

### Sacramento Public Library Authority

Agenda Item 4.3: Financial Audit Report Update

TO: Sacramento Public Library Authority Board Members

FROM: Vicki Johnson, Director of Finance

**RE:** Financial Audit Report Update

#### **RECOMMENDED ACTIONS:**

1. ACCEPT the recommendation of the Authority Budget-Audit Committee to Accept the Independent Auditor's Reports, Financial Statements, Required Supplementary Information, and Supplemental Schedule for the Sacramento Public Library Authority, for the Fiscal Year Ended June 30, 2007.

#### INFORMATION

According to the JPA Agreement, the Library Authority shall cause an independent audit of the Authority finances to be made by a certified public accountant or public accountant in accordance with Section 6505 of the Government Code.

Management is pleased to report that for fiscal year ending June 30, 2007, the Library received an unqualified and clean audit opinion on the financial statements from its Independent Auditors. The 2007 Audit Report is attached (see Exhibit A).

The auditors provided a summary of required communications to the Budget/Audit Committee on March 23, 2009, which included discussion about delays in providing schedules and the significant number of post-audit client adjustments. These delays were a result of several circumstances, among which were the impact of adjusting entries to prior periods and the complications this created on past and current reconciliations; the volume of open items in account reconciliations and staff's decision to clear them in the appropriate accounting period; interpretation of City of Sacramento activity and resulting complicated adjusting entries; related adjustments to allocations and fund balance; and the complexity of combining the City of Sacramento and the Library Authority trial balances. While the process of combining trial balances was greatly improved in 2007, it was time consuming. Staff is confident these types of delays will diminish once the audits are up to date and the Authority is operating with a single trial balance.

### Management Letters - Fiscal Years 2006 and 2007

The Management Letter associated with the 2006 Financial Audit (Attachment A) was forwarded to the Budget/Audit Committee electronically on February 3, 2009, and in formal written format at the committee meeting March 23, 2009. Recommendations associated with the 2006 Management Letter have been

# March 26, 2009

### Sacramento Public Library Authority

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included in the Library's comprehensive Internal Assessment with a timeline for completion.

The Budget Audit Committee will review the Management Letter for fiscal year 2007 as soon as it is available.

#### Update on 2008 Financial Audit

Audit fieldwork related to the 2007/2008 fiscal year audit began on March 16, 2009 and is on track for completion in May 2009. Staff is confident there will be no significant delays associated with the 2008 financial audit. Some 2008 fieldwork was performed concurrently with 2007, which has improved the schedule and staff has worked diligently to assure that all schedules and reconciliations are up to date and accurate. The Library will be in line to commence a regularly scheduled audit for fiscal year 2008/2009 in August of 2009.

#### Fund Balances Fiscal Year 2007

The Library General Fund is a consolidation of the Library's jurisdictional funds: Shared Cost Fund, County/Cities Fund, Sacramento City Fund, and Sacramento Special Tax fund.

Financial activities as of June 30, 2007, increased general fund balance by \$5,515,449 resulting in a total fund balance of \$18,648,300. After allocation of shared costs, changes to jurisdictional fund balances due to 2007 financial activities are stated below (see 'Change in Fund Balance'). Note that \$116,880 of fund balance was retained in the Shared Cost fund as reservation of purpose-restricted donations not spent during fiscal year 2007. The Reserve for Economic Uncertainty was approved by resolution of the Board on September 9, 2006, with the adoption of the September final budget for fiscal year 2006/2007. Increases in fund balance were largely due to growth in County Fund 11 property tax revenues and City Assessment revenues.

#### Comparison of Actual Revenue Year-ended June 30, 2007 versus 2006

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	Shared Cost (1)	County/ Cities	Sacramento City	City Special Tax	Total					
Revenue - 2007	1,023,526	20,175,750	10,067,314	4,228,440	35,495,029					
Revenue - 2006	1,015,989	16,390,289	9,597,033	3,859,342	30,862,653					
Change in Revenue	7,537	3,785,461	470,281	369,098	4,632,376					
Change %	1%	23%	5%	10%	15%					

<sup>(1)</sup> Inclusive of the Grants Fund

The Library's revenues for the fiscal year ended June 30, 2007 were higher by \$4,632,376, an increase of 15% over the prior year. The increase was primarily due to growth in the County's Fund 11 property tax revenues and City Assessment revenues.



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#### Comparison of Actual Expenditures Year-ended June 30, 2007 versus 2006

	Shared Cost (1)	County/ Cities	Sacramento City	City Special Tax	Total
Expenditure - 2007	906,646	16,170,051	9,807,170	3,095,713	29,979,580
Expenditure - 2006	1,015,989	13,420,587	9,470,220	3,340,922	27,247,718
Change in Exp - inc/(dec.)	(109,343)	2,749,464	336,950	(245,209)	2,731,862
Change in Exp - %age - inc/(dec.)	(11%)	2%	4%	(1%)	10%

(1) Inclusive of the Grants Fund

Overall, actual expenditures increased by \$2,731,862, 10% over the prior year due to moderate increases in all categories; however, the total of \$29,979,580 was significantly less than the approved budgeted expenditures of \$34,969,751. Significant savings were recognized due to position vacancies and reductions in capital expenditures, resulting in lower expenditures than had been anticipated.

#### **ATTACHMENTS**

Attachment A: Management Letter – Fiscal Year 2005/2006

Exhibit A: Independent Auditor's Reports, Financial Statements, Required

Supplementary Information, and Supplemental Schedule for the Sacramento Public Library Authority, for the Fiscal Year Ended June

30, 2007

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# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Sacramento Public Library Authority Sacramento, California

We have audited the financial statements of the governmental activities and each major fund of the Sacramento Public Library Authority (the Authority), a component unit of the County of Sacramento, California, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller's General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below:

#### 1. ACCOUNTING CLOSING PROCESS

The accounting closing process of the Authority was not adequate to prepare financial statements in an efficient and timely manner for the year ended June 30, 2006. The audit of the Authority's year-end financial statements for 2006 was originally scheduled for January 2007, but had to be postponed numerous times due to inability to support and reconcile financial information recorded during the 2006 year. We found that account reconciliations and analyses for major financial statement line items (i.e. cash, accounts receivable, accounts payable, revenue and expenses) had not been finalized. The lack of a complete and accurate close of the financial accounts resulted in numerous adjusting and reclassification entries subsequent to year end.

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Related to this matter, as discussed below, the Authority has no formal documentation of its financial accounting procedures and system of internal control. A clear distinction of the duties and responsibilities of administrative and financial personnel has not been documented. The lack of written procedures and responsibilities has contributed to the inefficiency of the department and its inability to produce timely and accurate financial information.

