277	\$ 6,832,500	\$ 6,832,500	\$ 58,777
Specific ownership taxes	489,732	450,000	450,000	39,732
Property tax interest	12,158	-	-	12,158
Intergovernmental	769,248	744,000	744,000	25,248
Fees and charges for services	17,302	25,000	25,000	(7,698)
Fines	190,354	175,000	175,000	15,354
Earnings on investments	62,763	50,000	50,000	12,763
Donations	91,948	88,000	88,000	3,948
Misellaneous	10,033	-	-	10,033
Total Operating Revenues	8,534,815	8,364,500	8,364,500	170,315
EXPENDITURES				
Library Administration	1,318,792	1,321,120	1,306,120	(12,672)
Systems Administration	560,508	627,080	557,080	(3,428)
Collection Services	703,214	658,770	706,270	3,056
Collection Development	1,015,223	935,000	988,500	(26,723)
Outreach Services	206,805	245,100	220,100	13,295
Answer Center	151,558	145,360	152,865	1,307
Programming	126,713	110,400	112,900	(13,813)
Facilities	298,963	364,990	302,490	3,527
Combined Operations	47,991	73,550	47,550	(441)
Old Town Operations	172,578	184,900	174,900	2,322
Old Town Public Service	800,470	805,370	802,870	2,400
Old Town Circulation	489,395	490,410	492,905	3,510
Harmony Operations	107,333	114,630	109,630	2,297
Harmony Public Service	538,218	523,760	541,260	3,042
Harmony Circulation	473,829	461,760	476,760	2,931
Council Tree Operations	251,493	234,290	249,290	(2,203)
Council Tree Public Service	295,415	298,790	298,790	3,375
Council Tree Circulation	413,680	360,800	415,800	2,120
Capital Outlay	34,260	50,000	50,000	15,740
Contingency	-	75,000	75,000	75,000
Total Expenditures	8,006,438	8,081,080	8,081,080	74,642
Excess of Revenues				
Over Expenditures	528,377	283,420	283,420	244,957
OTHER FINANCING SOURCES (USES)				
Transfers Out	(252,050)	(252,050)	(252,050)	-
Net Change in Fund Balance	276,327	31,370	31,370	244,957
Fund Balance - January 1	4,326,653	3,800,000	3,800,000	526,653
Fund Balances--December 31	\$ 4,602,980	\$ 3,831,370	\$ 3,831,370	\$ 771,610

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 Poudre River Public Library District (the District) was created in 2007 as the Fort Collins Regional Library District 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 name was changed to the Poudre River Public Library District in January 2009.

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 all of the financial activity for which the District is financially accountable.

The District is considered a stand-alone government for financial reporting purposes. As such, it follows the same principles as if it were a primary government as defined by Governmental Accounting Standards Board Statements (GASB) No. 14 and 39.

The reporting entity of the District consists of its own legal entity and those organizations for which it is financially accountable. Entities for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are included in the reporting entity. As of December 31, 2012, there are no legal entities that meet this criterion.

B. Government-Wide 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 position and the statement of activities) report information on all of the activities of government. Governmental activities are supported by taxes and intergovernmental revenue.

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.

The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in the current year. The adoption of this Statement changed the presentation of the basic financial statements to a statement of net position format.

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, compensated absences and incurred claims and judgments, are recorded only when payment is due.

Charges for services, amounts due from other governments and earnings on investments 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 two Governmental Funds – the General Fund and a Capital Projects Fund. The Capital Projects Fund is holding resources that are restricted for either land acquisition or facility design, and for the accumulation of a capital reserve established by the Board of Trustees. All other financial activity and resources are accounted for in the General Fund.

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, Deferred Inflows of Resources 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.

Capital Assets

Capital assets, which are acquired or constructed, are reported at historical cost or estimated historical cost 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, construction-in-progress and impaired assets are depreciated. Depreciation is computed using the straight-line method with estimated useful lives as follows:

- Buildings.....30-50 years
- Furnishings and equipment 5-15 years
- Library materials collection.....7 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.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues for property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. In the District's government-wide statements, the property tax revenues remain under the full accrual basis of accounting and will become an inflow in the year they are levied.

