TO: **Sacramento Public Library Authority Board Members**

FROM: **Rivkah K. Sass, Library Director**
Denise M. Davis, Deputy Library Director

RE: **Annual Audit Report FY 2009-10**

RECOMMENDED ACTIONS:

Adopt Resolution 11-17, A Resolution Approving the Independent Auditor's Report, Financial Statements, Required Supplementary Information, and Supplemental Schedules for the Sacramento Public Library Authority, for the Fiscal Year Ended June 30, 2010 as shown in Exhibit A.

INFORMATION

According to the Joint Exercise of Powers 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. In February 2009, the Library established a policy to complete the Annual Financial Statements by November 30 of each year.

Management is pleased to report that the independent financial audit associated with fiscal year ending June 30, 2010, has been satisfactorily completed and auditor statements and opinions are contained in the 2010 Audit Report (see Exhibit A).

Independent auditors will meet with the Budget-Audit Committee of the Authority Board on February 17 to provide a summary of required communications and discuss issues associated with the audit. Primary issues discussed in the auditor's summary included capitalization of books and materials, the lack of documented policies and procedures, internal controls related to access to the Authority's financial system, separating capital outlay expenses for projects funded with grants or reimbursed by other jurisdictions, and streamlining the Foundation and Friends donation process.

Staff is pleased to report the 2010 financial audit was completed and all reconciliations and adjusting entries were accomplished. However, the loss of the Chief Financial Officer during the audit had a significant impact on the timing of the completion of the audit and the audit efficiency. Books and materials have previously been identified as costs that should be capitalized according to GASB standards. Management is considering whether the cost of recording library books justifies the cost of quantifying, recording and depreciating the library books.

Management Letter - Fiscal Year 2010

Issues related to the 2010 Management Letter (Attachment A) are being addressed by management, or are otherwise targeted for completion in fiscal year 2011. A number of policies and procedures were completed and accepted by the Authority Board during Fiscal Year 2009.

Fund Balances Fiscal Year 2010

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. At June 30, 2010 the total fund balance including encumbrances and reserved balances were:

Shared Cost Fund	$ 333,948
County/Cities Fund	11,259,219
Sacramento City Fund	915,949
Sacramento Special Tax Fund	3,443,184
Total General Fund	**$15,952,300**

Financial Reporting is done on two bases of accounting – modified accrual basis, which focuses upon the use of current resources (cash); and the full accrual basis, a form that focuses upon economic exchange –when a transaction is earned or a service provided – not when it is paid.

The term "fund balance" is a term associated with modified accrual. The general fund balance declined from $27,228,205 at June 30, 2009 to $15,952,300 at June 30, 2010 principally due to a timing difference in the receipt of county revenues. The revenues were received shortly after the cutoff date to be recognized as revenues in the fiscal year 2010. Under the full accrual basis of accounting, the revenues are recognized and are reflected in the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances on page 9 of the audited financial statements.

The above cited page shows revenues on both a modified accrual and full accrual basis of accounting.

REPORT CONTINUES NEXT PAGE

Comparison of Actual Revenue
Year-ended June 30, 2010 versus 2009

	Shared Cost [1]	County/ Cities	Sacramento City	City Special Tax	Total
Revenue - 2010	731,192	11,427,988	10,239,864	4,190,988	26,590,032
Revenue - 2009	1,265,179	22,010,868	9,974,239	4,449,382	37,699,668
Change in Revenue	(533,987)	(10,582,880)	265,625	(258,394)	(11,109,636)
Change %	(42.2%)	(48.1%)	2.7%	(5.8%)	(29.5%)

[1] Inclusive of the Grants Fund

Overall revenues of $26,590,032 are 29.5% less than the prior year and for the most part are due to the receipt of some revenues outside the timeframe for revenue recognition.

Comparison of Actual Expenditures
Year-ended June 30, 2010 versus 2009

	Shared Cost [1]	County/ Cities	Sacramento City	City Special Tax	Total
Expenditure - 2010	731,197	20,095,647	12,542,872	4,496,721	37,866,437
Expenditure - 2009	1,285,937	19,498,400	7,569,714	1,835,652	30,189,703
Change in Exp - inc/(dec.)	(554,740)	597,247	4,973,158	2,661,069	7,676,734
Change in Exp - %age - inc/(dec.)	(43.1%)	3.1%	65.7%	145.0%	25.4%

[1] Inclusive of the Grants Fund

Overall, expenditures increased by $7,676,734 or 25.4% over the prior year. Most of the increase is because of the construction and equipping of the new branch libraries. The total expenditures were less than the approved budget of $42,586,403 and can be attributed to position vacancies and the timing of expenditures on capital outlay.

