

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 in *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
Sacramento Public Library Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance 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.

Other Matters

Required Supplementary Information

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 8 and 27 through 29 be presented to supplement the basic financial statements. Such information, although not a 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 inquiries, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 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 and 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* in considering the Authority's internal control over financial reporting and compliance.

Richardson & Company, LLP

November 18, 2014

SACRAMENTO PUBLIC LIBRARY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 fiscal year ended June 30, 2014. 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 total net position of the Authority as of June 30, 2014 was \$36,688,528 compared to that of the prior year balance of \$35,056,524, an increase of \$1,632,004. The increase is attributable to the strong housing market recovery, resulting in higher than anticipated property tax revenues. In addition, the restitution proceeds in the amount of \$482,000 received during the year from the James Earle Mayle, Sr., Dennis Nilsson and Janie Mae Rankins-Mayle hearing contributed to the increase. Of the current year net position balance, \$7,335,952 is invested in capital assets; \$4,258,961 is restricted during the remaining term of the special assessment to provide income for future operations; \$13,723 is restricted for the purchase of furniture, fixture and equipment for the new Rio Linda Library; \$642,295 is restricted for donor approved projects; \$368,978 is restricted as described in Note 2 regarding the Permanent Fund; \$16,003 is restricted for grant programs and the remaining \$24,052,616 is unrestricted.

The Authority's cash and investments balance at June 30, 2014 was \$33,724,147, an increase of \$1,979,472 from the prior year balance of \$31,744,675. As noted above, the increase is due primarily from the higher property tax revenues and the one-time restitution payment in fiscal year 2014.

For the year ended June 30, 2014 program revenues in the Statement of Activities were \$32,168,092, which represents an increase of \$1,312,789 from the prior year balance of \$30,855,303. The increase is due primarily from the higher property tax revenues received in fiscal year 2014. Additionally, general revenues were \$2,082,561 for the year ended 2014, an increase of \$426,291 from the prior year amount of \$1,656,270. The increase is mainly due to the one-time restitution payment, coupled with reductions in gifts and donations revenues and lower investment income in fiscal year 2014. Education expenditures for fiscal year ended 2014 were \$32,618,649, an increase of \$116,568 from the 2013 fiscal year amount of \$32,502,081.

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 9 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 \$32,022,340 and \$368,978 respectively, for a combined fund balance of \$32,391,318.

The Authority's Statement of Net Position and Governmental Funds Balance Sheet, as shown on page 9, shows a deferred inflows balance of \$238,401, which represents revenues not received in the Authority's 60 day availability period and total net position balance of \$36,688,528 at June 30, 2014, an increase of \$1,632,004 from the prior year net position balance of \$35,056,524.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits. Statement No. 68 will require the Library to record a "net pension liability" on the Statement of Net Position, effective with the fiscal year 2014-15.

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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 9 and 10. 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 Position* presents information on all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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

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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 11 through 26 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 position may serve over time as a useful indicator of the Authority's financial position. At June 30, 2014, the Authority's assets exceeded its liabilities by \$36,688,528 representing an increase of \$1,632,004 from the prior year.

CONDENSED STATEMENTS OF NET POSITION
(Amounts shown in thousands)

	June 30,	
	2014	2013
ASSETS		
Current and other assets	\$ 34,457	\$ 32,576
Capital assets	7,336	7,802
Total assets	41,793	40,378
LIABILITIES		
Long-term liabilities	1,521	1,795
Other liabilities	3,583	3,526
Total liabilities	5,104	5,321
NET POSITION		
Net investment in capital assets	7,336	7,802
Restricted	5,300	5,047
Unrestricted	24,053	22,208
Total net position	\$ 36,689	\$ 35,057

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JUNE 30, 2014

The final budget of the General Fund anticipated that there would be expenditures of \$33,737,973 while actual expenditures were \$32,008,955 resulting in positive variance of \$1,729,018. Excess of revenues over expenditures in the General Fund increased the previous year's fund balance by \$2,331,927. In addition, investment valuations of the Moore Memorial and Fratt Memorial Trusts, accounted for in the Permanent Fund added another \$29,892 to fund balance. These two changes plus the negative adjustments outlined in Note 4 of the Notes to the Basic Financial Statements of \$729,815 account for the overall increase in net position of \$1,632,004.

Overall, actual revenues increased by \$1,739,080 from the prior year, while total spending increased by \$116,568. Salaries and benefits increased by \$763,892 from last year, and were \$186,054 less than budgeted. Services and supplies decreased by \$830,887 from last year, and were \$1,181,322 less than budgeted. Cost savings are recognized when actual expenditures are less than budgeted.