Reconciliations and account analysis should occur on a regular basis to ensure accurate and timely financial reporting. An essential aspect of any organization's internal control over its financial reporting process is the ability to produce accurate financial data in accordance with generally accepted accounting principles. Accurate financial reporting enables management and the Board of the Authority to have a sound financial basis for decision making. Conversely, the absence of accurate financial data may undermine the plans and initiatives of management and the Board of the Authority. The lack of a close and reconciliation process of the Authority represents a significant internal control which should not require or rely on the additional level of control supplied by an audit. We recommend the Authority establish and document the monthly and year-end closing process and outline procedures, responsible parties and timelines.

#### Management Response:

Concerning auditor recommendations associated with internal controls over financial reporting:

(A) Management concurs with the reportable condition of lacking an adequate accounting close process. There are still challenges with the consolidation of City and Library trial balances that persist through FY 2007 and 2008, although the process is much improved from FY 2006. Finance staff has made the necessary accruals (liability and revenue) for FY 2007 in preparation for the upcoming audit. They have completed a detail of fixed assets and depreciation schedule for FY 2007. Finance will have a well documented and accurate year end close process for FY 2009, which will begin in May 2009.

Improvements have been made to the month end close process, including review of financial statements, assuring that revenues and expenditures are appropriately recorded, and that all reclassifications are accounted for. Staff is developing written procedures to document a formal month end closing to include up to date reconciliations of accounts and periodic allocations.

- (B) In response to account reconciliations not being performed, Finance has completed the reconciliation of payroll liability accounts as well as the general and payroll cash accounts through June 2007. Reconciliations are on track to being current effective June 2009.
- (C) Concerning lack of financial accounting procedures and internal controls, management has defined the structure for the accounting and internal control procedural documentation. Staff has established good procedural documentation for the payroll system. Staff will produce a timeline for completing the entire documentation structure and present the timeline to the Board in January 2009.
- (D) Concerning accurate and timely financial reports, effective August 2008, Finance has provided regular, timely and accurate financial reports to the Board and to the internal management teams.

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### 2. INTERNAL CONTROLS OVER CASH DISBURSEMENTS

During our review of the Authority's accounting procedures and system of internal control over cash disbursements, we noted certain deficiencies in internal control and lack of segregation of duties exists in the following areas:

- Receiving reports should be required before payment is made.
- Invoices should be matched to purchase orders and receiving reports before payment is made.
- The check signature plate should be used only in the presence of two authorized individuals.
- The check prelist should be approved before any checks are processed.
- Printed checks should be approved for payment by the approved check signer or other responsible official.
- The custody of checks after they are signed and before they are mailed should be handled by an employee independent of all payable, disbursing, cash receiving, and general ledger functions.
- Vendor invoices should be delivered directly to the accounts payable staff.
- Supporting documentation, such as the original solicitation document, competitive pricing analysis, and vendor selection documentation, related to formal bid procurements should be maintained by the purchasing agent in a centralized location.

Implementation of these measures will assist the Authority with internal controls over its cash disbursement process and reduces the risk of error or fraud through timely detection of irregularities.

#### Management Response:

Concerning issues of internal controls over cash disbursements, management's response is as follows:

- (A) Staff will develop a plan to fully implement the first two issues concerning receiving reports and matching documents full implementation by June 2009.
- (B) Concerning the issue of the check pre-list and approval of printed checks, this was not a practice in FY 2006 and 2007, but was implemented in November 2007 during FY 2008.
- (C) Concerning custody of checks after they are signed, management will develop a plan for implementing this control and implement in January 2009.
- (D) Concerning vendor invoices delivered directly to accounts payable staff, management implemented this in FY 2008.
- (E) Concerning supporting documentation related to procurement, management implemented these changes in FY 2009.

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#### 3. GENERAL ACCOUNTING POLICIES AND PROCEDURES

Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances accountability and consistency and can serve as a useful training tool for staff. The Authority currently does not have documentation summarizing its accounting policies and procedures.

We recommend that the Authority document its accounting policies and procedures through the creation of a policies and procedures manual. Accounting policies and procedures should be promulgated by an appropriate level of management to emphasize their importance and authority and should be updated periodically. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. Additionally, a specific employee should be assigned the duty of overseeing this process.

The accounting policies and procedures manual should be readily available to all employees. Furthermore, it should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the accounting policies and procedures manual should indicate task responsibilities and completion timeframes for each position in the department. The procedures should be described as they are actually intended to be performed and should explain the design and purpose of control-related procedures to increase employee understanding of and support for controls.

#### Management Response:

Concerning the issue of formalized accounting policies and procedures, management concurs and has defined the structure and contents for a financial policies and procedures manual. This project was initiated in FY 2009 and is slated for completion in FY 2010. A comprehensive plan will be presented to the Board in January 2009.

#### 4. BUDGET-TO-ACTUAL REPORTS

The budget is one of the most important documents a state or local government prepares because it identifies the services to be provided and how the services are to be financed. Based on discussions with Authority personnel, the Authority's current budget-to-actual reporting does not provide department heads complete and accurate budget-to actual financial information in a timely manner.

We recommend that budget-to-actual reports be provided to department managers on a monthly basis and that department managers explain significant variances. Such reports can be provided in many formats and can vary in size, scope, and level of detail. At a minimum, the report should provide financial summary data on revenues and expenditures, including prior year actual, current year budget and current year actual to date. This type of budget-to-actual reporting allows departments to monitor the progress of financial and program/project results and adds an additional level of control over the Authority's financial reporting. If budget variances are not addressed in a timely manner, it may be too late for the organization to remedy the situation. Additionally, the budget-to-actual information should be presented to the Board on a regular basis.

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### Management Response:

Concerning budget to actual reports, management concurs that reporting is essential to the organization. Budget to actual reports are provided to the Board on a monthly basis, since August 2008. Management has access to budget to actual reports, including historical data related to prior year activity. Management will implement a plan for regular periodic reporting of budget to actual variances by department managers in January 2009.

#### 5. PAYROLL PROCESSING

The payroll accounting technician reviews each pay period's payroll prelist but does not verify that pay rates are correct or reconcile the payroll prelist to source documents.

In order to prevent unauthorized paychecks from being issued, or unauthorized pay rates from being implemented, the payroll prelist should be reviewed by a person who does not have access to making changes to the payroll system. This person should review to make sure there are no unauthorized people, pay rates, or amount of time worked. This could be accomplished by randomly selecting a sample of employees and verifying gross earnings, net earnings, amount of time worked, and pay rate. The sample selected should come from employees that had a change in their status from the prior payroll period since changes to an employee's payroll status is the point at which risk for error is the highest. If any discrepancies are noted, they should be investigated and, depending on the results, the sample expanded to include more employees

In addition the payroll technician should prepare a control total by department of hours worked, per the source documents (or other appropriate control total), before processing the source documents, and compare the control total with the payroll prelist before processing payroll.