ATTACHMENTS

Attachment A: Management Letter – Fiscal Year 2009/2010

Resolution 11-17, A Resolution Accepting the Sacramento Public Library Authority's Annual Audit Report for FY 2009-10

Exhibit A: Independent Auditor's Reports, Financial Statements, Required Supplementary Information, and Supplemental Schedules for the Sacramento Public Library Authority for the Fiscal Year Ended June 30, 2010

Richardson & Company

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Sacramento, California 95825

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To the Board of Directors and Management
Sacramento Public Library Authority
Sacramento, California

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Sacramento Public Library Authority (the Authority) for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for determining 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in internal control to be a material weakness:

<u>Recording Library Books</u>

Governmental Accounting Standards Board Statement No. 34 requires library books with a life of greater than one year to be capitalized and depreciated. We understand the Authority's management is considering whether the cost of recording library books justifies the cost of quantifying, recording and depreciating the library books.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Authority's internal control to be a significant deficiency:

Policies and Procedures Manual

The predecessor auditor considered the lack of documented policies and procedures to be a significant deficiency during the 2006 audit and has reported the status of the recommendation to approve a policies and procedures manual each year since that date. We understand a number of policies and procedures have been accepted by the Board during Fiscal Year 2009, but that a comprehensive policies and procedures manual has not yet been completed. We also recommend the Authority approve a policies and procedures manual.

We also noted the following matters that have been included for your consideration:

Internal Control and Accounting Issues

We noted employees are able to request access to certain modules of the Authority's information system directly from the Information Technology Department without senior management's approval. Senior management reviews the access and sometimes must remove access for employees where the access is not appropriate for the employee's job duties. We recommend a procedure be established to have senior management approve changes to employee access to the information system since senior management is better able to determine whether the access requested is appropriate for the employees' job duties to maintain proper separation of duties.

We noted the Authority has a number of small outstanding checks that are over one year old. Considering the Authority has a policy to send notices when the checks are 60, 90 and 120 days past due and the checks were not claimed, it appears unlikely the checks will ultimately be cashed and we recommend the Authority remove the checks from the outstanding check list in the bank reconciliation and reclassify the credit balance to a liability account for checks to be escheated.

Although we noted the Authority has proper controls over the approval of payroll runs, we recommend the Authority compare the posting of payroll expenses in the general ledger to the supporting payroll summary reports to verify the payroll expense was properly posted. We understand the Deputy Library Director began to review the posting of the payroll runs to the general ledger after year-end.

We noted there was no approving signature apparent on the April, May and June 2010 Home Depot credit card statement to provide evidence of the review of the bill prior to its payment. We recommend the Authority document the performance of all key controls such as the review of credit card statements prior to payment with an initial or signature in the future.

We noted expenses for projects funded with grants and contributions were included with expenditures funded with taxpayer resources in the general ledger and the payments received from other jurisdictions for building improvements originally paid by the Authority, but later reimbursed by the other jurisdictions were included with other improvements in capital outlay expense accounts. We recommend the Authority use separately identified revenue and expense accounts for projects funded with grants and contributions as well as improvements reimbursed by other jurisdictions to provide more visibility for these transactions in the general ledger.

The Sacramento Public Library Foundation and Friends of the Sacramento Public Library (the Foundation and Friends) changed their practice to require the Authority to first pay for activities approved to be funded through donations with taxpayer resources and then invoice the Foundation and Friends based on the amount approved in the related commitment letter. This change in practice has the effect of having taxpayer resources subsidize Foundation and Friend activities and creates significant additional work for the Authority's staff to track and bill the Foundation and Friends for approved activities. We recommend the Authority work with the Foundation and Friends to streamline this process.

We recommend the Authority consider establishing a fund used for government-wide adjustments in the financial statements, including capital assets, compensated absences and the OPEB liability. We also recommend the fund balance reserves be updated in the General Fund's general ledger at year-end. Adding these balances to the general ledger will provide more visibility for these transactions and will improve the efficiency of the audit.

We recommend the Authority prepare one combined capital asset list that is sorted by the categories reported in the capital asset footnote to make it easier to reconcile capital assets disclosed in the financial statements to detail records.

Closing Entries

There were a significant number of closing and reclassifying entries posted during the audit, which affected audit efficiency. The loss of the Chief Financial Officer during the audit also had an impact on the timing of the completion of the audit. We recommend the Authority employ a qualified and permanent Chief Financial Officer to close the books prior to the start date of future audits.

We recommend the receipt for the Teeter revenue be posted in Fund 201 rather than Fund 203 in the future.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specific parties.

Richardson & Company

January 19, 2011

Sacramento Public Library Authority

RESOLUTION NO. 11-17

Adopted by the Governing Board of the Sacramento Public Library Authority on the date of:

February 24, 2011

A RESOLUTION ACCEPTING THE INDEPENDENT AUDITOR'S REPORT, FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, AND SUPPLEMENTAL SCHEDULES FOR THE SACRAMENTO PUBLIC LIBRARY AUTHORITY, FOR THE FISCAL YEAR ENDED JUNE 30, 2010

BE IT HEREBY RESOLVED BY THE GOVERNING BOARD OF THE SACRAMENTO PUBLIC LIBRARY AUTHORITY AS FOLLOWS:

1. The FY 2010-11 Mid-Year Budget of $40,137,596 as described in Exhibit A, which is anticipated to be balanced for the remainder of the fiscal year, is accepted.

