# SACRAMENTO PUBLIC LIBRARY AUTHORITY

## AUDITED FINANCIAL STATEMENTS

## JUNE 30, 2012

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

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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, 2012, 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2012 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.

The Authority prepared its financial statements for previous years by expensing the cost of its books and media collection. As discussed in Note 15 to the financial statements, the Authority fully implemented GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and capitalized its books and media collection as of July 1, 2011. Accordingly, an adjustment has been made to assets and net assets as of July 1, 2011 in the government-wide statements to capitalize the books and media collection.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012, 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.

To the Board of Directors
Sacramento Public Library Authority

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3 through 7 and 26 through 28 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

November 2, 2012

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, 2012. 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, 2012 are $35,047,032 compared to that of the prior year balance of $33,889,560, as restated to record the Authority's books and media collection. The increase is due primarily from the $1,259,925 in Tobacco Bond proceeds from the County for the new Rio Linda Library building improvements. Of the current year net assets balance, $8,625,793 is invested in capital assets; $2,972,411 is restricted during the remaining term of the special assessment to provide income for future operations; $1,225,491 is restricted for the new Rio Linda Library; $508,758 is restricted for donor approved projects; $321,143 is restricted as described in Note 2 regarding the Permanent Fund; $66,853 is restricted for grant programs and the remaining $21,326,583 is unrestricted.

The Authority's cash and investments balance at June 30, 2012 was $30,185,183, an increase of $2,180,787 from the prior year balance of $28,004,396. The increase is due primarily from the $1,259,925 Tobacco Bond proceeds as described above and overall reduction in expenditures such as salaries and benefits as well as services and supplies for fiscal year 2012.

For the year ended June 30, 2012 program revenues in the Statement of Activities were $32,516,740, which represents a nominal increase of $22,223 from the prior year. Without the one-time Tobacco Bond proceeds from the County, program revenues would have ended the year with a decrease of $1.2 million. Additionally, general revenues were $1,444,970 for the year ended 2012, a decrease of $208,150 from the prior year amount of $1,653,120. The decrease is mainly due to a reclassification of grant revenues to program revenues for reporting purposes. Education expenditures for fiscal year ended 2012 were $32,804,238, a decrease of $2,745,341 from the 2011 fiscal year amount of $35,549,579. The decrease is largely due to lower budgeted expenditures, aligning expenses with decreased revenues.

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions with compliance effective with the fiscal year ended June 30, 2011. This new standard does not change the total amount of a given fund balance, but it substantially alters the categories and terminology used to describe the components that make up a fund balance. The Authority's Governmental Funds Balance Sheet, as shown on page 8 of this report continues to be presented in compliance with GASB No. 54 requirements. Overall, the General Fund and Permanent Fund ended the year with fund balances of $28,528,883 and $321,143 respectively, for a combined fund balance of $28,850,026.

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 25 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, 2012, the Authority's assets exceeded its liabilities by $35,047,032 representing an increase of $1,157,472 from the prior year. As noted above, most of this increase is attributed to the Tobacco Bond proceeds from the County.

CONDENSED STATEMENTS OF NET ASSETS
(Amounts shown in thousands)

| | June 30, | |
|---|---|---|
| | 2012 | 2011 (As Restated) |
| ASSETS | | |
| Current and other assets | $ 30,972 | $ 28,987 |
| Capital assets | 8,626 | 9,051 |
| Total assets | $ 39,598 | $ 38,038 |
| LIABILITIES | | |
| Long-term liabilities | $ 1,979 | $ 2,417 |
| Other liabilities | 2,572 | 1,732 |
| Total liabilities | 4,551 | 4,149 |
| NET ASSETS | | |
| Invested in capital assets | 8,626 | 9,051 |
| Restricted | 5,094 | 4,087 |
| Unrestricted | 21,327 | 20,751 |
| Total net assets | $ 35,047 | $ 33,889 |

The final budget of the General Fund anticipated that there would be expenditures of $35,677,666 while actual expenditures were $32,348,171 resulting in positive variance of $3,329,495. Excess of revenues over expenditures in the General Fund increased the previous year's fund balance by $1,746,559. In addition, investment valuations of the Moore Memorial and Fratt Memorial Trusts, accounted for in the Permanent Fund added another $3,575 to fund balance. These two changes plus the negative adjustments outlined in Note 4 of the Notes to the Basic Financial Statements of $592,662 account for the overall increase in net assets of $1,157,472.

