

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SACRAMENTO PUBLIC LIBRARY AUTHORITY

JUNE 30, 2009

Sacramento Public Library Authority

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INDEPENDENT AUDITORS' 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, 2009, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, 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 to net capital assets and net assets as of June 30, 2009, if the books and periodicals were capitalized is not determinable as of the date of this report. Additionally, the increase or decrease to change in net assets 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 for the Authority as of June 30, 2009, 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 Government Auditing Standards, we have also issued a report dated October 14, 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 Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 11, the budgetary comparison information on page 31, the Schedule of Funding Progress - Employee Retirement Plan on page 32 and the Schedule of Funding Progress - Post employment Healthcare Plan on page 33 are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Reznick Group, P.C.

Sacramento, California
October 14, 2009

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended June 30, 2009

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, 2009. We encourage readers to consider the information presented here in conjunction with the Financial Statements and the Required Supplemental Schedules that follow this discussion.

FINANCIAL HIGHLIGHTS

The net assets of the Authority as of June 30, 2009 are \$26,787,509 compared to that of the prior year balance of \$23,047,313. The increase is due primarily from cost cutting measures assumed by the Authority's management. Of the current year net assets balance, \$1,763,528 is invested in capital assets, \$611,025 is restricted contributions and gifts, \$3,851,468 is restricted during the remaining term of the special assessment to provide income for the future operations, \$523,854 is encumbered, \$496,764 is restricted for supplemental funding, \$278,275 is restricted as described in Note 2 regarding the Permanent Fund, \$3,508,260 is designated for economic uncertainty and the remaining \$15,754,335 is undesignated.

The Authority's cash and investments balance at June 30, 2009 is \$25,930,073, an increase of \$5,684,062 from the prior year balance of \$20,246,011. The increase is due primarily from the timing of county funding.

For the fiscal year ended June 30, 2009 program revenues are \$36,088,208, which represents an increase of \$643,183 from the prior year. Additionally, general revenues are \$1,492,859 for the year ended 2009, representing a slight decrease from the prior year amount of \$1,528,511. Education expenditures for fiscal year 2009 are \$33,840,871, an increase from the 2008 fiscal year amount of \$32,054,045. Capital outlay for fiscal year 2009 is \$1,170,661, representing a significant increase from the prior year amount of \$706,471. The increase is a result of remodels, the relocation of two branches to new facilities, and the purchase of self check machines and surveillance systems.

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

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2009

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 12 and 13. 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 since 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.

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2009

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 14 through 29 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, 2009, Authority assets exceeded its liabilities by \$26,787,509, representing an increase of \$3,740,196 from the prior fiscal year.

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2009

CONDENSED STATEMENTS OF NET ASSETS
(Amounts shown in thousands)

	June 30,	
	2009	2008
ASSETS		
Current and other assets	\$ 29,601	\$ 26,043
Capital assets	1,764	1,148
Total assets	\$ 31,365	\$ 27,191
LIABILITIES		
Long-term liabilities	\$ 1,772	\$ 1,786
Other liabilities	2,806	2,358
Total liabilities	\$ 4,578	\$ 4,144
NET ASSETS		
Invested in capital assets	\$ 1,764	\$ 1,148
Temporarily restricted	611	115
Restricted	5,149	4,832
Unrestricted	19,263	16,952
Total net assets	\$ 26,787	\$ 23,047

The increase in net assets of approximately \$3.7 million from last year is due in large part to management making a concerted effort to cut costs during the current period as part of a cost savings plan to prepare for the upcoming shortfalls that are expected from county and city contributions. The cost savings are evidenced by the positive budget to actual variance in total expenses of approximately \$3.7 million. 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 remained relatively similar to last year, while total spending increased by approximately \$1.8 million in total. Salaries and benefits increased by approximately \$1.3 million from last year due to a reduction in the number of vacant positions and changes resulting from a wage and compensation study, but were still \$1.8 million less than budgeted. Cost savings are recognized when actual expenditures are less than budgeted.

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2009

The final budget of the General Fund anticipated that there would be expenditures of \$37,892,508 while final expenditures were actually \$34,146,644, resulting in positive variance of \$3,745,864. Excess revenues over expenditures in the General Fund increased the previous year fund balance by \$3,553,019. 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, decreased by \$41,223 in net asset value. These two changes plus the positive adjustments outlined in Note 4 of the Notes to the Basic Financial Statements of \$228,400 account for the overall increase in net assets of \$3,740,196.

