

PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING
July 24, 2014

I. CALL TO ORDER

The Audit Committee meeting was called to order at 4:00 p.m. in the Executive Conference Room at the Rawlings Lamb Library.

Board Members Present: Marlene Bregar, Committee Chair; Philip Mancha

Absent: Roy Miltner

Staff Present: Jon Walker, Executive Director; Chris Brogan, Chief Financial Officer; Jane Carlsen, Board Secretary

Auditors Present: Wendy Swanhorst

II. DISCUSSION ITEMS

Ms. Brogan distributed the Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2013 together with the management letter from Swanhorst & Company, LLC.

Ms. Bregar turned the discussion over to Ms. Swanhorst. Ms. Swanhorst reviewed the management letter reporting on what the auditors did and what they found. Ms. Swanhorst said the numbers are fairly stated in all material respects. Another responsibility of the auditor is to identify any weaknesses in your internal controls. Some adjustments were made, but nothing material.

The Foundation is included in the District's audit as a component unit for the first time this year. Ms. Swanhorst explained that the District audit was delayed somewhat because of the inclusion of this additional financial statement and the additional time it took to audit the Foundation.

The auditors also found some discrepancies in what had been added to "Construction in Progress" in Capital Assets, but should not have been. That discrepancy was corrected in 2013.

Ms. Swanhorst said the District had not used money in some time from the Special Revenue Fund called the Chamberlain Fund. In 2013, \$41,500 was transferred from the Chamberlain Fund to the Capital Projects Fund for the new libraries. The Governing Board is the only one that can approve this. It was done as an action item that was outside of the Budget process. Ms. Brogan said we should have asked the Board to approve a Resolution to Amend the Budget to reflect that transfer. It is a minor issue, and it is still a clean opinion. It would be a bigger issue if there was money transferred and the Board did not know about it.

There is a new accounting standard for defined benefit pension plans, and the library is in PERA which is a defined benefit plan. Starting in 2015, the library will have to include liability for the unfunded part of the PERA reserve for the District in the financial statements.

Dr. Mancha asked if it would require the library to cut the budget. Ms. Swanhorst explained that it does not really change what you do on a day-to-day basis, but it has to be reported in the financial statements beginning in 2015. The library contributes to PERA what the legislature requires it to contribute. Ms. Bregar understands that PERA has decreased its unfunded portion through a number of measures. From 2008, when the economy was bad, the unfunded liability became large. In 2013, they changed the rate of return and they will make 7.5%.

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Dr. Mancha said that when they say, “require the District to report its proportional share of PERA’s unfunded liability” they are talking about numbers. If it is not money that the library has to apply to it, Dr. Mancha asked how it works. Ms. Swanhorst agreed it is not easy. The only place you will see it is the full accrual in your long-term liabilities. There will be a line item there for the PERA liability. Mr. Walker said it will affect our net position. Ms. Bregar said it will not affect us for day-to-day operations and only would affect us if we went out for a bond or lease-purchase issue. Ms. Swanhorst said the way PERA will measure it is by the number of participants, and Ms. Swanhorst estimates the liability will work out to be about \$100,000 per employee. Dr. Mancha asked if this would be done by PERA, and Ms. Swanhorst said PERA will do the calculation, but the library’s auditors will also have to do some work. There was further discussion about whether it would be calculated by full-time equivalent (FTE) employees or if it will depend on the rates paid, and Ms. Swanhorst said at this point it is just a ball park estimate. For 2014, PERA will have to do that work, and the library won’t have the details until after 2014. The liability could be around \$10 million. So if the library’s net position today is \$30 million, the added liability will take it down to \$20 million. Ms. Swanhorst said it probably will not matter unless you go to issue bonds. The intent was to show how much potential liability governments have from these pension plans. Ms. Swanhorst said there is a bigger impact to school districts where they could have a negative net position.

Dr. Mancha asked if there are any options. Ms. Swanhorst said the library has the option not to be in PERA, and there was discussion of the difficulty for the employees working now, and it would be difficult to shift pension plans.