Overall actual revenues decreased by $185,000 from the prior year, while total spending decreased by approximately $2.7 million. Salaries and benefits decreased by $2 million from last year, and were $1.1 million less than budgeted. Cost savings are recognized when actual expenditures are less than budgeted.

CONDENSED STATEMENTS OF ACTIVITIES
(Amounts shown in thousands)

| | June 30, 2012 | June 30, 2011 (As Restated) |
|---|---|---|
| REVENUES | | |
| Program revenues: | | |
| Charges for services | $ 5,528 | $ 5,502 |
| Operating grants and contributions | 26,675 | 26,992 |
| Capital reimbursements | 315 | |
| General revenues: | | |
| Gifts and donations | 546 | 910 |
| Investment income | 530 | 417 |
| Other | 368 | 326 |
| Total revenues | 33,962 | 34,147 |
| EXPENSES | | |
| Education | 32,804 | 35,549 |
| (Decrease) increase in net assets | 1,158 | (1,402) |
| Net assets, beginning of year | 33,889 | 28,264 |
| Restatement | | 7,027 |
| Net assets, beginning of year - as restated | 33,889 | 35,291 |
| Net assets, end of year | $ 35,047 | $ 33,889 |

**Financial Analysis of the Authority's Governmental 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, 2012, the Authority had ending fund balances of $28,850,026 compared to the June 30, 2011 ending fund balances of $27,099,892. The $1,750,134 increase in fund balance is mainly due to the one-time contribution of the Tobacco Bond proceeds from the County for the new Rio Linda Library and overall reductions in expenditures. 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 $4,440,138. Actual total revenues were higher than estimated by $2,857,202 primarily from timing differences of County

contributions, the Tobacco Bond proceeds and capital reimbursements that were not included in the final budget. Savings of $1,126,846 were realized in salaries and benefits due to position vacancies and contract concessions. Additional savings of $890,088 were recognized in services and supplies; $457,889 in savings from books and media purchases and $854,672 in capital outlay savings, including library improvements, due to some timing differences and efforts to hold down costs in this dismal economy. 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 $8,625,793 and $9,051,486 (includes restatement) as of June 30, 2012 and 2011, respectively. Capital assets purchased during the current year includes $2,557,609 for books and media collection and $444,726 for other capital outlay such as the Espresso Book Machine, computer equipment, self-check machines, 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 media collection. Effective fiscal year 2012, the Authority has capitalized the purchase of all books and media collection in compliance with GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Additionally, a restatement has also been made to capitalize prior year books and media collection as described in Note 15 of this report.

**Long-term Liabilities**

As of June 30, 2012 the Authority's long-term liabilities consist of compensated absences and post employment benefit obligations. The total current year balance is $2,806,713, an increase of $43,454 from the prior year balance of $2,763,259. Of the current year amount $827,293 is due within one year. 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 State of California's budget situation continues to affect the Authority's funding during the next fiscal year. For fiscal year 2013, projected revenues from the State is nearly non-existent aside from the $24,000 budgeted from the California Library Literacy Services Fund. 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 set aside $2,594,276 of unassigned fund balance and another $458,063 from the restricted fund balance (Assessment District) in the General Fund for economic uncertainty as of June 30, 2012.