CONDENSED STATEMENTS OF ACTIVITIES

(Amounts shown in thousands)

	June 30,	
	2009	2008
REVENUES		
Program revenues:		
Charges for services	\$ 1,072	\$ 958
Operating grants and contributions	35,016	34,486
General revenues:		
Gifts and donations	950	354
Investment income	425	968
Other	118	207
	<u>37,581</u>	<u>36,973</u>
EXPENSES		
Education	<u>33,841</u>	<u>32,054</u>
Increase in net assets	3,740	4,919
Net assets, beginning of year	<u>23,047</u>	<u>18,128</u>
Net assets, end of year	<u>\$ 26,787</u>	<u>\$ 23,047</u>

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2009

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, 2009 fiscal year, the Authority's funds reported ending fund balances of \$27,506,980 compared to the June 30, 2008 ending fund balance of \$23,995,184. 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 \$917,431. Actual total revenues were higher than estimated by \$724,586. Savings of \$1,767,998 were realized in salaries and benefits due to position vacancies. Additional savings of \$749,398 were recognized in services and supplies and \$1,052,747 in capital outlay due to a concerted effort by management to cut costs in light of dismal economic forecasts. 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. These savings comprise a majority of the \$3,553,019 increase to the General Fund. 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 \$1,763,528 and \$1,147,891 as of June 30, 2009 and 2008, respectively. Major capital assets purchased during the current year amount to \$1,170,661, comprised mostly of major computer replenishment, self check machines and surveillance systems. 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 Statement No. 34 *Basic Financial Statements - and*

Sacramento Public Library Authority

MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED

Year ended June 30, 2009

Management's Discussion and Analysis - for State and Local Governments, the Authority plans to capitalize all such costs as of July 1, 2009 and prospectively.

Long-Term Liabilities

As of June 30, 2009, the Authority's long-term liabilities consist solely of compensated absences. The total current year balance is \$1,966,499, a slight increase from the prior year balance of \$1,963,760. 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.

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

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2009

	General Fund	Permanent Fund	Total	Adjustments (Note 3)	Statement of net assets
ASSETS					
Cash and investments	\$ 25,651,798	\$ 278,275	\$ 25,930,073	\$ -	\$ 25,930,073
Receivables:					
Due from County	2,489,763	-	2,489,763	-	2,489,763
Due from City	256,373	-	256,373	-	256,373
Other	790,107	-	790,107	-	790,107
Prepaid expenditures	135,170	-	135,170	-	135,170
Capital assets, net	-	-	-	1,763,528	1,763,528
Total assets	\$ 29,323,211	\$ 278,275	\$ 29,601,486	\$ 1,763,528	\$ 31,365,014
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 1,985,466	\$ -	\$ 1,985,466	\$ 53,500	\$ 2,038,966
Deferred revenue	87,540	-	87,540	-	87,540
Deposits	21,500	-	21,500	-	21,500
Other post employment benefit obligation	-	-	-	463,000	463,000
Compensated absences:					
Due within one year	-	-	-	194,265	194,265
Due in more than one year	-	-	-	1,772,234	1,772,234
Total liabilities	2,094,506	-	2,094,506	\$ 2,482,999	\$ 4,577,505
FUND BALANCES / NET ASSETS					
Fund balances:					
Reserved for:					
Assessment District carryover	3,851,468	-	3,851,468	\$ (3,851,468)	\$ -
Encumbrances	523,854	-	523,854	(523,854)	-
Supplemental funds	496,764	-	496,764	(496,764)	-
Trust obligations - nonexpendable	-	133,181	133,181	(133,181)	-
Trust obligations - expendable	-	145,094	145,094	(145,094)	-
Unreserved					
Designated for economic uncertainty	3,508,260	-	3,508,260	(3,508,260)	-
Undesignated	18,848,359	-	18,848,359	(18,848,359)	-
Total fund balances	27,228,705	278,275	27,506,980	\$ (27,506,980)	\$ -
Total liabilities and fund balances	\$ 29,323,211	\$ 278,275	\$ 29,601,486		
Net assets:					
Invested in capital assets				\$ 1,763,528	\$ 1,763,528
Restricted for:					
Extension of services and operating hours				3,851,468	3,851,468
Encumbrances				523,854	523,854
Supplemental funds				496,764	496,764
Trust obligations - nonexpendable				133,181	133,181
Trust obligations - expendable				145,094	145,094
Contributions and gifts				611,025	611,025
Unrestricted					
Designated for economic uncertainty				3,508,260	3,508,260
Undesignated				15,754,335	15,754,335
Total net assets				\$ 26,787,509	\$ 26,787,509