#### Management Response:

Concerning payroll processing, in fall of 2008, management began a review of the standard operating procedures between Human Resources and Payroll to assure that changes to employee records are authorized and appropriately reviewed. Changes were implemented and further changes are pending, to be completed by January 2009.

#### 6. SUPPORTING DOCUMENTATION

During the course of the audit it was noted that there were several missing or misplaced documents which management could not locate. In addition there were many instances where documents could be found but the underlying transactions were not supported by appropriate supporting documentation, such as credit card receipts, invoices, and journal entry explanations.

The Authority as a governmental agency has a fiduciary responsibility to those citizens that it serves and as a result is subject to audit by various external organizations. The Authority cannot justify business decisions or transactions without maintaining the proper supporting or authorizing documentation. We recommend that the Authority include supporting documentation with all transactions processed to ensure a proper audit trail.

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#### Management Response:

Concerning supporting documentation, management concurs and has implemented a more detailed documentation process related to financial transactions. Journal entries are approved only when accompanied by appropriate supporting documentation and a written explanation justifying the need for the transaction. The Library's credit card policy requires detailed receipts and descriptions and high level review of credit card transactions. As referenced in 2A above, documentation associated with accounts payable invoices will include receiving reports and other matching documents by June 2009.

#### 7. ACCOUNTS RECEIVABLE

The Authority does not maintain a detailed accounts receivable ledger for all funds. As a result, accounts receivable are not periodically aged and reviewed. In addition, Authority billings are not reviewed by anyone other than the preparer prior to being mailed.

A detailed accounts receivable ledger is essential to the maintenance and monitoring of receivables and should be prepared and placed into use as soon as possible. The aging of accounts receivable lists accounts for which payment has not yet been received and how long they have been outstanding. Its review contributes to the proper valuation of net accounts receivable, as it identifies accounts for which it is unlikely that payment will be received and an allowance for doubtful accounts should be recorded. We recommend that such an aging report be prepared and implemented into regular use. In addition, we recommend that bills be reviewed by an employee independent of its preparation prior to being mailed.

#### Management Response:

Concerning accounts receivable, management concurs with the recommendation. SPL acquired the accounts receivable module at the end of FY 2008 and will have it implemented by June 2009, with appropriate documentation and internal controls, including appropriate separation of duties and reporting.

#### STATUS OF PRIOR YEAR RECOMMENDATIONS

#### 8. CAPITAL ASSETS

During our audit we noted that the Authority does not have a comprehensive capitalization policy. As a result, the Authority does not maintain a detailed capital assets listing, nor does it track depreciation by individual asset. Consequently, the stewardship of capital assets maintenance and replacement is difficult for management and may lead to obsolete capital asset inventory, inaccurate depreciation estimates and inaccurate budget projections for annual capital outlay expenditures.

We recommend that the Authority reexamine its capitalization policy, update as necessary, and take a detailed capital asset inventory. If significant changes are a result, the accounting records should then be updated as appropriate.

#### Status:

This recommendation has not been implemented and the conditions described above continued to exist during the June 30, 2006 audit of the Authority.

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#### Management Response:

Concerning capital assets, management concurs with the recommendation. A formal fixed asset policy is slated for completion in FY 2009. Currently, the fixed asset module is formatted and partially implemented. In FY 2007, staff began tracking fixed assets on an individual basis, including recognition of depreciation by item.

Management agrees that a full inventory of Authority assets should be completed. Management will evaluate the possibility of commissioning a full inventory of Authority assets by location and stewardship during the development of the FY 2010 budget and will make a recommendation to the Board in conjunction with budget updates. Management will develop policy and procedures for the appropriate acquisition, disposition, management, and reporting of Library assets by June 2009.

#### 9. FUND BALANCE

During our audit we noted that the general ledger as maintained by the City of Sacramento did not appropriately record equity amounts as a result of not recording prior year post-closing and audit adjustments. This resulted in additional labor hours to reconcile the accounting records to financial statement amounts which in turn led to a significant delay to the preparation of the financial statements.

We recommend that the Authority prepare journal entries to be recorded in the general ledger maintained by the City of Sacramento reflecting the net affect of prior period post-closing and audit adjustments to allow for the accurate recording of equity amounts of the Authority.

#### Status:

This recommendation has not been implemented and the conditions described above continued to exist during the June 30, 2006 audit of the Authority.

#### Management Response:

Management concurs with the recommendation that fund balance and account activity associated with accounts maintained by the City of Sacramento should be updated more regularly. During fiscal year 2007, the laborious process of recognizing City account activity by line item was done at mid-year, but due to turnover of staff, the full year of financial activity was not recognized in the Eden system of the Library until recently. The suggestion to record only the net effect of prior period post-closing and audit adjustments is a good one and would provide timely accurate reporting of financial activity at a higher level. Fortunately, there was very little City activity in FY 2008 after the Library accounts held by the City were closed. The FY 2008 audit will not be delayed by these issues.

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above, we consider to be collectively material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition to the reportable conditions described above, we became aware of several matters that are opportunities for strengthening internal controls and improving operational efficiency. The comments and recommendations regarding those matters are summarized below:

#### A. CONSIDERATION OF FRAUD

Currently, the Authority does not have a formal fraud policy. An established fraud policy helps facilitate the development of controls which will aid in the detection and prevention of fraud and impropriety or irregularity within the Authority. A fraud policy also promotes consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations.

We recommend the Authority consider the establishment of a formal fraud policy. This policy should include, but not be limited to, items such as the Authority's core values and code of conduct, investigative procedures and responsibilities, reporting procedures when fraud is suspected (i.e. procedures an employee should follow if they suspect or discover fraud), and communication of ethical behavior and appropriate business practices to employees. In addition, we recommend that the Authority perform an evaluation of the controls it has in place to detect or prevent fraud within its organization.

### Management Response:

Management concurs with recommendation to establish a formal fraud policy. Policy will be implemented by February 2009.

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#### B. TECHNOLOGY DISASTER RECOVERY PLANNING

Governments provide many essential services to their citizens. The disruption of these services following a disaster could result in inconveniences to those whom a government serves. State and local governments have a duty to ensure that disruptions in the provision of services are minimized following a disaster. We noted that the Authority has no formal disaster recovery plan. Today the public sector, like the private sector, relies heavily upon computers and other advanced technologies to conduct its operations. Therefore, disaster recovery planning, in order to be effective, must specifically address policies and procedures for minimizing the disruption of government operations if computers or other advanced technologies are disabled following a disaster.