**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, 2012

| | General Fund | Permanent Fund | Total Governmental Funds | Adjustments (Note 3) | Statement of Net Assets |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and investments | $ 29,865,254 | $ 319,929 | $ 30,185,183 | | $ 30,185,183 |
| Receivables: | | | | | |
| Due from County of Sacramento | 726,333 | | 726,333 | | 726,333 |
| Due from City of Sacramento | | | | | |
| Other | 36,361 | | 36,361 | | 36,361 |
| Prepaid expenditures | 23,082 | | 23,082 | | 23,082 |
| Accrued interest receivable | | 1,214 | 1,214 | | 1,214 |
| Capital assets not depreciated | | | | $ 70,549 | 70,549 |
| Capital assets depreciated, net | | | | 8,555,244 | 8,555,244 |
| TOTAL ASSETS | $ 30,651,030 | $ 321,143 | $ 30,972,173 | $ 8,625,793 | $ 39,597,966 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | $ 553,357 | | $ 553,357 | | $ 553,357 |
| Due to other governments | 241,585 | | 241,585 | | 241,585 |
| Salaries and benefits payable | 830,264 | | 830,264 | | 830,264 |
| Deferred revenue | 364,846 | | 364,846 | $ (364,846) | |
| Unearned revenue | 85,765 | | 85,765 | | 85,765 |
| Deposits | 33,250 | | 33,250 | | 33,250 |
| Other postemployment benefits obligation | | | | 1,125,000 | 1,125,000 |
| Compensated absences: | | | | | |
| Due within one year | 13,080 | | 13,080 | 814,213 | 827,293 |
| Due in more than one year | | | | 854,420 | 854,420 |
| TOTAL LIABILITIES | 2,122,147 | | 2,122,147 | 2,428,787 | 4,550,934 |
| FUND BALANCES/NET ASSETS | | | | | |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Prepaid expenditures | 23,082 | | 23,082 | (23,082) | |
| Trust obligations - nonspendable | | $ 131,181 | 131,181 | (131,181) | |
| Restricted for: | | | | | |
| Assessment District carryover | 2,972,411 | | 2,972,411 | (2,972,411) | |
| County funded building improvements | 1,225,491 | | 1,225,491 | (1,225,491) | |
| Donations | 508,758 | | 508,758 | (508,758) | |
| Grant programs | 66,853 | | 66,853 | (66,853) | |
| Trust obligations - spendable | | 189,962 | 189,962 | (189,962) | |
| Committed to: | | | | | |
| Supplemental services | 385,276 | | 385,276 | (385,276) | |
| Economic uncertainty | 2,594,276 | | 2,594,276 | (2,594,276) | |
| Assigned to: | | | | | |
| Equipment replacement | 367,894 | | 367,894 | (367,894) | |
| Open contracts | 12,000 | | 12,000 | (12,000) | |
| Branch operations and maintenance | 46,998 | | 46,998 | (46,998) | |
| Unassigned | 20,325,844 | | 20,325,844 | (20,325,844) | |
| TOTAL FUND BALANCES | 28,528,883 | 321,143 | 28,850,026 | (28,850,026) | |
| TOTAL LIABILITIES AND FUND BALANCES | $ 30,651,030 | $ 321,143 | $ 30,972,173 | | |
| NET ASSETS | | | | | |
| Invested in capital assets | | | | 8,625,793 | 8,625,793 |
| Restricted for: | | | | | |
| Extension of services and operating hours | | | | 2,972,411 | 2,972,411 |
| County funded building improvements | | | | 1,225,491 | 1,225,491 |
| Donations and gifts | | | | 508,758 | 508,758 |
| Trust obligations - expendable | | | | 189,962 | 189,962 |
| Trust obligations - nonexpendable | | | | 131,181 | 131,181 |
| Grant programs | | | | 66,853 | 66,853 |
| Unrestricted | | | | 21,326,583 | 21,326,583 |
| TOTAL NET ASSETS | | | | $ 35,047,032 | $ 35,047,032 |