See notes to financial statements

Sacramento Public Library Authority

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

Year ended June 30, 2009

	General Fund	Permanent Fund	Total	Adjustments (Note 4)	Statement of activities
REVENUES					
Program revenues:					
Charges for services:					
Fines, fees and penalties	\$ 799,264	\$ -	\$ 799,264	\$ -	\$ 799,264
Facility rental income	273,064	-	273,064	-	273,064
Operating grants and contributions:					
County contributions	20,714,763	-	20,714,763	-	20,714,763
City contributions	9,004,831	-	9,004,831	-	9,004,831
Other agency contributions	194,172	-	194,172	(18,311)	175,861
Assessment and taxes	4,433,565	-	4,433,565	-	4,433,565
State appropriations	664,317	-	664,317	(42,947)	621,370
Federal and State grants	65,490	-	65,490	-	65,490
Total program revenues	<u>36,149,466</u>	<u>-</u>	<u>36,149,466</u>	<u>(61,258)</u>	<u>36,088,208</u>
General revenues:					
Gifts and donations	968,682	-	968,682	(18,740)	949,942
Investment income (loss)	463,280	(38,598)	424,682	-	424,682
Other	118,235	-	118,235	-	118,235
Total general revenues	<u>1,550,197</u>	<u>(38,598)</u>	<u>1,511,599</u>	<u>(18,740)</u>	<u>1,492,859</u>
Total revenues	<u>37,699,663</u>	<u>(38,598)</u>	<u>37,661,065</u>	<u>(79,998)</u>	<u>37,581,067</u>
EXPENDITURES/EXPENSES:					
Education:					
Current:					
Salaries and benefits	23,058,177	-	23,058,177	307,239	23,365,416
Books and pamphlets	3,052,805	-	3,052,805	-	3,052,805
Services and supplies	6,865,001	2,625	6,867,626	-	6,867,626
Depreciation	-	-	-	555,024	555,024
Capital outlay	1,170,661	-	1,170,661	(1,170,661)	-
Total expenditures	<u>34,146,644</u>	<u>2,625</u>	<u>34,149,269</u>	<u>(308,398)</u>	<u>33,840,871</u>
Change in fund balance / net assets	3,553,019	(41,223)	3,511,796	228,400	3,740,196
Fund balance / net assets, beginning of year	<u>23,675,686</u>	<u>319,498</u>	<u>23,995,184</u>	<u>(947,871)</u>	<u>23,047,313</u>
Fund balance / net assets, end of year	<u>\$ 27,228,705</u>	<u>\$ 278,275</u>	<u>\$ 27,506,980</u>	<u>\$ (719,471)</u>	<u>\$ 26,787,509</u>

See notes to financial Statements

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 four representatives of the County Board of Supervisors, five representatives of the City of Sacramento City Council, and four representatives from the city councils of Citrus Heights, Elk Grove, Isleton and Rancho Cordova. 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. 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

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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.

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

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 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.

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

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 and accrued interest in the amount of \$558,068 on funds held in the City of Sacramento investment pool. Management reviews the necessity of an allowance based on historical collection experience and review of the current status. All receivables, other than fines and fees are considered to be fully collectible. As of June 30, 2009, \$5,359,387 in fines and fees are owed to the Authority. As management cannot reasonably estimate the collectibility 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 statements. Facilities are the property of the Members and not the Authority. 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 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.

Impairment of Capital Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* and GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Authority reviews its capital assets for impairment whenever events or changes in circumstances indicate that carrying value of an asset may not be recoverable. As of June 30, 2009, there has been no impairment of the capital assets.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

Deferred Revenue

Deferred revenue includes 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 Post Employment Benefit Obligations

The Authority accrues a liability for other post employment healthcare benefits for retirees with 10 or more years of service. See Note 11 for additional information on the 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 principal of both trusts 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 for amounts that are not available for appropriation or 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.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

Restricted Net Assets - This amount is restricted by external 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.”