We recommend that the Authority formally establish written polices and procedures for minimizing disruptions resulting from failures in computers or other advanced technologies following a disaster. These written policies and procedures should be evaluated annually and updated periodically, no less than once every three years.

#### Management Response:

Management concurs with the recommendation to develop a comprehensive disaster recovery plan with formal written policies and procedures for minimizing disruptions in the event of a disaster. Development and implementation slated for December 2009.

### C. ASSET AND INFORMATION SECURITY

During our review of internal controls, we found that employees who handle cash, securities, or other valuable assets are not bonded. The Authority also does not have policies governing personnel access to valuable assets, significant data, or sensitive computer programs.

In order to limit financial loss in the case of theft, we recommend that the Authority consider bonding employees who handle valuable and liquid assets and include policies governing access to valuable assets, data, and computer programs in their policies and procedures manual.

#### Management Response:

Concerning the recommendation to bond employees who handle cash, securities, or other valuable assets, the Library has a crime policy, updated on July 1, 2008 which covers employee losses due to fraud, vandalism, theft, and or accounting mistakes, etc. Management will review and evaluate the need for bonding at various levels of authority.

#### D. VACATION POLICY

Vacations are not mandatory for financial personnel. When vacations are taken, duties are not rotated, causing significant back-up and delay of financial information.

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We recommend that the Authority establish and enforce a mandatory vacation policy for all personnel within their policies and procedures manual. The identification of each employee's responsibilities will help to identify duties that must be assumed by others to maintain the flow of financial information when the responsible personnel are on vacation.

#### Management Response:

Concerning mandatory vacations for staff, implementing this as a formal written policy may conflict with current labor contracts. Staff has been taking vacations on a regular basis and management will strongly encourage staff to continue to take regular vacations. Concerning backup of accounting functions, supervisory staff has provided backup when needed.

#### E. PERFORMANCE EVALUATIONS

Annual performance evaluations are not completed for all employees.

We recommend that a formal evaluation process be established that encompasses all employees so that satisfactory performance can be assessed and maintained on every level.

#### Management Response:

Management concurs with the recommendation to complete regular annual performance evaluations. Evaluations will be completed for all staff by December 31, 2008.

#### F. GRANT MANAGEMENT

During our review of internal controls over government grants, we found that grant managers do not receive monthly reports showing the budget and actual expenditures for their grants nor are they notified of journal entries made to their programs.

We recommend that, if grant managers do not have access to view the accounting system, the finance department print budget to actual expenditure reports at least monthly for the grant managers' review. In addition, grant managers should also be notified of journal entries made in their programs at least monthly, and more often depending on the size and amount of the journal entries posted.

#### Management Response:

Concerning grant management reporting, department managers have access to budget to actual reports and have received training on how to view budget to actual financial reports through the Eden system. Instructions for pulling financial reports are posted on the staff website. Regular reports back from management (see number 4 above) will ensure that financials are being reviewed on a regular basis.

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Grants are tracked through the project accounting module in Eden. Finance staff received training in the project accounting module during FY 2008 and have now fully implemented project accounting. Management will insure that grant managers are trained to pull project reports. Instructions on how to pull project reports will be added to the staff website by January 31, 2009.

Management concurs that journal entries made to programs should be accompanied by notification to the department manager that a transaction has taken place. Notification to department managers will be implemented by December 31, 2008.

The Authority's responses to the findings identified in our audit are described above. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Authority, the Authority's Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties.

GILBERT ASSOCIATES, INC

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Sacramento, California

October 8, 2008

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Independent Auditors' Report, Financial Statements, Required Supplementary Information, and Supplemental Schedule

For the Year Ended June 30, 2007

### **JUNE 30, 2007**

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#### INDEPENDENT AUDITOR'S REPORT

To the Board Members of the Sacramento Public Library Authority Sacramento, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sacramento Public Library Authority (the Authority), as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 opinion.

The Authority has excluded from the accompanying statement of net assets, library books and materials that, in our opinion, should be capitalized in order to conform to accounting principles generally accepted in the United States of America. The increase to net capital assets and net assets as of June 30, 2007, if the library books and materials were capitalized is not determinable as of the date of this report. Additionally, the net change in net assets is not determinable as of the date of this report.

In our opinion, except for the effects of not capitalizing library books and materials, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund for the Authority as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with <u>Government Auditing Standards</u>, we have also issued a report dated March 18, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 7, the budgetary comparison information on page 21, and the Schedule of Funding Progress on page 22 are not a required part of the basic financial statements but are 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.

Remick Group, P.C.

Sacramento, California March 18, 2009

#### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

The management of the Sacramento Public Library Authority (the Authority) is pleased to provide this overview and analysis of the financial activities of the Authority for the year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the Financial Statements and the Required Supplementary Schedules that follow this discussion.

#### **Financial Highlights**

The net assets of the Authority at the close of the most recent fiscal year were \$18,127,822 compared to the end of the prior fiscal year of \$12,694,898. Of that amount, \$840,474 and \$713,155 were invested in capital assets, \$333,627 and \$304,582 were permanently restricted as described in Note 2 regarding the Permanent Fund and an additional \$3,044,572 and \$1,396,130 are restricted during the remaining term of the special assessment to provide income for the future operations of the Authority at June 30, 2007 and 2006, respectively.

The Authority's cash and investments balance at June 30, 2007 is \$20,612,789, an increase of \$5,398,632 above the June 30, 2006 balance of \$15,214,157.

For fiscal year ended June 30, 2007 the Authority had program revenues of \$33,665,440, which represents an increase of \$3,598,284 from the prior fiscal year. Additionally, general revenues were \$1,590,655 for fiscal year 2007 representing a slight increase from the prior year amount of \$1,089,419. Education expenditures for fiscal year 2007 were \$29,823,171, an increase from the 2006 fiscal year amount of \$27,182,357. Capital outlays for fiscal year 2007 were \$440,255, up slightly from the prior year amount of \$342,881.

All financial assets of the Authority continue to be devoted to providing library services to the citizens of Sacramento County and the cities of Citrus Heights, Elk Grove, Galt, Isleton, Rancho Cordova, and Sacramento.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the following components, in addition to management's discussion and analysis: 1) Authority government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Authority government-wide and fund financial statements are presented in a combined format on pages 8 and 9. Items in the adjustment column are discussed in Notes 3 and 4.

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, No. 37, and No. 38 for the year ended June 30, 2002. The intent of GASB Statement No. 34 is to reflect all assets and liabilities of the Authority. It also redefines the way various funds are classified into fund types and focuses attention on major funds. The Authority has only governmental-type funds and all are major.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

# MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED JUNE 30, 2007

The *Statement of Activities* presents information showing how the Authority's net assets changed during the most recent fiscal 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

#### **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 Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority has two funds, both of which are governmental-type funds.

Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a column detailing the differences (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in Notes 3 and 4 of the basic financial statements.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 22 of this report.

#### **Government-Wide Financial Analysis**

The government-wide financial statements provide long-term and short-term information about the Authority's overall financial condition. This analysis addresses the financial statements of the Authority as a whole.

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. At June 30, 2007, Authority assets exceeded its liabilities by \$18,127,822, representing an increase of \$5,432,924 from the prior fiscal year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED JUNE 30, 2007

Five percent (5%) and six percent (6%) of the Authority's net assets reflect its investment in capital assets, net of accumulated depreciation, at June 30, 2007 and 2006, respectively. Certain revenues accepted by the board in the amount of \$116,880 are temporarily restricted for specific purposes. Seventeen percent (17%) and eleven percent (11%) of the Authority's net assets are restricted for use in extending operating hours and services at City of Sacramento branches at June 30, 2007 and 2006, respectively. In addition, permanently restricted obligations required under the trust agreements of its Permanent Fund were \$333,627 and \$304,582 at June 30, 2007 and 2006, respectively. The unrestricted net assets of the Authority represent resources available for financing future Authority operations.

# CONDENSED STATEMENT OF NET ASSETS (Amounts shown in thousands)

		June 30,			
	_	2007	_	2006	
ASSETS					
Current and other assets	\$	21,126	\$	15,617	
Capital assets	_	840		713	
Total Assets	_	21,966	_	16,330	
LIABILITIES					
Long-term liabilities		1,470		1,527	
Other liabilities	_	2,368		2,108	
Total Liabilities	_	3,838	_	3,635	
NET ASSETS					
Invested in capital assets		840		713	
Temporarily restricted		117		-	
Restricted		3,378		1,701	
Unrestricted	_	13,793	_	10,281	
Total Net Assets	\$	18,128	\$	12,695	

Net assets increased by \$5.4 million from last fiscal year due primarily from rising property values which, in turn, increased county property tax related contributions by approximately \$2.5 million. City contributions and assessments increased by \$280,825 and \$567,950, respectively, while state appropriations increased by \$387,683. In addition, general revenues increased by \$501,236. Overall, revenues increased by 13% from fiscal year 2006.

Spending held relatively steady in fiscal year 2007. Salaries and benefits increased by 13% in 2007 due to a small reduction in the number of vacant positions and changes resulting from a wage and compensation study. The remaining level of vacancies resulted in savings of \$2.3 million compared with budget expectations. Cost savings are recognized through position vacancies when funded employee positions are unfilled during the year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED JUNE 30, 2007

The final budget of the General Fund anticipated that there would be expenditures of \$34,969,751 while final expenditures were \$29,979,580, resulting in positive variance of \$4,990,171. Excess revenues over expenditures in the General Fund increased the previous year fund balance by \$5,515,449. In addition to the increase in net asset value of the General Fund, investment valuations of the Moore Memorial and Fratt Memorial Trusts, accounted for in the Permanent Fund, increased by \$29,045 in net asset value. These two increases plus the negative adjustments outlined in Note 4 of the Notes to the Basic Financial Statements of \$111,570 account for the overall increase in net assets of \$5,432,924.

### CONDENSED STATEMENT OF ACTIVITIES

(Amounts shown in thousands)

	June 30,				
		2007	_	2006	
REVENUES					
Program revenues:					
Charges for services	\$	1,001	\$	1,036	
Operating grants and contributions		32,665		29,031	
General revenues:					
Gifts, donations and other		641		832	
Investment income		628		257	
Other	_	321	_	-	
Total Revenues	_	35,256	_	31,156	
EXPENSES		20.022		27.102	
Education	_	29,823	_	27,182	
Increase in net assets Net Assets, Beginning of Year		5,433 12,695		3,974 8,721	
Net Assets, End of Year	\$_	18,128	\$	12,695	

#### Financial Analysis of the Authority's Funds

The focus of the Authority's funds, all of which are governmental-type funds, is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, fund balance may serve as a useful measure of the Authority's net resources available for spending for program purposes at the end of the fiscal year.

As of the end of the June 30, 2007 fiscal year, the Authority's funds reported ending fund balances of \$18,981,927 compared to the June 30, 2006 ending fund balance of \$13,437,433. The Authority's major source of revenues is member contributions. The Authority's major expenditures are personnel costs.

# MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED JUNE 30, 2007

#### **General Fund Budgetary Highlights**

The General Fund original budget projected a total increase in fund balance of \$1,370,391. The amended final budget projected a total increase in fund balance of \$1,441,070, due primarily to \$1,523,400 in funding carried over from fiscal year 2006 for projects and expenditures in progress at June 30, 2006. This was a substantial improvement from the prior year when a total increase of \$826,558 was projected. Actual program revenues were slightly higher than estimated by \$201,350. With salaries and benefits cost savings of \$2,305,483 and other adjustments to expenditures the general fund balance increased by \$5,515,449.

#### **Capital Assets and Debt Administration**

#### Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation was \$840,474 and \$713,155 on June 30, 2007 and 2006, respectively. Major capital assets purchased during the current fiscal year amounted to \$440,255, consisting of library self check equipment, computer software and network and building improvements. Additional information on the Authority's capital assets can be found in Note 7 of this report.

Since inception, the Authority has expensed the purchase of all books and materials. However, in order to be consistent with GASB 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Authority plans to capitalize all such costs effective July 1, 2008.

#### Long-term Liabilities

As of June 30, 2007, the Authority had \$1,469,573 long-term debt outstanding compared to the prior year end of \$1,527,481, resulting in a decrease of \$57,908. The total liability for compensated absences decreased by \$32,229. The Authority entered into no new capital leases during the year. Additional information on the Authority's long-term debt can be found in Note 9 of this report.

#### **Future Events That Will Financially Affect the Authority**

The Authority has some concerns that the State of California's budget situation may affect Public Library Foundation funds during the next fiscal year. The Authority has planned to incorporate this potential loss of funds into its upcoming budget. Additionally, the Authority may be impacted by reduced contributions from both the City and County of Sacramento due to the impact of the State's actions on their revenues. Subsequent to year end, economic conditions related to the real estate market deteriorated. This caused property values to decline, which impacted property tax revenues supporting the Authority.

#### **Contacting the Authority's Financial Management**

This financial report is designed to provide a general overview of the Authority's finances, and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Department of Finance, 828 I Street, 4th Floor, Sacramento, CA 95814.

# STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2007

	General Fund	P	Permanent Fund Total		Adjustments (Note 3)	Statement of Net Assets
ASSETS						
Cash and investments	\$ 20,279,162	\$	333,627	20,612,789	\$ -	\$ 20,612,789
Receivables:						
Due from City	155,171		-	155,171	-	155,171
Due from Grant	7,214		-	7,214	-	7,214
Other	300,186		-	300,186	-	300,186
Prepaid expenditures	50,409		-	50,409	-	50,409
Capital assets, net			_		840,474	840,474
Total Assets	\$ 20,792,142	\$	333,627	\$ 21,125,769	840,474	21,966,243
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Bank overdraft	\$ 191,235	\$	_	\$ 191,235	_	191,235
Accounts payable and accrued expenses	1,952,607		_	1,952,607	_	1,952,607
Compensated absences:						
Due within one year	-		-	-	225,006	225,006
Due in more than one year	-		-	-	1,469,573	1,469,573
Total Liabilities	2,143,842		-	2,143,842	1,694,579	3,838,421
FUND BALANCES / NET ASSETS						
Fund Balances:						
Reserved for:						
Assessment District carryover	3,044,572		-	3,044,572	(3,044,572)	-
Trust obligations - nonexpendable	-		133,181	133,181	(133,181)	-
Trust obligations - expendable	-		200,446	200,446	(200,446)	-
Unreserved, undesignated	15,603,728			15,603,728	(15,603,728)	
Total Fund Balances	18,648,300		333,627	18,981,927	(18,981,927)	
Total Liabilities and Fund Balances	\$ 20,792,142	\$	333,627	\$ 21,125,769		
Net Assets:						
Invested in capital assets					840,474	840,474
Temporarily restricted					116,880	116,880
Restricted for:						
Extension of services and operating hours					3,044,572	3,044,572
Trust obligations - nonexpendable					133,181	133,181
Trust obligations - expendable					200,446	200,446
Unrestricted					13,792,269	13,792,269
Total Net Assets					\$ 18,127,822	\$ 18,127,822

The accompanying notes are an integral part of these financial statements.

#### STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2007

	General Fund			Total		ljustments (Note 4)	Statement of Net Assets	
REVENUES						,		
Program revenues:								
Charges for services:								
Fines and penalties	\$ 663,034	\$	-	\$ 663,034	\$	-	\$ 663,034	
Facility rental income	337,611		-	337,611		-	337,611	
Operating grants and contributions:							-	
County contributions	18,233,817		-	18,233,817		(258,021)	17,975,796	
City contributions	8,868,100		-	8,868,100		-	8,868,100	
Other agency contributions	287,915		-	287,915		(13,097)	274,818	
Assessment and taxes	4,381,372		-	4,381,372		-	4,381,372	
State appropriations	1,084,628		-	1,084,628		-	1,084,628	
Federal and State grants	80,081		-	80,081		-	80,081	
Total Program Revenues	33,936,558			33,936,558		(271,118)	33,665,440	
General revenues:			_					
Gifts and donations	640,786		-	640,786		-	640,786	
Investment income	596,084		32,184	628,268		-	628,268	
Other	321,601		-	321,601		-	321,601	
Total General Revenues	1,558,471		32,184	1,590,655		-	1,590,655	
Total Revenues	35,495,029		32,184	35,527,213		(271,118)	35,256,095	
EXPENDITURES/EXPENSES:								
Education:								
Current:								
Salaries and benefits	19,494,868		-	19,494,868		(32,229)	19,462,639	
Books and pamphlets	2,901,179		-	2,901,179		-	2,901,179	
Services and supplies	7,143,278		3,139	7,146,417		-	7,146,417	
Depreciation	-		-	-		312,936	312,936	
Capital outlay	440,255		-	440,255		(440,255)	-	
Total Expenditures	29,979,580		3,139	29,982,719		(159,548)	29,823,171	
Change in Fund Balance / Net Assets	5,515,449		29,045	5,544,494		(111,570)	5,432,924	
Fund Balance / Net Assets, Beginning of Year	13,132,851		304,582	13,437,433		(742,535)	12,694,898	
Fund Balance / Net Assets, End of Year	\$ 18,648,300	\$	333,627	\$ 18,981,927	\$	(854,105)	\$ 18,127,822	

#### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

#### **NOTE 1 - ORGANIZATION**

The Sacramento Public Library Authority (the Authority) is a joint-powers agency between the County of Sacramento and the City of Sacramento (the Members). The purpose of the Authority is to provide information services to the people of the unincorporated areas of the County of Sacramento (the County) and the Cities of Citrus Heights, Elk Grove, Galt, Isleton, Rancho Cordova, and Sacramento.

Library services are provided through the central branch, three bookmobiles and 27 branches. Special programs include children's story time, interlibrary loan service, literacy instruction for adults, centralized and telephone reference information and book-by-mail service.

The Authority's governing board (Board) is comprised of representatives of each Member, including five representatives of the County Board of Supervisors and four representatives of the City of Sacramento City Council. The Library Director serves as the Chief Administrative Officer of the Authority and as Secretary to the governing board. The City of Sacramento's Treasurer serves as Authority Treasurer and the Finance Director serves as the Authority Auditor. The Authority appointed in-house counsel in 2004.

#### **Funding**

At inception, the Members contributed all current and capital assets under their control related to library services, excluding land and buildings. The Members have agreed to provide and maintain existing and future library building facilities for the Authority.

The Authority's operating costs are primarily funded through annual appropriations from the Members. Library services at branches within the City of Sacramento are also augmented by a voter-approved special assessment. Special tax revenues collected through an assessment are restricted for use in extending operating hours, services, technology purchases and for increasing book and materials purchases at City of Sacramento branches, excluding the Central Library. Unspent assessment Authority revenues are reported on the General Fund balance sheet as reserved fund balance.

Operating costs of each branch are funded by the appropriate Member according to the location of the facility through Member contributions. Certain authorized maintenance and other facilities costs paid directly by the Members on behalf of the Authority are not reflected as Member contributions (i.e. County and City contributions) and are not a part of these financial statements as those costs are shown directly in the appropriate fund of the respective Member.

In the event of termination of the joint-powers agreement, the net assets of the Authority would be returned to the Members in proportion to the contributions of each Member during the term of their participation in the Authority.

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

#### **Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority.

The accounts of the Authority are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual funds are reported as separate columns in the fund financial statements.

#### Measurement focus, basis of accounting and financial statement presentation

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.

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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant funds earned but not received are recorded as a receivable, and grant funds received before the revenue recognition criteria have been met are reported as deferred revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest, contributions and grants associated with the current fiscal period are considered to be susceptible to accrual, and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

- General Fund this fund is established to account for resources devoted to administration of the activities of the Authority and excludes those resources required to be accounted for in another fund.
- Permanent Fund this fund accounts for resources that are legally restricted, to the extent that only earnings and not principal, may be used for purposes that support the Authority's programs.