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

For the Year Ended June 30, 2012

| | General Fund | Permanent Fund | Total Governmental Funds | Adjustments (Note 4) | Statement of Activities (as Restated) |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Program revenues: | | | | | |
| Charges for services: | | | | | |
| Assessments and taxes | $ 4,608,141 | | $ 4,608,141 | | $ 4,608,141 |
| Fines, fees and penalties | 684,434 | | 684,434 | | 684,434 |
| Facility rental income | 190,120 | | 190,120 | | 190,120 |
| Galleria catering and other | 45,126 | | 45,126 | | 45,126 |
| Operating grants and contributions: | | | | | |
| County contributions | 17,681,419 | | 17,681,419 | $ (153,944) | 17,527,475 |
| County contributions - Tobacco Bond proceeds | 1,259,925 | | 1,259,925 | | 1,259,925 |
| City contributions | 7,129,539 | | 7,129,539 | | 7,129,539 |
| Other agency contributions | 199,941 | | 199,941 | | 199,941 |
| State appropriations | 148,489 | | 148,489 | | 148,489 |
| Federal and State grants | 408,432 | | 408,432 | | 408,432 |
| Capital reimbursements | 315,118 | | 315,118 | | 315,118 |
| Total program revenues | 32,670,684 | | 32,670,684 | (153,944) | 32,516,740 |
| General revenues: | | | | | |
| Gifts and donations | 546,352 | | 546,352 | | 546,352 |
| Investment income (loss) | 526,590 | $ 3,575 | 530,165 | | 530,165 |
| Other | 351,104 | | 351,104 | 17,349 | 368,453 |
| Total general revenues | 1,424,046 | 3,575 | 1,427,621 | 17,349 | 1,444,970 |
| TOTAL REVENUES | 34,094,730 | 3,575 | 34,098,305 | (136,595) | 33,961,710 |
| EXPENDITURES/EXPENSES: | | | | | |
| Education: | | | | | |
| Current: | | | | | |
| Salaries and benefits | 21,270,450 | | 21,270,450 | 30,374 | 21,300,824 |
| Services and supplies | 7,508,876 | | 7,508,876 | | 7,508,876 |
| Books and media subscriptions | 566,510 | | 566,510 | | 566,510 |
| Depreciation | | | | 3,428,028 | 3,428,028 |
| Capital outlay: | | | | | |
| Books and media collection | 2,557,609 | | 2,557,609 | (2,557,609) | |
| Other capital outlay | 444,726 | | 444,726 | (444,726) | |
| TOTAL EXPENDITURES | 32,348,171 | | 32,348,171 | 456,067 | 32,804,238 |
| CHANGE IN FUND BALANCES/NET ASSETS | 1,746,559 | 3,575 | 1,750,134 | (592,662) | 1,157,472 |
| Fund balances/net assets, beginning of year - as previously reported | 26,782,324 | 317,568 | 27,099,892 | (560,488) | 26,539,404 |
| Restatement | | | | 7,350,156 | 7,350,156 |
| Fund balances/net assets, beginning of year - as restated | 26,782,324 | 317,568 | 27,099,892 | 6,789,668 | 33,889,560 |
| FUND BALANCES/NET ASSETS END OF YEAR | $ 28,528,883 | $ 321,143 | $ 28,850,026 | $ 6,197,006 | $ 35,047,032 |

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

## 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. Included in the County contributions, except for the incorporated Cities of Sacramento and Folsom, is a dedicated percentage of property tax collections set aside for County Library purposes. The City of Folsom owns and operates their library system independently from the Authority. The City of Sacramento approves a contribution to the Authority as part of their budget. The County of Sacramento also provided Tobacco Bond proceeds to the Authority during the year ended June 30, 2012 for the new Rio Linda Branch library. 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 special assessment tax revenues are reported on the General Fund balance sheet as restricted 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

NOTE 1 – ORGANIZATION (Continued)

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.

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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Authority reports the following major governmental funds:

- General Fund - this fund is established to account for resources devoted to administration of the activities of the Authority and excludes those resources required to be accounted for in another fund.