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.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 3 - EXPLANATION OF DIFFERENCES BETWEEN THE FUND 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	\$ 27,506,980
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Capital assets	\$ 8,617,750	
Less accumulated depreciation	<u>(6,854,222)</u>	
		1,763,528

Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Accrued PERS liability	(53,500)
Accrued compensated absences	(1,966,499)
Accrued other post employment benefit obligation	<u>(463,000)</u>

Net assets	<u><u>\$ 26,787,509</u></u>
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Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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	\$ 3,511,796
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Governmental funds report capital outlays as expenditures. In the Statement of Activities, however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	1,170,661
Depreciation expense	(555,024)

Revenue on the Statement of Activities 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.	(79,998)
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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.

Increase in PERS liability	(53,500)
Increase in compensated absences	(2,739)
Increase in other post employment benefit obligation	<u>(251,000)</u>

Total	<u><u>\$ 3,740,196</u></u>
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Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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.

On June 29, 2009, the Authority received a contribution from the County of Sacramento of approximately \$8 million and subsequently transferred the deposit to the City investment pool in July 2009. At June 30, 2009, the balances held per bank were \$8,724,591, of which \$8,474,591 was in excess of federal depository insurance limits. The carrying value of cash is \$8,715,838 at June 30, 2009.

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 government investment pools.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

Investment in City of Sacramento Investment Pool

The Authority maintains its investments in the City of Sacramento investment pool totaling \$17,214,235 as of June 30, 2009. 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.

The principal portion of the Moore Memorial Trust, \$194,868, 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.

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 supplemental 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, 2009 the Authority had outstanding future commitments of \$523,854.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 is as follows:

	Beginning balance	Additions	Deletions	Ending balance
Capital assets				
Equipment	\$ 6,197,981	\$ 714,541	\$ -	\$ 6,912,522
Building improvements	102,013	337,460	-	439,473
Software	246,413	104,778	-	351,191
Furniture and fixtures	900,682	13,882	-	914,564
	<u>7,447,089</u>	<u>1,170,661</u>	<u>-</u>	<u>8,617,750</u>
Total capital assets				
Accumulated depreciation				
Equipment	(5,322,473)	(414,427)	-	(5,736,900)
Building improvements	(12,752)	(26,212)	-	(38,964)
Software	(158,522)	(76,633)	-	(235,155)
Furniture and fixtures	(805,451)	(37,752)	-	(843,203)
	<u>(6,299,198)</u>	<u>(555,024)</u>	<u>-</u>	<u>(6,854,222)</u>
Total accumulated depreciation				
Total capital assets, net	<u>\$ 1,147,891</u>	<u>\$ 615,637</u>	<u>\$ -</u>	<u>\$ 1,763,528</u>

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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, 2009 were \$396,746. 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, 2009 are as follows:

Year ending June 30, 2010	\$	157,762
2011		94,553
2012		50,640
2013		50,640
2014		51,912
		<hr/>
Total	\$	<u>405,507</u>

NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2009 are as follows:

<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Due within one year</u>
<u>\$ 1,963,760</u>	<u>\$ 267,624</u>	<u>\$ (264,885)</u>	<u>\$ 1,966,499</u>	<u>\$ 194,265</u>

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. Copies of PERS annual financial report may be obtained from the PERS Executive Office, 400 Q Street, Sacramento, CA 95814.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

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 13.989% for the year ended June 30, 2009. 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, 2009, the Authority's annual pension cost of \$2,059,909 for PERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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 that vary by duration of service, both of which include 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. Annual gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period, which results in an amortization of approximately 6% of unamortized gains and losses each year. For the year ended June 30, 2009, employees contributed \$1,007,378.

Three- Year Trend Information for PERS

<u>Fiscal year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
6/30/2007	\$ 1,573,000	100%	\$ -
6/30/2008	1,670,000	100%	-
6/30/2009	2,060,000	100%	-

Additional PERS Liability

The Authority owes a liability to PERS related to differences between the Memorandum of Understanding (MOU), between the Authority and its employees, and the contract with PERS. The liability is due primarily from the contract with PERS not reflecting the updated 2003 MOU, resulting in a difference in how pension is calculated for employees hired since 2003. The PERS contract specifies that pension is based on an average of the 36 highest paid

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

consecutive months. However, the 2003 MOU specifies that pension is based on an average of the 12 highest paid consecutive months. An actuarial study determined this liability to be approximately \$53,500 as of June 30, 2009.

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. As of June 30, 2009, \$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, 2010. No liability has been recorded in the Authority's financial statements for this commitment.

NOTE 11 - POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The Authority's defined benefit postemployment healthcare plan (the Plan) 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.