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Amounts reported as program revenues include charges to customers or for goods, services or privileges provided and operating grants and contributions including special assessments. Internally dedicated resources are reported as general revenues.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

#### **Cash and Investments**

The Authority participates in the City of Sacramento's Investment Pool, which is not rated by national credit rating agencies. The City Treasurer pools cash with other City funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment pool. The City reviews its investment policy on a quarterly basis. The estimated fair value of investments in the pool is based on quoted market price. The fair value of the Authority's position in the pool is the same as the value of the pool shares. The value of the pool shares may be withdrawn at any time based on an amortized cost basis, which is different than the fair value of the Authority's position in the pool. Information regarding the investments within the pool, including related risks, can be found in the City of Sacramento's Comprehensive Annual Financial Report (CAFR). The Authority also maintains a separate deposit with a financial institution.

#### Receivables

Receivables for fines and forfeitures are recognized when they are legally enforceable. A fine is considered to be legally enforceable either when the party pays the fine or when imposed by a court.

#### **Capital Assets**

Capital assets, which include equipment, computers, software, and furniture and fixtures, are reported in the government-wide statements. Facilities are the property of the Members and not the Authority. The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Library books and materials are not capitalized.

Capital asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution.

All capital assets are depreciated using the straight-line and half-year convention method over their estimated useful lives; Software 3-year useful life, furniture and fixtures, and equipment 5-year useful life and building improvements 20-year useful life.

#### **Compensated Absences**

Employees of the Authority may accumulate paid time off (PTO) leave. Upon termination or retirement, employees receive a cash payment for unused PTO leave. All PTO is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they become due and payable as a result of employee resignations and retirements.

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### **Permanent Fund**

The Authority maintains' separate trust funds for contributions received from the Fratt and Moore families. The principal of both trusts is nonexpendable. Income from the Francis W. Fratt Trust may be used for special purposes of permanent value. Income from the Moore Memorial Trust may be used for purchasing books.

#### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

#### **County Fund 11**

Included in the County property tax collections except for the incorporated Cities of Sacramento and Folsom, is a dedicated percentage, set aside for County Library purposes. The collections are retained in County general ledger Fund 11. The Authority has limited participation during preparation of the annual budget process. The budget for Fund 11 is authorized by the County Board of Supervisors and is included in the total County budget. Included in the total budget is the amount that is later appropriated directly to the Authority and recorded as a member contribution in the Authority Statement of Activities. The County also expends funds on behalf of the Authority directly out of County Fund 11 for maintenance, repair, service contracts, debt financing of one of the County branches and payments to the Sacramento County Employees' Retirement System. The closing fund balance in County Fund 11 is not reflected on the Authority's financial statements.

#### **Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

### NOTE 3 – EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET ASSETS

Total fund balances of the Authority's governmental funds differ from net assets of governmental activities primarily because of the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental funds balance sheet. The differences are described below:

**Fund balances** \$ 18,981,927

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Capital assets \$ 6,740,618 Less: accumulated depreciation (5,900,144)

840,474

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Accrued compensated absences

(1,694,579)

Net assets \$\_18,127,822

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### NOTE 4 – EXPLANATION OF DIFFERENCES BETWEEN STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES

The net change in fund balances for governmental funds differs from the change in net assets for governmental activities primarily because of the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental funds balance sheet. The differences are described below:

#### Net change in fund balances

\$ 5,544,494

Governmental funds report capital outlays as expenditures. In the Statement of Revenues, Expenditures and Changes in Net Assets however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	440,255
Depreciation expense	(312,936)

Revenue on the Statement of Revenues, Expenditures and Changes in Net Assets is not limited by availability. Certain amounts available in the governmental funds were recognized as current financial resources in the prior period and are unavailable as current financial resources in the current period.

County contributions	(258,021)
Other agency contributions	(13,097)

Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences decrease 32,229

**Change in net assets** \$ 5,432,924

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### **NOTE 5 – CASH AND INVESTMENTS**

The Authority's investment policy for the general fund only authorizes investment in the local government investment pool administered by the City of Sacramento, and other investments which are expressly permitted by the Authority's Board of Directors. The Authority's investments in the permanent fund were established by the donors. The Authority's investment policy does not contain any specific provisions intended to limit the Authority's exposure to interest rate risk, credit risk, and concentration of credit risk.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

At June 30, 2007, the balances held per bank were \$266,812, of which \$166,812 was in excess of federal depository insurance limits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

#### **Investment in City of Sacramento Investment Pool**

At June 30, 2007, the Authority maintains its investments in the City of Sacramento investment pool totaling \$20,304,689. The weighted average maturity of the pool's investments is 0.8 years.

The principal portion of the Moore Memorial Trust, \$256,075, is invested in a diversified account, which includes mutual funds. Ratings associated with these funds range from Aa1 to Ba3. The investments in mutual funds have a weighted average maturity of less than one year.

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### NOTE 6 - BUDGETARY INFORMATION - GENERAL FUND

The joint-powers agreement establishing the Authority provides for budgetary control over general fund fiscal operations. Each year, the Authority submits to the governing board a proposed budget containing detailed estimates (provided by the staff of the Members) of the amount of funding available for the operation of the Authority. The budget is controlled at the fund level. The Members notify the Authority by September 1 of their appropriated contribution to the Authority for that fiscal year. The governing board of the Authority adopts the Authority's original budget by September 30 of each fiscal year. The budget, prepared on the modified accrual basis in accordance with accounting principles generally accepted in the United States of America, is presented as required supplementary information in the accompanying financial statements.

Encumbrance accounting is used during the year for budgetary control. Encumbrances outstanding at year-end do not constitute expenditures or liabilities, but rather outstanding future commitments at year-end. The Authority's appropriations lapse at year-end. At June 30, 2007 the Authority had outstanding future commitments of \$418,442.