- Permanent Fund - this fund accounts for resources that are legally restricted, to the extent that only earnings and not principal, may be used for purposes that support the Authority's programs. 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 prices. 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, 2012, $2,484,714 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, furniture and fixtures and the books and media collection, are reported in the government-wide statement of net assets. Capital asset acquisitions are recorded at historical 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. The books and media collection is depreciated over the average estimated useful life of the entire collection of 5 years. Facilities are the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Authority has certain historical treasures maintained in the Sacramento Room. A number of items in the Sacramento Room are on loan to the Library, which do not meet the criteria for capitalization. The Authority has elected not to capitalize the remaining items in the Sacramento Room that are owned by the Authority as allowed by paragraph 27 of GASB Statement No. 34 because they are held for public exhibition and education, are protected, kept unencumbered, cared for and preserved and subject to a policy that requires proceeds from sales, if any, to be used to acquire other items for collection.

Deferred and Unearned Revenue: Deferred revenue mainly includes $342,975 of contributions from the County that were earned as of year-end, but were not received within the Authority's availability period. Unearned revenue includes mainly meeting room rents for Galleria events that will occur in future periods. The deposits for these events will be recognized as revenue in the period 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 the Moore Trust 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. The Moore Memorial Trust requires the principal to be invested with Wells Fargo Bank.

Fund Balance: In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds - Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items not expected to be converted to cash, for example, inventories and prepaid items. The Authority's nonspendable fund balance consists of the following:

- Prepaid expenditures.
- Permanently restricted principal balances of the Moore Trust.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Authority's restricted fund balance consists of the following:

- Assessment District Carryover restricted by the enabling legislation approving the special assessment.
- Unspent donations restricted for donor approved projects.
- Amounts restricted for grant programs.
- Earnings on the Moore and Fratt Trusts.

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which is by resolution of the Board of Directors. These amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed (for example legislation, resolution or ordinance) to previously commit these amounts. The Authority's committed fund balance consists of the following:

- Supplemental funds committed by resolution of the Board according to the JPA agreement for enhanced services at library branches.
- Open purchase orders originally exceeding $50,000 that are required to be approved by resolution of the Board that are committed to be expended on the related open contracts.
- $2,594,276 set aside for economic uncertainty that may be used according to the specific criteria defined under Resolution No. 11-48.

Assigned Funds - Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Authority's assigned fund balance consists of the following :

- Open purchase orders in original amounts of less than $50,000 approved under management's spending authority and assigned to be expended on the related open contracts.
- Amounts that have been assigned by management for information technology and equipment replacement.
- Sylvan Oaks cell tower rents assigned for operations, maintenance and capital projects at the Sylvan Oaks library branch.

Unassigned Funds - Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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."

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, 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. 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.

New Pronouncements: In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the American Institute of Certified Public Accountants Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. This Statement will require the Authority to reassess the reporting of deferred inflows and outflows to which this Statement is applicable. This Statement is effective for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement reclassifies deferred amounts upon refunding of debt as deferred inflows or outflows and requires debt issuance costs to be expensed as incurred, which will affect the accounting for these items related to the Authority's debt agreement. This Statement is effective for periods beginning after December 15, 2012.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. This Statement is effective for periods beginning after June 15, 2014.

The Authority will fully analyze the impact of these new Statements prior to the effective dates above.

## 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 | | $ 28,850,026 |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. The deferred revenue is recognized for government-wide purposes. | | |
| Capital assets | $ 26,838,988 | |
| Less: accumulated depreciation | (18,213,195) | 8,625,793 |
| Long-term receivables are not available to pay current period expenditures and are deferred in governmental funds. | | 364,846 |
| Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. | | |
| Accrued other post employment benefit obligation | | (1,125,000) |
| Accrued compensated absences, less portion recorded in the General Fund | | (1,668,633) |
| Net assets in the government-wide statement of net assets | | $ 35,047,032 |