Funding Policy

The GASB Statements No. 43 and No. 45 were published in 2004. Statement No. 43 requires disclosures by the Plan; Statement No. 45 sets rules for computing expenses for retiree health and welfare benefits. The expense on the GASB basis is the Annual Required Contribution (ARC). The ARC is an amount actuarially determined in accordance with the parameters of Statement No. 45. It is shown as the amount payable at the beginning of the fiscal year and should be adjusted for later payment. The current ARC rate is 1.82 percent of budgeted payroll in the amount of \$18.9 million.

Annual Other Postemployment Benefit (OPEB) Cost

For fiscal year 2009, the Authority's OPEB cost (expense) of \$345,000 for the Plan was equal to the ARC. Note that the Authority only paid \$94,000 during the year resulting in an

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

additional liability of \$251,000. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2009 were as follows:

Fiscal year	Annual OPEB Cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/2008	\$ 278,000	23.74%	\$ 212,000
6/30/2009	345,000	27.25%	463,000

Actuarial Methods and Assumptions

In the January 1, 2008 actuarial valuation, the Projected Unit Credit 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 7.5 percent investment rate of return, a 3.5 percent rate of inflation and a 3.75 percent increase in payroll. Note that amounts determined regarding the funding status of the Plan and the ARCs of the Authority are subject to continual revision as the actual results are compared with past expectations and new estimates are made about the future.

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 - 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.

Sacramento Public Library Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE 14 - 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 real estate taxes. A reduction in funding from the County and City of Sacramento could significantly impact operations of the Authority.

NOTE 15 - SUBSEQUENT EVENTS

Management evaluated all activity of the Authority through October 14, 2009, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

Sacramento Public Library Authority

REQUIRED SUPPLEMENTAL INFORMATION

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

June 30, 2009

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES				
Program revenues:				
Charges for services:				
Fines and penalties	\$ 414,300	\$ 414,300	\$ 799,264	\$ 384,964
Facility rental income	456,200	456,200	273,064	(183,136)
Operating grants and contributions:				
County	20,450,000	20,450,000	20,714,763	264,763
City	8,644,600	9,004,600	9,004,831	231
Other agency	166,000	166,000	194,172	28,172
Assessment and taxes	4,370,400	4,370,400	4,433,565	63,165
State appropriation	630,300	630,300	664,317	34,017
Federal and State grants	40,000	92,722	65,490	(27,232)
Total program revenues	<u>35,171,800</u>	<u>35,584,522</u>	<u>36,149,466</u>	<u>564,944</u>
General revenues:				
Gifts and donations	-	598,078	968,682	370,604
Investment income	560,000	560,000	463,280	(96,720)
Other	206,800	232,477	118,235	(114,242)
Total general revenues	<u>766,800</u>	<u>1,390,555</u>	<u>1,550,197</u>	<u>159,642</u>
Total revenues	<u>35,938,600</u>	<u>36,975,077</u>	<u>37,699,663</u>	<u>724,586</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	24,598,687	24,826,175	23,058,177	1,767,998
Books and pamphlets	2,746,656	3,228,526	3,052,805	175,721
Services and supplies	7,198,326	7,614,399	6,865,001	749,398
Capital outlay	1,589,093	2,223,408	1,170,661	1,052,747
Total expenditures	<u>36,132,762</u>	<u>37,892,508</u>	<u>34,146,644</u>	<u>3,745,864</u>
Change in Fund balance	(194,162)	(917,431)	3,553,019	4,470,450
Fund balance, beginning of year	<u>23,675,686</u>	<u>23,675,686</u>	<u>23,675,686</u>	-
Fund balance, end of year	<u>\$ 23,481,524</u>	<u>\$ 22,758,255</u>	<u>\$ 27,228,705</u>	<u>\$ 4,470,450</u>

Sacramento Public Library Authority

REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT PLAN

June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded 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	\$ 18,294,000	\$ 20,502,000	\$ 2,208,000	89.2%	\$ 10,641,000	20.7%
6/30/2006	21,381,000	23,543,000	2,162,000	90.8%	10,376,000	20.8%
6/30/2007	25,281,000	28,911,000	3,630,000	87.4%	12,952,000	28.0%

Sacramento Public Library Authority

REQUIRED SUPPLEMENTAL INFORMATION - CONTINUED

SCHEDULE OF FUNDING PROGRESS - POST EMPLOYMENT HEALTHCARE PLAN

June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 2,695,000	\$ 2,695,000	-	\$ 15,300,000	17.6%
6/30/2009	-	3,335,000	3,335,000	-	18,937,000	17.6%