2. The FY 2010-11 California State Library Grant for California Library Literacy Services (CLLS) in an amount up to $51,408 is accepted.

3. The FY 2010-11 Budget Amendment increasing the revenue and expense budgets to $51,408 for Library Literacy Services, an increase of $21,408 over currently budgeted amounts, is approved.

4. The Library Director is authorized to take the necessary actions to implement budget changes as noted herein.

_____
Sandy Sheedy, Chair

ATTEST:

Rivkah K. Sass, Secretary

By: _____
Brenda Haggard, Assistant Secretary

ATTACHMENTS

Exhibit A: Independent Auditor's Reports, Financial Statements, Required Supplementary Information, and Supplemental Schedules for the Sacramento Public Library Authority for the Fiscal Year Ended June 30, 2010

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2010

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2010, 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 opinions on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended June 30, 2009 were audited by other auditors whose opinion dated October 14, 2009, was qualified because of the departure from generally accepted accounting principles described in the third paragraph.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained *Government Auditing Standards* issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The Authority has excluded from the accompanying statement of net assets, books and periodicals that, in our opinion, should be capitalized in order to conform to accounting principles generally accepted in the United States of America. The increase in net capital assets, net assets and change in net assets as of and for the year ended June 30, 2010, if the books and periodicals were capitalized is not determinable as of the date of this report.

In our opinion, except for the effects of not capitalizing books and periodicals, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2010 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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2011, on our consideration of the Authority's internal control over financial reporting and on 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 internal control

over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary on pages 3 through 7, 25 and 27 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Richardson & Company

January 19, 2011

SACRAMENTO PUBLIC LIBRARY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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, 2010. 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 as of June 30, 2010 are $28,264,150 compared to that of the prior year balance of $26,787,509. The increase is due primarily from cost cutting measures and an increase in receivables from deferred revenues. Of the current year net assets balance, $2,295,203 is invested in capital assets, $3,443,184 is restricted during the remaining term of the special assessment to provide income for the future operations, $596,457 is encumbered, $440,679 is restricted for supplemental funding, $294,300 is restricted as described in Note 2 regarding the Permanent Fund, $3,508,260 is designated for economic uncertainty, and the remaining $17,686,067 is undesignated.

The Authority's cash and investments balance at June 30, 2010 is $18,183,679, a decrease of $7,736,394 from the prior year balance of $25,930,073. The decrease due primarily from the timing of county funding.

For the year ended June 30, 2010 program revenues are $37,602,653, which represents an increase of $1,514,445 from the prior year. Additionally, general revenues are $1,304,468 for the year ended 2010, representing a slight decrease from the prior year amount of $188,391. Education expenditures for fiscal year 2010 are $37,430,480, an increase from the 2009 fiscal year amount of $33,840,871. Capital outlay for fiscal year 2010 is $1,296,318, representing a significant increase from the prior year amount of $1,170,661.

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.

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 24 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, 2010, Authority assets exceeded its liabilities by $28,264,150 representing an increase of $1,476,641 from the prior year.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

CONDENSED STATEMENTS OF NET ASSETS
(Amounts shown in thousands)

	June 30, 2010	June 30, 2009
ASSETS		
Current and other assets	$ 30,826	$ 29,601
Capital assets	2,295	1,764
Total assets	$ 33,121	$ 31,365
LIABILITIES		
Long-term liabilities	$ 1,790	$ 1,772
Other liabilities	3,067	2,806
Total liabilities	4,857	4,578
NET ASSETS		
Invested in capital assets	2,295	1,764
Temporarily restricted		611
Restricted	4,775	5,149
Unrestricted	21,194	19,263
Total net assets	$ 28,264	$ 26,787

The increase in net assets of approximately $1.48 million from last year is due in large part to an increase in contributions receivable and an increase in capital assets. The cost savings are evidenced by the positive budget to actual variance in total expenses of $4,719,966. We are expecting a reduction in contributions in the coming fiscal years due to the poor economic conditions experienced during the current fiscal year.

Overall revenues increased by $1.3 million, while total spending increased by approximately $3.6 million. Salaries and benefits decreased by approximately $91,000 from last year due to changes resulting from a wage and compensation study, but were still $1.6 million less than budgeted. Cost savings are recognized when actual expenditures are less than budgeted.