## 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 | $ 1,750,134 |
| 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. The change in capital assets consists of: | |
| Capital outlay | 3,002,335 |
| Depreciation expense | (3,428,028) |
| Some revenues are deferred in governmental funds because they do not represent current financial resources that are recognized in the Statement of Activities. | (136,595) |
| 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 compensated absences | 245,626 |
| Increase in other postemployment benefits obligation | (276,000) |
| Change in Net Assets of the Statement of Activities | $ 1,157,472 |

## NOTE 5 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2012:

| | |
|---|---|
| Cash on hand | $ 13,049 |
| Bank deposits | 1,295,452 |
| Investment in City of Sacramento Investment Pool | 28,652,593 |
| Moore Trust Fund investments | 224,089 |
| Total | $ 30,185,183 |

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

NOTE 5 – CASH AND INVESTMENTS (Continued)

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 May 26, 2011 include the City of Sacramento's investment pool and the State of California Local Agency Investment Fund (LAIF).

The principal portion of the Moore Memorial Trust totaling $224,089 at June 30, 2012 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 $28,652,593 as of June 30, 2012. 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 was approximately 1.79 years. For more information about the City of Sacramento 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, bond funds 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 11% of the Permanent Fund's investment balance is invested in funds with ratings ranging from AAA to BBB (investment grade), approximately 3% is invested in funds with ratings below BBB and 86% is invested in funds that are unrated.

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.

## NOTE 5 – CASH AND INVESTMENTS (Continued)

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

At June 30, 2012, the carrying amount and balance per bank of the Authority's bank deposits were $1,295,452 and $1,675,935, respectively. Of the balance per bank at June 30, 2012, $250,000 was covered by federal depository insurance and $1,425,935 was collateralized by the pledging financial institution's investment securities, which were not in the name of the Authority.

## 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, 2012, the Authority had outstanding future commitments under encumbrances reported as fund balance committed and assigned for open contracts of $12,000.

## NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 is as follows:

| | Beginning Balance (as Restated) | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | | $ 70,549 | | $ 70,549 |
| Total capital assets, not being depreciated | | 70,549 | | 70,549 |
| Capital assets, being depreciated: | | | | |
| Equipment | $ 8,019,136 | 341,165 | | 8,360,301 |
| Building improvements | 482,079 | 5,226 | | 487,305 |
| Software | 536,789 | | | 536,789 |
| Furniture and fixtures | 1,005,782 | 27,786 | | 1,033,568 |
| Books and media collection | 13,792,867 | 2,557,609 | | 16,350,476 |
| Total capital assets | 23,836,653 | 2,931,786 | | 26,768,439 |
| Accumulated depreciation: | | | | |
| Equipment | (6,867,156) | (526,212) | | (7,393,368) |
| Building improvements | (135,530) | (24,183) | | (159,713) |
| Software | (417,072) | (80,094) | | (497,166) |
| Furniture and fixtures | (922,698) | (28,003) | | (950,701) |
| Books and media collection | (6,442,711) | (2,769,536) | | (9,212,247) |
| Total accumulated depreciation | (14,785,167) | (3,428,028) | | (18,213,195) |
| Total capital assets being depreciated, net | 9,051,486 | (496,242) | | 8,555,244 |
| Total capital assets, net | $ 9,051,486 | $ (425,693) | $ - | $ 8,625,793 |

## 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, 2012 were $234,684, including common area maintenance charges. Two of the leases have options to renew for one three year period, one with scheduled 2% increases and one at specified monthly payments. Future minimum lease payments required by the lease agreements as of June 30, 2012 were as follows:

| Year Ending June 30, | |
|---|---|
| 2013 | $ 184,590 |
| 2014 | 184,713 |
| 2015 | 140,500 |
| 2016 | 143,958 |
| 2017 | 52,139 |
| Total | $ 705,900 |

## NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2012 are as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Liability for other postemployment benefits | $ 849,000 | $ 432,000 | $ (156,000) | $ 1,125,000 | |
| Compensated absences | 1,914,259 | 1,765,900 | (1,998,446) | 1,681,713 | $ 827,293 |
| Total long-term liabilities | $ 2,763,259 | $ 2,197,900 | $(2,154,446) | $ 2,806,713 | $ 827,293 |

## 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 for employees hired prior to July 1, 2012 and 2.0% at 60 retirement formula for all new hires pending supervisory unit contract agreements and Board approval of PERS amendment for second tier. 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, 2012, employees contributed $558,801. The Authority is required to contribute at an actuarially determined rate, which was 14.228% of annual covered payroll for the year ended June 30, 2012. 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, 2012, the Authority's annual pension cost of $2,315,315 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 |
|---|---|---|---|
| 6/30/2010 | $ 2,531,169 | 100% | |
| 6/30/2011 | 2,364,447 | 100% | |
| 6/30/2012 | 2,315,315 | 100% | |

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

The required contribution was determined as part of the June 30, 2009 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 3.55% 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, 2010, the Plan's most recent actuarial valuation date, was as follows:

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 43,264,000 |
| Actuarial value of Plan assets | 38,127,000 |
| Unfunded actuarial accrued liability (UAAL) | 5,137,000 |
| Funded ratio (actuarial value of Plan assets/AAL) | 88.13% |
| Covered payroll (active Plan participants) | $ 14,714,000 |
| UAAL as a percentage of covered payroll | 34.91% |

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.

NOTE 11 – OTHER POSTEMPLOYMENT BENFITS PLAN

Plan Description: The Authority's other postemployment benefits (OPEB) healthcare plan (the Plan) provides medical benefits to retired employees and their eligible dependents with a maximum monthly stipend of $225 for retirees with 20 or more years of service and a partial stipend of 50% to 75% of the maximum stipend for retirees 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.

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, 2012, the Authority contributed approximately $156,000 to the Plan. Plan members did not make any contributions to the plan.

NOTE 11 – OTHER POSTEMPLOYMENT BENFITS PLAN (Continued)

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 | $ 428,000 |
| Interest on net OPEB obligation | 39,000 |
| Adjustment to annual required contribution | (35,000) |
| Annual OPEB cost (expense) | 432,000 |
| Contributions made including credited interest | (156,000) |
| Increase (decrease) in net OPEB obligation | 276,000 |
| Net OPEB obligation, beginning of period | 849,000 |
| Net OPEB obligation (asset), end of period | $ 1,125,000 |

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 |
|---|---|---|---|
| 6/30/2010 | $ 208,000 | 44.70% | $ 578,000 |
| 6/30/2011 | 395,000 | 31.40% | 849,000 |
| 6/30/2012 | 432,000 | 36.11% | 1,125,000 |

Funded Status and Funding Progress: The funded status of the Plan as of January 1, 2012, the Plan's most recent actuarial valuation date, was as follows:

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 5,066,000 |
| Actuarial value of Plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | $ 5,066,000 |
| Funded ratio (actuarial value of Plan assets/AAL) | 0.00% |
| Covered payroll (active Plan participants) | $ 18,365,000 |
| UAAL as a percentage of covered payroll | 27.58% |

## NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

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, 2012 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 3.0 percent rate of inflation and a 3.75 percent increase in payroll. The UAAL is being amortized over a 30 year period.

Change in Approved Benefit for New Employees: The Authority suspended the OPEB benefit described above for unrepresented employees hired on or after July 1, 2011 and replaced it with a plan where the Authority will make a deposit into a retirement health savings account in the name of each eligible employee on a monthly basis. For employees that are members of the International Union of Operating Engineers, Stationary Local 39, AFL-CIO bargaining unit (Local 39), the change was effective July 1, 2012. A contribution of $40 per month beginning July 1, 2012 was approved for unrepresented employees and a contribution of $50, $60 and $70 (if tax revenues are restored to 2009-10 levels) per month beginning July 1, 2012, July 1, 2013 and July 1, 2014, respectively, was approved for Local 39 employees.