#### **NOTE 7 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007 is as follows:

		Beginning				Ending
	_	Balance	Additions	(Deletions)	_	Balance
Capital assets being depreciated:						
Equipment	\$	5,256,060 \$	281,189	\$ -	\$	5,537,249
Building Improvements		102,013		_		102,013
Software		130,937	84,576	_		215,513
Furniture and Fixtures		811,353	74,490	-		885,843
Total Capital Assets	_	6,300,363	440,255	-	_	6,740,618
Accumulated depreciation:						
Equipment		(4,859,330)	(188,805)	-		(5,048,135)
<b>Building Improvements</b>		(2,550)	(5,101)	-		(7,651)
Software		(21,823)	(56,278)	-		(78,101)
Furniture and Fixtures	_	(703,505)	(62,752)		_	(766,257)
Total Accumulated Depreciation	_	(5,587,208)	(312,936)		_	(5,900,144)
Total Capital Assets, Net	\$_	713,155 \$	127,319	\$ <u> </u>	\$ <u></u>	840,474

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### **NOTE 8 - OPERATING LEASE**

The Authority is obligated under various operating leases for the use of office buildings. Lease expenditures for the year ended June 30, 2007 were \$378,470. Future minimum lease payments required by the lease agreements that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2007 are as follows:

Year Ending June 30,	
2008	187,060
2009	155,826
2010	79,200
2011	33,000_
Total	\$ 455,086

#### **NOTE 9 - LONG-TERM DEBT**

Long-term liabilities activities for the year ended June 30, 2007 are as follows:

F	Beginning			Ending	Due Within
	Balance	Additions	Deletions	Balance	One Year
\$	1,726,808	\$ 418,013	\$ (450,242)	\$ 1,694,579	\$ 225,006

#### NOTE 10 - POST-EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS

The Authority provides certain health and dental care insurance benefits for all retirees, their survivors and dependents. For employees to be eligible for these benefits, they must retire with a minimum of ten full years of active service. Participants retiring with 10 or more full years of service receive 50% of the retiree insurance benefit; retirees with 15 or more years of full service receive 75% of the benefit; and retirees with 20 or more years of full service receive 100% of the benefit. Participants must be at least 50 years of age to receive distributions. Participants have the choice of enrolling in one of several health plans and one of two dental plans.

The post-retirement health care benefit for Authority retirees is up to \$225 per month per participant, which includes medical and dental coverage. Benefits cover between 20% and 100% of premium costs, depending on the choice of plans and number of dependents. Authority benefits are defined by annual action approved by the Authority Board of Directors. Benefit costs are recorded on a pay-as-you-go basis. For the year ended June 30, 2007, the Authority had 31 retirees and incurred \$56,057 of expenditures for post-employment health and dental care insurance benefits.

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### **NOTE 11 - EMPLOYEE RETIREMENT PLANS**

#### Plan Description

The Authority provides retirement benefits through the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Authority resolution. Copies of PERS annual financial report may be obtained from the PERS Executive Office, 400 Q Street, Sacramento, CA 95814.

#### **Funding Policy**

Participants are required to contribute 7% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate, which was 12.779% for the year ended June 30, 2007. The contribution requirements of plan members and the Authority are established and may be amended by PERS.

#### **Annual Pension Cost**

For the year ended June 30, 2007, the Authority's annual pension cost of \$1,573,363 for PERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected annual salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Annual gains and losses that occur in the operation of the plan are amortized over a closed 30-year period, which results in an amortization of 10% of unamortized gains and losses each year. For the year ended June 30, 2007, employees contributed \$838,912.

#### Three- Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC- In Thousands)	Percentage of APC Contributed	Net Pension Obligation	
6/30/2005	\$ 1,394	100%	-	
6/30/2006	1,378	100%	-	
6/30/2007	1,573	100%	-	

# NOTES TO THE FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2007

#### NOTE 11 - EMPLOYEE RETIREMENT PLANS, Continued

#### Sacramento County Employees' Retirement System Commitment

In 1996, the County library system formally merged into the Authority. During this time, the Authority entered into an agreement with the County to make annual contributions to the Sacramento County Employees' Retirement System (SCERS) to fund a negotiated share of the SCERS's unfunded pension liability. The liability was generated by County employees leaving the SCERS's retirement to join the Authority's California Public Employees' Retirement System (CalPERS). As of June 30, 2007, \$3.5 million has been reserved in County Fund 11 to cover this liability. This amount is not expected to fluctuate by more than \$200 thousand and is expected to be paid by June 30, 2009. No liability has been recorded in the Authority's financial statements for this commitment.

#### **NOTE 12 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases insurance coverage for commercial property, commercial general liability, automobile liability, boiler and machinery, public officials errors and omissions, and workers' compensation. There have been no significant reductions in insurance coverage from the prior year by major categories of risk and there have been no settlements for each of the past three years.

#### **NOTE 13 – NEW PRONOUNCEMENTS**

**GASB Statement No. 45** – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. The Authority has not determined its effect on the financial statements.

#### **NOTE 14 – LAWSUITS AND CLAIMS**

The Authority is subject to lawsuits and claims, which arise out of the normal course of its activities. In the opinion of management, based upon the opinions of legal counsel, the disposition of any and all such actions of which it is aware will not have a material effect on the financial position of the Authority.

### REQUIRED SUPPLEMENTARY INFORMATION

# BUDGETARY COMPARISON SCHEDULE - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2007

				Variance with	
	Original Budget	Final Budget	Actual	Final Budget Positive (Negative)	
Revenues					
Program revenues:					
Charges for services:					
Fines and penalties	\$ 680,500	\$ 680,500	\$ 663,034	\$ (17,466)	
Facility rental income	384,100	384,100	337,611	(46,489)	
Operating grants and contributions:					
County	18,106,686	18,276,186	18,233,817	(42,369)	
City	8,868,100	8,868,100	8,868,100	-	
Other Agency	316,000	316,000	287,915	(28,085)	
Assessment and taxes	4,242,636	4,242,636	4,381,372	138,736	
State appropriation	634,226	879,712	1,084,628	204,916	
Federal and state grants	198,593	87,974	80,081	(7,893)	
Total program revenues	33,430,841	33,735,208	33,936,558	201,350	
General revenues:					
Gifts and donations	159,251	509,251	640,786	131,535	
Investment income	90,000	300,000	596,084	296,084	
Other	342,960	1,866,362	321,601	(1,544,761)	
Total general revenues	592,211	2,675,613	1,558,471	(1,117,142)	
Total revenues	34,023,052	36,410,821	35,495,029	(915,792)	
Expenditures: Education:					
Current:					
Salaries and benefits	21,975,879	21,800,351	19,494,868	2,305,483	
Books and pamphlets	2,349,218	2,959,154	2,901,179	57,975	
Services and supplies	5,479,062	7,239,741	7,143,278	96,463	
Capital outlay	2,848,502	2,970,505	440,255	2,530,250	
Total expenditures	32,652,661	34,969,751	29,979,580	4,990,171	
Change in Fund Balance	1,370,391	1,441,070	5,515,449	4,074,379	
Fund balances, beginning of year	13,132,851	13,132,851	13,132,851	-	
Fund balance, end of year	\$ 14,503,242	\$ 14,573,921	\$ 18,648,300	\$ 4,074,379	

# REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2007

(Amounts shown in thousands)

### **Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL)- Entry Age (b)		Unc	(Over) lerfunded AAL UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)		UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	\$	18,294	\$	20,502	\$	2,209	89.2%	\$	10,641	20.8%
6/30/2006		21,381		23,534		2,163	90.8%		10,376	20.8%
6/30/2007		25,281		28,911		3,630	87.4%		12,952	28.0%

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