The final budget of the General Fund anticipated that there would be expenditures of $42,586,403 while final expenditures were actually $37,866,437 resulting in positive variance of $4,719,962. Excess expenditures over revenue in the General Fund decreased the previous year fund balance by $11,276,405. In addition to the decrease 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 $16,025 in net asset value. These two changes plus the positive adjustments outlined in Note 4 of the Notes to the Basic Financial Statements of $12,737,021 account for the overall increase in net assets of $1,476,641.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

CONDENSED STATEMENTS OF ACTIVITIES
(Amounts shown in thousands)

	June 30, 2010	June 30, 2009
REVENUES		
Program revenues:		
Charges for services	$ 5,366	$ 5,506
Operating grants and contributions	32,237	30,582
General revenues:		
Gifts and donations	688	950
Investment income	501	425
Other	115	118
Total revenues	38,907	37,581
EXPENSES		
Education	37,430	33,841
Increase in net assets	1,477	3,740
Net assets, beginning of year	26,787	23,047
Net assets, end of year	$ 28,264	$ 26,787

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 June 30, 2010, the Authority has ending fund balances of $16,246,600 compared to the June 30, 2009 ending fund balances of $27,506,980. The Authority's major source of revenues is member contributions. The Authority's major expenditures are personnel costs. Note that the government-wide financial analysis is fairly applicable to the governmental funds with the exception of conversion discussion, as shown in Notes 3 and 4.

General Fund Budgetary Highlights

The General Fund amended final budget projected a total decrease in fund balance of $11,530. Actual total revenues were lower than estimated by $16,007,901. Savings of $1,559,661 were realized in salaries and benefits due to position vacancies. Additional savings of $630,420 were recognized in services and supplies and $1,260,574 in capital outlay, including library improvements, due to some timing differences and efforts to hold down costs in this dismal economy. In addition, note that capital outlay is budgeted for all costs associated with capital expenditures, not necessarily only those costs that meet the Authority's capitalization threshold. Additional budget information can be found in the required supplemental section of this report.

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation is $2,295,203 and $1,763,528 as of June 30, 2010 and 2009, respectively. Major capital assets purchased during the current year amount to $1,296,318, comprised mostly of major computer replenishment, self check machines and furnishings and 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. To be consistent with GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Authority would need to capitalize the purchase of all books and materials. The Authority does not plan to capitalize the purchase of books and materials at this time.

Long-term Liabilities

As of June 30, 2010 the Authority's long-term liabilities consist of compensated absences and post employment benefit obligations. The total current year balance is $2,575,078, an increase of $145,579 from the prior year balance of $2,429,499. Additional information on the Authority's long-term liabilities 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 funding during the next fiscal year. The Authority has included in its budget the potential impact of this possibility. Additionally, the Authority may be impacted by reduced contributions from both the County and City of Sacramento due to the impact of the State's actions on their revenues, resulting from the poor economic conditions experienced during the current year. As a result, the Authority has designated $3,508,260 for economic uncertainty as of June 30, 2010.

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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENTS OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2010

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Assets
ASSETS					
Cash and investments	$ 17,899,379	$ 294,300	$ 18,193,679		$ 18,193,679
Receivables:					
Due from County of Sacramento	9,492,522		9,492,522		9,492,522
Due from City of Sacramento	2,804,904		2,804,904		2,804,904
Other	118,241		118,241		118,241
Prepaid expenditures	216,714		216,714		216,714
Capital assets depreciated, net				$ 2,295,203	2,295,203
TOTAL ASSETS	$ 30,531,760	$ 294,300	$ 30,826,060	$ 2,295,203	$ 33,121,263
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	$ 1,412,595		$ 1,412,595		$ 1,412,595
Salaries and benefits payable	746,071		746,071		746,071
Deferred revenue	12,382,794		12,382,794	$ (12,297,425)	85,369
Deposits	38,000		38,000		38,000
Other postemployment benefit obligation				578,000	578,000
Compensated absences:					
Due within one year				206,900	206,900
Due in more than one year				1,790,178	1,790,178
TOTAL LIABILITIES	14,579,460		14,579,460	(9,722,347)	4,857,113
FUND BALANCES/NET ASSETS					
Fund balances:					
Reserved for:					
Assessment District carryover	3,443,184		3,443,184	(3,443,184)	
Encumbrances	596,457		596,457	(596,457)	
Supplemental funds	440,679		440,679	(440,679)	
Trust obligations - nonexpendable		$ 133,181	133,181	(133,181)	
Trust obligations - expendable		161,119	161,119	(161,119)	
Unreserved					
Designated for economic uncertainty	3,508,260		3,508,260	(3,508,260)	
Undesignated	7,963,720		7,963,720	(7,963,720)	
TOTAL FUND BALANCES	15,952,300	294,300	16,246,600	(16,246,600)	
TOTAL LIABILITIES AND FUND BALANCES	$ 30,531,760	$ 294,300	$ 30,826,060		
NET ASSETS					
Invested in capital assets				2,295,203	$ 2,295,203
Restricted for:					
Extension of services and operating hours				3,443,184	3,443,184
Encumbrances				596,457	596,457
Supplemental funds				440,679	440,679
Trust obligations - nonexpendable				133,181	133,181
Trust obligations - expendable				161,119	161,119
Unrestricted				21,194,327	21,194,327
TOTAL NET ASSETS				$ 28,264,150	$ 28,264,150