## 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 exceeding insurance coverage for 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. The Authority settled a claim of approximately $43,000 during the year.

## 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 property taxes. A reduction in funding from the County and City of Sacramento could significantly impact operations of the Authority.

## NOTE 15 – RESTATEMENT

The Authority capitalized its books and media collection as of July 1, 2011. This resulted in a restatement of beginning government-wide assets and net assets as of July 1, 2011 to reflect the addition of books and media collection, net of accumulated depreciation, of $7,350,156.

# REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended June 30, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| REVENUES | | | | |
| Program revenues: | | | | |
| Charges for services: | | | | |
| Assessment and taxes | $ 4,520,708 | $ 4,470,626 | $ 4,608,141 | $ 137,515 |
| Fines, fees and penalties | 750,000 | 655,000 | 684,434 | 29,434 |
| Facility rental income | 233,000 | 208,000 | 190,120 | (17,880) |
| Galleria catering and other | 64,000 | 64,000 | 45,126 | (18,874) |
| Operating grants and contributions: | | | | |
| County contributions | 19,000,000 | 17,074,217 | 17,681,419 | 607,202 |
| County contributions - Tobacco Bond proceeds | | | 1,259,925 | 1,259,925 |
| City contributions | 7,129,539 | 7,129,539 | 7,129,539 | |
| Other agency contributions | 100,000 | 100,000 | 199,941 | 99,941 |
| State appropriations | 340,000 | 148,489 | 148,489 | |
| Federal and State grants | 25,000 | 393,407 | 408,432 | 15,025 |
| Capital reimbursements | | | 315,118 | 315,118 |
| Total program revenues | 32,162,247 | 30,243,278 | 32,670,684 | 2,427,406 |
| General revenues: | | | | |
| Gifts and donations | | 480,525 | 546,352 | 65,827 |
| Investment income (loss) | 360,000 | 410,000 | 526,590 | 116,590 |
| Other | 102,000 | 103,725 | 351,104 | 247,379 |
| Total general revenues | 462,000 | 994,250 | 1,424,046 | 429,796 |
| TOTAL REVENUES | 32,624,247 | 31,237,528 | 34,094,730 | 2,857,202 |
| EXPENDITURES | | | | |
| Education: | | | | |
| Current: | | | | |
| Salaries and benefits | 24,863,944 | 22,397,296 | 21,270,450 | 1,126,846 |
| Services and supplies | 7,393,157 | 8,398,965 | 7,508,877 | 890,088 |
| Books and media subscriptions | | | 566,510 | (566,510) |
| Capital outlay | | | | |
| Books and media collection | 3,007,040 | 3,582,008 | 2,557,609 | 1,024,399 |
| Other capital outlay | 500,576 | 1,299,397 | 444,725 | 854,672 |
| TOTAL EXPENDITURES | 35,764,717 | 35,677,666 | 32,348,171 | 3,329,495 |
| CHANGE IN FUND BALANCE | (3,140,470) | (4,440,138) | 1,746,559 | 6,186,697 |
| Fund balance, beginning of year | 26,782,324 | 26,782,324 | 26,782,324 | |
| FUND BALANCE, END OF YEAR | $ 23,641,854 | $ 22,342,186 | $ 28,528,883 | $ 6,186,697 |

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT PLAN WITH PERS

June 30, 2012

| 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] |
|---|---|---|---|---|---|---|
| 6/30/2008 | $ 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% |
| 6/30/2010 | 38,127,000 | 43,264,000 | 5,137,000 | 88.13% | 14,714,000 | 34.91% |

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

June 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 6/30/2010 | $ - | $ 3,953,000 | $ 3,953,000 | 0.00% | $ 18,709,000 | 21.13% |
| 6/30/2011 | - | 4,171,000 | 4,171,000 | 0.00% | 18,365,000 | 22.71% |
| 6/30/2012 | - | 5,066,000 | 5,066,000 | 0.00% | 18,365,000 | 27.58% |