Fund Balance

In the fund financial statements, fund balances of the District's governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Management has the ability to make fund balance assignments. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Board of Trustees has established, by resolution, a reserve for working capital equal to 20% of annual revenue and a capital reserve to accumulate by setting aside 3%-5% of annual revenue. The working capital reserve is to be maintained in the General Fund to provide for the cash flow needs of the District. These are reported as committed fund balance and will continue until Board action is taken to change these amounts.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The detail for the District's fund balances is as follows:

Fund Balances:	General	Capital Projects	Total
Restricted:			
Emergencies	\$ 242,200	\$ -	\$ 242,200
Donations	85,897	-	85,897
Library Technology	736,050	-	736,050
Land and Design Services	-	95,225	95,225
Capital Projects	14,493	-	14,493
Total Restricted	1,078,640	95,225	1,173,865
Committed:			
Working Capital	1,679,500	-	1,679,500
Capital Projects	-	214,246	214,246
Total Committed	1,679,500	214,246	1,893,746
Unassigned	1,844,840	-	1,844,840
Total Fund Balance	\$ 4,602,980	\$ 309,471	\$ 4,912,451

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 inflows of resources.

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 balances per Balance Sheet	\$ 4,912,451
Inclusion of Capital Assets which are not financial resources and therefore not reported in the Funds	21,670,957
Inclusion of liability for compensated absences budgeted in the fund in future years	<u>(211,164)</u>
Net Position per Statement of Net Position	\$ <u>26,372,244</u>
Net change in Fund Balances per Statement of Revenue, Expenditures and Change in Fund Balance	\$ (2,028,821)
Capitalization of current year addition to the library materials collection	680,663
Capitalization of other capital outlay	2,893,045
Current depreciation of capital assets	(1,463,236)
Inclusion of liability for Compensated Absences	<u>(15,286)</u>
Change in Net Position per Statement of Activities	\$ <u>66,365</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.

One supplemental budget appropriation for the Capital Projects Fund of \$394,200 was approved in 2012 to increase capital outlay for improvements made to the Old Town Library and Library Park.

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. Open purchase orders and other commitments at year end will be charged to the subsequent year's budget when completed. Therefore, no restriction of fund balance has been recorded.

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. The bank balance of the District's deposits as of December 31, 2012 was \$606,895.

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 to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2012, the City's investments on behalf of the District were rated AA+ or better by Standard & Poor's and Aaa 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 2012, the District had 94% of the investments in Federal Home Loan Bank (FHLB) agency securities.

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, 2012, the District had the following investments:

<u>Investment Type</u>	<u>Credit Risk Rating</u> <u>S&P/Moody's</u>	<u>Fair</u> <u>Value</u>	<u>Investment Maturities</u>		
			<u>Up to</u> <u>120 days</u>	<u>121 days</u> <u>to 5 years</u>	<u>More than</u> <u>5 years</u>
Instrumentality					
Federal Home Loan Bank (FHLB)	AA+/AAA	\$ 4,277,456	\$ -	\$ 4,277,456	\$ -
Certificates of Deposit		289,161	-	289,161	-
Total Investments Controlled by the City on Behalf of the District		<u>\$ 4,566,617</u>	<u>\$ -</u>	<u>\$ 4,566,617</u>	<u>\$ -</u>
Percent of Total			0%	100%	0%

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

Cash and cash equivalents	\$ 553,227
Investments	<u>4,566,617</u>
Total	<u>\$5,119,844</u>

The City, on behalf of the District, invests in FHLBs 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.

In addition to investments held by the Library District, the Community Foundation of Northern Colorado has a Library Fund which holds donations made directly to the Foundation to benefit the Library District. Five percent of the balance is available for distribution annually or can accumulate for future distributions. In 2012, no distributions were made. As of December 31, 2012, the balance in the Library Fund was \$221,592 and \$13,055 was available for distribution.