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year ended June 30, 2010

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 4)	Statement of Activities
REVENUES					
Program revenues:					
Charges for services:					
Assessments and taxes	$ 4,172,100		$ 4,172,100		$ 4,172,100
Fines, fees and penalties	872,176		872,176		872,176
Facility rental income	255,553		255,553		255,553
Galleria catering and other	66,303		66,303		66,303
Operating grants and contributions:					
County contributions	8,380,272		8,380,272	$ 12,297,425	20,677,697
City contributions	7,921,710		7,921,710		7,921,710
Other agency contributions	323,475		323,475		323,475
Proposition 1A	1,681,200		1,681,200		1,681,200
Reimbursements	864,740		864,740		864,740
State appropriations	702,193		702,193		702,193
Federal and State grants	65,506		65,506		65,506
Total program revenues	25,305,228		25,305,228	12,297,425	37,602,653
General revenues:					
Gifts and donations	688,453		688,453		688,453
Investment income (loss)	481,367	$ 19,664	501,031		501,031
Other	114,984		114,984		114,984
Total general revenues	1,284,804	19,664	1,304,468		1,304,468
TOTAL REVENUES	26,590,032	19,664	26,609,696	12,297,425	38,907,121
EXPENDITURES/EXPENSES:					
Education:					
Current:					
Salaries and benefits	23,181,493		23,181,493	92,079	23,273,572
Services and supplies	7,569,032	3,639	7,572,671		7,572,671
Books and pamphlets	4,454,658		4,454,658		4,454,658
Reimbursed improvements	1,364,936		1,364,936		1,364,936
Depreciation				764,643	764,643
Capital outlay	1,296,318		1,296,318	(1,296,318)	
TOTAL EXPENDITURES	37,866,437	3,639	37,870,076	(439,596)	37,430,480
CHANGE IN FUND BALANCE/NET ASSETS	(11,276,405)	16,025	(11,260,380)	12,737,021	1,476,641
Fund balance/net assets beginning of year	27,228,705	278,275	27,506,980	(719,471)	26,787,509
FUND BALANCE/NET ASSETS END OF YEAR	$ 15,952,300	$ 294,300	$ 16,246,600	$ 12,017,550	$ 28,264,150

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 - ORGANIZATION

The Sacramento Public Library Authority (the Authority) was created under a joint powers agreement between the City and County of Sacramento on August 31, 1993. On July 1, 2007, a joint exercise of powers agreement was modified to include the County of Sacramento and the Cities of Citrus Heights, Elk Grove, Galt, Isleton, Rancho Cordova and 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 28 branches. Three of the branches are operated under agreements with school districts that are not members of the Authority. 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 Library also operates a facility that is leased for events at the Central Library called the Galleria, which generates rental income, catering and other fees.

The Authority's governing board (Board) is comprised of representatives of each Member, including five representatives of the County of Sacramento Board of Supervisors, five representatives of the City Council of the City of Sacramento, one representative of the City Councils of the Cities of Citrus Heights, Elk Grove and Rancho Cordova and one representative that is shared between the City Councils of the Cities of Galt and Isleton. The Library Director serves as the Chief Administrative Officer of the Authority and as Secretary to the governing board. The Deputy Director – Administrative Services serves as Authority Treasurer and 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. Land and buildings related to library branches are owned by the Members or school districts that purchased the assets. The Members and non-member school districts have agreed to provide and maintain existing and future library building facilities for the Authority as defined in the joint exercise of powers agreements for Members or separate agreements for the non-member school districts.

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 ten year special assessment tax adopted during 2006. These special assessment tax revenues 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 called assessment district carryover.

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 or non-member school districts 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 or non-member school district.

In the event of termination of the joint exercise of 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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

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. The Governmental Accounting Standards Board (the 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 Authority has no component units, but receives contributions collected by the Sacramento Public Library Foundation (the Foundation) and Friends of the Sacramento Public Library (Friends of the Library). The Foundation and Friends of the Library are 501(c)(3) non-profit corporations with separate boards of directors that are not controlled by the Authority. The Authority considers the contributions received from these organizations to be immaterial to the financial statements and the Authority and has not evaluated them for treatment as component units.

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 recognized when earned, and expenses are recognized 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. However, long-term liabilities, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital assets are reported as capital outlay expenditures in governmental funds.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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. See the Permanent Fund footnote for a description of this fund.

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 are comprised mainly of county and city contributions. Other receivables consist of amounts due from other member organizations of the Authority. Management reviews the necessity of an allowance based on historical collection experience and review of current status. All receivables, other than fines and fees are considered to be fully collectible. As of June 30, 2010, $3,798,688 in fines and fees are owed to the Authority. As management cannot reasonably estimate the collectability of the amount and in order to be conservative, the Authority has determined the entire amount to be uncollectible.

Capital Assets: Capital assets, which include equipment, building improvements, software, and furniture and fixtures, are reported in the government-wide statement of net assets. Facilities are the property of the Members and not the Authority and are not reported on the Authority’s statement of net assets. The Authority defines capital assets as assets with an initial, individual or group 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 method over their estimated useful lives, which range from 3 to 20 years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue: Deferred revenue includes of $12,297,425 of contributions from the County of Sacramento that were earned as of year-end, but were not received within the Authority's availability period. Deferred revenue also includes $85,369 of deposits for Galleria events that will occur in future periods. The deposits for these events will be recognized as revenue when the events occur.