Mr. Walker said that this says at the beginning of the year ending 2015, this really will take effect during the audit held in 2016. Mr. Walker pointed out that the library does not really have to have that money. When the audit is done, it will be lower than it is this year and when you audit the 2014 budget. In 2015 is when you will know the numbers. Dr. Mancha said there could be efforts to push that down, and the state would want those to go down. Ms. Bregar said they have been doing that every year. The percentage paid by employers has gone up, employees are paying 8%, and the funds are being ratcheted up by legislative actions. Retirees who work for a PERA-employer contribute to PERA but receive no further benefit. There was discussion of whether new employees hired from a certain date forward could be in a different pension plan, which would mitigate the issue for existing employees, but there was concern about whether that is possible in PERA. There could be some federal rules and rules with Social Security. Additional options were discussed, and Dr. Mancha said the library will just have to be careful.

Dr. Mancha noted that this was the first year for the audit of the Foundation, and he asked if there were any special issues the Board needed to be aware of.

Ms. Swanhorst said the Foundation received their own management letter, and she has met with the Foundation Board. Ms. Brogan keeps the books for the Foundation too. The first year brought up some things, and they are a non-profit, and they had in-kind costs paid by the District for the Foundation.

Ms. Bregar asked if by in-kind we are talking about Amber Pepin’s time and Mr. Walker’s time. Mr. Walker said they had to go back and account for that to meet the standards for the auditors. There were some other in-kind contributions, and those were all clarified.

In Capital, the Foundation collected \$187,000 in cash, and the Foundation had some costs and some of their costs were paid by the District as in-kind contributions. Mr. Walker said we had to go back and accumulate what the auditors needed. Ms. Bregar asked if each person is now keeping track of their time for the Foundation. Ms. Brogan said they would use the percentages that were used in 2013, and apply those on a quarterly basis to the Foundation books in 2014. Mr. Walker’s time on the Foundation is minimal, but Amber

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Pepin's is significant. It was noted that the percentage of time should be included in the job description. If an employee is spending 20% of their week, then 20% of that employee's salary and benefits are calculated as in-kind contributions. We had to learn that this year. Ms. Swanhorst added that is a cost to the District.

Mr. Walker said the fundraising effort is bringing in money to the Foundation and to the District. Some contributors choose to give to the District instead of to the Foundation. Ms. Bregar asked if it was to take advantage of the Enterprise Zone tax credit. It was clarified that the District and the Foundation are both eligible for the Enterprise Zone tax credit. Mr. Walker said in any case, those donations are through the efforts of a fundraising team, and there is a benefit to that. Mr. Walker also pointed out that both the Foundation and the District are 501(c)3 nonprofits.

Mr. Walker expects to keep the Foundation efforts active after the fundraising for the buildings. The question would be at what point the contributions from the District exceed what the Foundation is paying to the District, and is it worth the investment.

There was additional discussion on the Foundation's audit as a component unit, and Ms. Swanhorst may have some extra copies of the Foundation's audit.

Dr. Mancha referred to page 30 of the CAFR and asked if that is for the COPs, and Ms. Swanhorst referred him to pages 50-51 for the detail.

Dr. Mancha said after a number of years of reading the auditor's reports, he feels confident about what management is doing, and it is always good to have it further confirmed.

Cash handling, which had been an issue in the 2012 audit, had improved and is doing very well. Ms. Brogan credited Michelle Stitt with reconciling those reports.

Dr. Mancha asked Ms. Swanhorst if she needed any assistance from the Audit Committee as she presents this to the entire Board. Ms. Swanhorst responded that she will keep it short in the Board meeting.

Ms. Bregar said basically we worked with Swanhorst & Co. LLC for a number of years now, and there is a level of confidence that things are being done right.

Ms. Brogan encouraged those present to take a look at the statistics in the back of the book to compare some of the numbers historically.

III. ADJOURNMENT There being no further discussion, Ms. Bregar thanked the auditors and adjourned the meeting at 4:50 p.m.

Respectfully submitted,

Jane Carlsen/
Secretary