B. Capital Assets

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

	Beginning of Year	Additions	Deletions	End of Year
Capital assets, not being depreciated				
Land	\$ 2,256,000	\$ -	\$ -	\$ 2,256,000
Construction in process	<u>1,961,723</u>	<u>70,787</u>	<u>1,961,723</u>	<u>70,787</u>
Total Capital assets, not being depreciated	<u>4,217,723</u>	<u>70,787</u>	<u>1,961,723</u>	<u>2,326,787</u>
Capital assets, being depreciated				
Buildings	12,137,335	4,017,547	-	16,154,882
Equipment and furnishings	1,539,658	766,434	-	2,306,092
Library Materials Collection	<u>5,392,683</u>	<u>680,663</u>	<u>365,328</u>	<u>5,708,018</u>
Total Capital Assets, being depreciated	<u>19,069,676</u>	<u>5,464,644</u>	<u>365,328</u>	<u>24,168,992</u>
Less accumulated depreciation				
Buildings	837,455	386,093	-	1,223,548
Equipment and furnishings	637,919	244,427	-	882,346
Library Materials Collection	<u>2,251,540</u>	<u>832,716</u>	<u>365,328</u>	<u>2,718,928</u>
Total Accumulated Depreciation	<u>3,726,914</u>	<u>1,463,236</u>	<u>365,328</u>	<u>4,824,822</u>
Total capital assets being depreciated, net	<u>15,342,762</u>	<u>4,001,408</u>	<u>-</u>	<u>19,344,170</u>
Capital Assets, net	<u>\$ 19,560,485</u>	<u>\$ 4,072,195</u>	<u>\$ 1,961,723</u>	<u>\$ 21,670,957</u>

C. Long-Term Liabilities

A summary of changes in Long-Term Liabilities for the year follows:

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
Compensated absences	<u>\$ 195,878</u>	<u>\$ 227,549</u>	<u>\$ 212,263</u>	<u>\$ 211,164</u>	<u>\$ 211,164</u>

Compensated absences are generally liquidated by the General Fund.

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 2012.

The District participates in the City of Fort Collins' self-insured health program.

B. Retirement Commitment

Money Purchase Plan 401(a)

The District offers its employees a defined contribution money purchase plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate six months from the date of employment. The plan requires both employer contributions of 6.5% and employee contributions of 3% of base salary each pay period. Contributions made by the District are not taxable to the employee until they are withdrawn. Employee contributions are made with pre-tax or after tax dollars, and the earnings on District and employee contributions are not taxed until withdrawn. Employees are fully vested upon initial participation in the plan. Plan provisions and contribution requirements are established and may be amended by District's Board of Trustees. District and employee contributions to the plan were \$206,351 and \$83,856, respectively during 2012.

C. Related Party Transactions

Pursuant to an intergovernmental agreement with the City of Fort Collins, the District contracts for support services including accounting, budgeting, treasury management, accounts payable, payroll, facility maintenance, human resources, purchasing, information technology and risk management. In 2012, the District paid the City \$406,548 for these services. The City also provides employee benefits to the District's employees through the City's Human Resources Department. The District and its employees pay the same benefit premiums as the City and its employees.

In prior years, the citizens of Fort Collins have approved sales taxes specifically for library technology as part of the Building on Basics (BOB) initiative. Annually through 2015, the City will be transferring \$744,000 to the District as BOB funds. In 2012, the District spent \$616,497 of those funds. The District is reporting the unspent balance of these sales tax initiatives as Restricted for Library Technology in the General Fund.

D. Legal Matters

Tax, Spending, and Debt Limitations

Article X, Section 20, of the State Constitution has several limitations, including those for revenues, 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 was given to retain all revenue generated by the current mill levy and other operating revenues. The District is required to comply with all other aspects of this amendment including needing voter approval to increase tax rates or issue debt.

E. Construction Commitment

The District has a construction commitment of approximately \$191,000 for capital improvements to Library Park. Future expenditures related to this commitment are expected to be financed through available resources and future revenues.

SUPPLEMENTARY INFORMATION

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**POUDRE RIVER PUBLIC LIBRARY DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Actual	Budget (Original)	Budget (Final)	Variance
REVENUES				
Intergovernmental	\$ 60,000	\$ -	\$ 60,000	\$ -
Earnings on investments	3,273	15,000	15,000	(11,727)
Donations	259,935	-	248,100	11,835
Total Operating Revenues	323,208	15,000	323,100	108
EXPENDITURES				
Capital Outlay				
Old Town Library Expansion and Remodel	2,725,478	3,803,000	3,803,000	1,077,522
Donor Funded Old Town Library Improvements	144,223	-	394,200	249,977
Webster House Administration Center	10,705	-	-	(10,705)
Total Capital Outlay	2,880,406	3,803,000	4,197,200	1,316,794
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,557,198)	(3,788,000)	(3,874,100)	1,316,902
OTHER FINANCING SOURCES				
	252,050	252,050	252,050	-
Net Change in Fund Balances	(2,305,148)	(3,535,950)	(3,622,050)	1,316,902
Fund Balance - January 1	2,614,619	4,150,980	4,150,980	(1,536,361)
Fund Balances--December 31	\$ 309,471	\$ 615,030	\$ 528,930	\$ (219,459)

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