Other Postemployment Benefits Obligation: The Authority accrues a liability for the other postemployment healthcare benefits (OPEB) for retirees with 10 or more years of service. The liability represents the amount of the annual required contribution (ARC) that was not funded since the Authority implemented GASB Statement No. 45 during the year ended June 30, 2009. See Note 11 for additional information on the OPEB plan.

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.

Permanent Fund: The Authority maintains' separate trust funds for contributions received from the Fratt and Moore families. The originally contributed principal of both trusts totaling $131,181 is nonexpendable. Income from the Francis W. Fratt Trust may be used to purchase books of lasting value. Income from the Moore Memorial Trust may be used to purchase mystery related books.

Fund Balance: In the fund financial statements, governmental funds report reserved and unreserved balances. Reservations of fund balance are amounts that are not available for appropriation or that are legally restricted by outside parties for use for a specific purpose. Unreserved balances include an amount internally designated for economic uncertainty and the balance is available for general use.

Net Assets: In the statement of net assets, net assets are classified in the following categories:

Invested in capital assets – This amount consists of capital assets net of accumulated depreciation.

Restricted net assets – This amount is restricted by external grantors, contributors, or laws or regulations of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets" or "restricted net assets." The Authority designated $3,508,260 of the unrestricted net assets for economic uncertainty.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 was 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's 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 remaining fund balance in County Fund 11 is not reflected on the Authority's financial statements.

Beginning in the year ended June 30, 2011, the Authority will administer expenses previously funded through County Fund 11 under Memorandums of Understanding (MOU) with various County offices and units rather than having those offices and units bill County Fund 11 directly for the expenses. The expenses include alarms, fire sprinklers, security cameras and vehicle leases. A portion of the property tax collections will be held by the County under the MOU at a rate of $7 per square foot of County library buildings to cover annual maintenance and repairs and will continue to be held in County Fund 11 and will not be reported on the Authority's financial statements.

Donations: The Authority receives donations from the Sacramento Public Library Foundation (the Foundation) and Friends of the Sacramento Public Library (Friends). The Boards of Directors of the Authority and the Foundation and Friends approve activities to be funded with donations throughout the fiscal year and the Foundation provides a commitment letter to the Authority to document its commitment to fund the activities. During the year ended June 30, 2010, the Foundation and Friends required the Authority to first pay for the approved activities and then claim reimbursement. The Authority considers the donation revenue earned at the date the cash is received.

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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 3 – RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE GOVERNMENT-WIDE 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 focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet. The differences are described below:

Fund balances of governmental funds		$ 16,246,600
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Capital assets	$ 9,914,068	
Less: accumulated depreciation	(7,618,865)	2,295,203
Long-term receivables are not available to pay current period expenditures and are deferred in governmental funds.		12,297,425
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Acccrued compensated absences		(1,997,078)
Accrued other post employment benefit obligation		(578,000)
Net assets in the government-wide statement of net assets		$ 28,264,150

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 4 – RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The net change in fund balances of governmental funds differs from the change in net assets of governmental activities primarily because of the long-term 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 of Governmental Funds	$ (11,260,380)
Governmental funds report capital outlays as expendutires. In the Statement of Activities, however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The change in capital assets consists of:	
Capital outlay expense	1,296,318
Depreciation expense	(764,643)
Some revenues are deferred in governmental funds because they do not represent current financial resources that are recognized in the Statement of Activities	12,297,425
Some 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.	
Decrease in the PERS liability	53,500
Increase in compensated absences	(30,579)
Increase in other postemployment benefit obligation	(115,000)
Change in Net Assets of the Statement of Activities	$ 1,476,641

NOTE 5 – CASH AND INVESTMENTS

The Authority's investment policy for the General Fund is established by the Board of Directors and the investments in the permanent fund were established by the donors as described below. 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 beyond what is specified in the California Government Code. The following disclosures related to the Authority’s cash and investments are required by GASB Statement No. 40.

Investment Policy: Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The Authority’s permissible General Fund investments according to the investment policy adopted with a resolution of the Board of Directors on July 1, 2010 include the City of Sacramento’s investment pool and the State of California Local Agency Investment Fund (LAIF).

NOTE 5 – CASH AND INVESTMENTS (Continued)

The principal portion of the Moore Memorial Trust totaling $209,596 at June 30, 2010 is not governed by the Authority's investment policy and is instead invested in a diversified account with an investment advisor specified by the donor. The investments held by the account include money market mutual funds that are considered cash equivalents as well as bond and equity mutual funds.

Interest Rate Risk: Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority maintains its General Fund's investments in the City of Sacramento's investment pool, which totaled $17,696,190 as of June 30, 2010. The pool assets consist of treasury notes, agency notes, commercial paper, municipals securities, Local Agency Investment Fund (LAIF), and corporate bonds. The weighted average maturity of the pool's investments is approximately 1 year. For more information about the City of Sacrament investment pool, see the City of Sacramento's Comprehensive Annual Financial Report. The Permanent Fund's investments include a variety of money market mutual funds as well as bond and equity mutual funds. The investments in mutual funds have a weighted average maturity of less than one year.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical ration organization. The City of Sacramento's investment pool is unrated. Approximately 95% of the Permanent Fund's investment balance is invested in funds with ratings ranging from AAA to BBB (investment grade), approximately 6% is invested in funds with ratings below BBB and approximately 4% is invested in unrated funds.

Concentration of Credit Risk: The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated in the California Government Code. The Authority does not have any investments in any one issuer that represents 5% or more of the Authority's investments, other than the investment in the City of Sacramento's investment pool.

Custodial Credit Risk: 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, like the City of Sacramento's investment pool.

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

NOTE 5 – CASH AND INVESTMENTS (Continued)

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, 2010, the carrying amount and balance per bank of the Authority's bank deposits were $279,625 and $425,515, respectively. Of the balance per bank, $175,515 was in excess of federal depository insurance limits at June 30, 2010.

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, 2010 the Authority had outstanding future commitments reported as encumbrances of $596,457.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 is as follows:

	Beginning balance	Additions	Deletions	Ending Balance
Capital assets:				
Equipment	$ 6,912,522	$ 1,034,135		$ 7,946,657
Building improvements	439,473	27,606		467,079
Software	351,191	154,798		505,989
Furniture and fixtures	914,564	79,779		994,343
Total capital assets	8,617,750	1,296,318		9,914,068
Accumulated depreciation:				
Equipment	(5,736,900)	(576,392)		(6,313,292)
Building improvements	(38,964)	(72,993)		(111,957)
Software	(235,155)	(85,924)		(321,079)
Furniture and fixtures	(843,203)	(29,334)		(872,537)
Total accumulated depreciation	(6,854,222)	(764,643)		(7,618,865)
Total capital assets, net	$ 1,763,528	$ 531,675	$ -	$ 2,295,203

NOTE 8 - OPERATING LEASES

The Authority is obligated under various operating leases for the use of office buildings. Lease expenditures for the year ended June 30, 2010 were $331,023, including common area maintenance charges. Two of the leases have options to renew for one three year period, one at market rates with a 5% maximum increase and one at specified monthly payments. 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, 2010 are as follows:

Year Ending June 30,	
2011	$ 256,207
2012	137,471
2013	50,750
2014	47,585
Total	$ 492,013

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2010 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Liability for other postemployment benefits	$ 463,000	$208,000	$ (93,000)	$ 578,000	
Compensated absences	1,966,499	289,464	(258,885)	1,997,078	$ 206,900
Total long-term liabilities	$ 2,429,499	$ 497,464	$ (351,885)	$ 2,575,078	$ 206,900

NOTE 10 - EMPLOYEE RETIREMENT PLAN

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. The Authority uses a 2.0% at 55 miscellaneous retirement formula. 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 agreed to contribute a percentage of certain employee's required contributions on their behalf, as specified in the related labor agreements. For the year ended June 30, 2010, employees contributed $598,718. The Authority is required to contribute at an actuarially determined rate, which was 14.258% of annual covered payroll for the year ended June 30, 2010. 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, 2010, the Authority's annual pension cost of $2,531,169 for PERS was equal to the Authority's required and actual contributions. Three year trend information for PERS is as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 2,075,666	100%	$ -
6/30/2009	2,487,415	100%	
6/30/2010	2,531,169	100%	

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

The required contribution was determined as part of the June 30, 2007 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 projected annual salary increases of 3.25% to 14.45%, cost of living increases of 3.25%, and 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 fifteen-year period. Unfunded losses are amortized over a rolling 30-year period, which results in an amortization of approximately 6% of unamortized gains and losses each year.

Funded Status and Funding Progress: The funded status of the Plan as of June 30, 2009, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 39,372,881
Actuarial value of Plan assets	33,820,834
Unfunded actuarial accrued liability (UAAL)	5,552,047
Funded ratio (actuarial value of Plan assets/AAL)	85.90%
Covered payroll (active Plan participants)	$ 14,664,099
UAAL as a percentage of covered payroll	37.86%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 PERS. During the year-ended June 30, 2010, the Authority settled the outstanding liability for $3.4 million and has been released from any further obligation to the County.

NOTE 11 – OTHER POSTEMPLOYMENT BENFITS PLAN

Plan Description: The Authority's has an other postemployment benefit (OPEB) healthcare plan (the Plan) that provides medical benefits to retired employees and their eligible dependents with a stipend of $225 monthly for retirees with 20 or more years of service. Partial benefits are paid for those with 10 to 19 years of service. Eligibility rules include retirement from the Authority at age 50 or later, or with 30 years of employment. The Authority's Board of Directors has the authority to establish and amend benefit provisions. The Plan does not issue separate financial statements.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 11 – OTHER POSTEMPLOYMENT BENFITS PLAN (Continued)

Funding Policy: The contribution requirements of plan members and the Authority are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2010, the Authority contributed approximately $93,000 to the Plan. Plan members did not make any contributions to the plan.

Annual OPEB Cost and Net OPEB Cost (Expense): The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Authority's Net OPEB obligation:

Annual required contribution end of year	$ 380,000
Interest on net OPEB obligation	13,000
Adjustment to annual required contribution	(185,000)
Annual OPEB cost (expense)	208,000
Contributions made including credited interest	(93,000)
Increase (decrease) in net OPEB obligation	115,000
Net OPEB obligation, beginning of period	463,000
Net OPEB obligation (asset), end of period	$ 578,000

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the two most recent fiscal years are as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 385,000	24.90%	$ 463,000
6/30/2010	208,000	44.70%	578,000

The Authority inadvertently used June 30, 2008 as the implementation date of GASB Statement No. 45 in the June 30, 2009 financial statements, which is one year earlier than the Authority's required implementation date. The effect of eliminating the June 30, 2008 net OPEB obligation and now using June 30, 2009 as the implementation date of GASB Statement No. 45 is included in the "adjustment to annual required contribution" line above as the amount is not significant.

NOTE 11 – OTHER POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Funded Status and Funding Progress: The funded status of the Plan as of January 1, 2008, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 3,953,000
Actuarial value of Plan assets	
Unfunded actuarial accrued liability (UAAL)	$ 3,953,000
Funded ratio (actuarial value of Plan assets/AAL)	0.00%
Covered payroll (active Plan participants)	$ 18,709,000
UAAL as a percentage of covered payroll	21.13%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by PERS in the valuation of the Authority's pension plan. The actuarial assumptions included a 4.5 percent investment rate of return, a 3.5 percent rate of inflation and a 3.75 percent increase in payroll. The UAAL is being amortized over a 30 year period.

NOTE 12 – PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provision of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of the property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Authority was $1,681,200.

NOTE 12 – PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA (Continued)

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (California Communities), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010.

The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of the issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The Authority participated in the Securitization Program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable proceeds were equal to the book value and, as a result, no gain or loss was recorded.

NOTE 13 – 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 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.

NOTE 15 – ECONOMIC DEPENDENCY

The Authority receives the majority of its funding from Sacramento County and the City of Sacramento. Funding is largely dependent on special assessments related to property taxes. A reduction in funding from the County and City of Sacramento could significantly impact operations of the Authority.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Assessment and taxes	$ 4,479,660	$ 4,479,660	$ 4,172,100	$ (307,560)
Fines, fees and penalties	1,034,684	780,000	872,176	92,176
Facility rental income	299,200	150,200	255,553	105,353
Galleria catering and other	107,000	107,000	66,303	(40,697)
Operating grants and contributions:				
County contributions	17,545,778	17,353,508	8,380,272	(8,973,236)
City contributions	7,921,710	7,921,710	7,921,710	
Other agency contributions	182,600	182,600	323,475	140,875
Proposition 1A	1,681,200	1,681,200	1,681,200	
Reimbursements		4,731,114	864,740	(3,866,374)
State appropriations	498,461	655,720	702,193	46,473
Federal and State grants	29,999	65,506	65,506	
Total program revenues	33,780,292	38,108,218	25,305,228	(12,802,990)
General revenues:				
Gifts and donations	110,000	583,405	688,453	105,048
Investment income (loss)	435,000	392,500	481,367	88,867
Other	116,800	117,379	114,984	(2,395)
Total general revenues	661,800	1,093,284	1,284,804	191,520
TOTAL REVENUES	34,442,092	39,201,502	26,590,032	(12,611,470)
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	24,303,786	24,741,154	23,181,493	(1,559,661)
Services and supplies	7,064,077	8,199,452	7,569,032	(630,420)
Books and pamphlets	2,677,326	5,723,969	4,454,658	(1,269,311)
Library development	27,000	2,833,014	1,364,936	(1,468,078)
Capital outlay	658,949	1,088,814	1,296,318	207,504
TOTAL EXPENDITURES	34,731,138	42,586,403	37,866,437	(4,719,966)
CHANGE IN FUND BALANCE	(289,046)	(3,384,901)	(11,276,405)	(7,891,504)
Fund balance, beginning of year	27,228,705	27,228,705	27,228,705	
FUND BALANCE, END OF YEAR	$ 26,939,659	$ 23,843,804	$ 15,952,300	$ (7,891,504)

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT PLAN WITH PERS

June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2007	$ 25,281,000	$ 28,911,000	$ 3,630,000	87.44%	$ 12,952,000	28.03%
6/30/2008	29,557,000	33,349,000	3,792,000	88.63%	14,140,000	26.82%
6/30/2009	33,821,000	39,373,000	5,552,000	85.90%	14,664,000	37.86%

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2009	$ -	$ 3,953,000	$ 3,953,000	0.00%	$ 18,937,000	20.87%
6/30/2010		3,953,000	3,953,000	0.00%	18,709,000	21.13%