CONDENSED STATEMENTS OF ACTIVITIES
(Amounts shown in thousands)

	June 30,	
	2014	2013
REVENUES		
Program revenues:		
Charges for services	\$ 5,914	\$ 5,729
Operating grants and contributions	26,254	25,126
Capital reimbursements		
General revenues:		
Gifts and donations	627	698
Investment income	316	369
Other	1,140	590
Total revenues	34,251	32,512
 EXPENSES		
Education	32,619	32,502
(Decrease) increase in net position	1,632	10
 Net position, beginning of year	35,057	35,047
 Net position, end of year	\$ 36,689	\$ 35,057

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

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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, 2014, the Authority had ending fund balances of \$32,391,318 compared to the June 30, 2013 ending fund balances of \$30,029,499. The \$2,361,819 increase in fund balance is mainly due to higher property tax revenues, the one-time restitution payment and E-rate credits for Telecommunication services in fiscal year 2014. 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 reconciliation 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 \$298,773. Actual total revenues were higher than estimated by \$901,682 primarily from the \$625,428 over budget in County contributions as a result of higher property taxes; other general revenues came in at \$158,854 over budget mainly from higher than anticipated E-rate credits; fines, fees and penalties added another \$85,827 to the positive variance.

Actual expenditures ended the year \$1,729,018 under the final adopted budget. Of this amount, services and supplies were \$1,181,322 under budget primarily from system-wide donations that have not yet been spent, E-rate credit savings and deferred maintenance budget will be carried over to the next fiscal year. Additional savings of \$257,578 were recognized in capital outlay and \$186,054 in savings from salaries and benefits. 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 \$7,335,952. Capital assets purchased during the current year includes \$2,598,807 for books and media collection and \$95,422 for other capital outlay such as a surveillance camera system, floor buffer machine, projector, two digital microfilm scanners, and several Information Technology equipment. 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*. As noted above, the Authority capitalized another \$2,598,807 in fiscal year 2014 for books and media collections. The Authority also disposed books and media collections in the amounts of \$2,447,979 and \$2,270,852 that were capitalized for fiscal years 2007 and 2008, respectively. With the new additions and disposals, the Authority ended the fiscal year 2014 with a balance of \$16,580,659 for books and media collections.

Long-term Liabilities

As of June 30, 2014 the Authority's long-term liabilities consist of compensated absences and post employment benefit obligations. The total current year balance is \$3,277,143, an increase of \$143,542

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from the prior year balance of \$3,133,601. Of the current year amount \$1,755,486 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 2015, projected revenue from the State is non-existent. The City Special Parcel Tax, Measure X (approved by voters in 2004), provides approximately 38% of City contributions and is set to expire in fiscal year 2016-17. In June 2014, voters in the City of Sacramento approved a City of Sacramento Library Parcel Tax, Measure B, authorizing the City to collect an additional parcel tax of \$12 per year for single-family residential parcel (rates vary for other parcels types) for 12 years. Measure B is to provide funding for "core library services". Despite the recent approval of Measure B, the Authority continues to face fiscal challenges from the City of Sacramento. The Library continues to operate the 12 City branches within the 2003 City General Fund funding levels and the Measure X parcel tax will sunset in fiscal year 2016-17. Although the economy has shown signs of improvement, 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. As a result, the Authority has set aside \$2,649,660 of unassigned fund balance and another \$500,156 from the restricted fund balance (Assessment District) in the General Fund for economic uncertainty as of June 30, 2014.

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, please contact:

Department of Finance
4th Floor
828 I Street
Sacramento, CA 95814

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2014

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
ASSETS					
Cash and investments	\$ 33,355,169	\$ 368,978	\$ 33,724,147		\$ 33,724,147
Receivables:					
Due from County of Sacramento	505,455		505,455		505,455
Due from City of Sacramento	80,000		80,000		80,000
Other	114,873		114,873		114,873
Prepaid expenditures	32,916		32,916		32,916
Capital assets depreciated, net				\$ 7,335,952	7,335,952
TOTAL ASSETS	<u>\$ 34,088,413</u>	<u>\$ 368,978</u>	<u>\$ 34,457,391</u>	<u>\$ 7,335,952</u>	<u>\$ 41,793,343</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 402,010		\$ 402,010		\$ 402,010
Due to other governments	316,503		316,503		316,503
Salaries and benefits payable	980,352		980,352		980,352
Unearned revenue	88,557		88,557		88,557
Deposits	40,250		40,250		40,250
Other postemployment benefits obligation				\$ 1,514,000	1,514,000
Compensated absences:					
Due within one year				1,755,486	1,755,486
Due in more than one year				7,657	7,657
TOTAL LIABILITIES	<u>1,827,672</u>		<u>1,827,672</u>	<u>3,277,143</u>	<u>5,104,815</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	238,401		238,401	(238,401)	
FUND BALANCES/NET POSITION					
Fund balances:					
Nonspendable:					
Prepaid expenditures	32,916		32,916	(32,916)	
Trust obligations - nonspendable		\$ 131,181	131,181	(131,181)	
Restricted for:					
Assessment District carryover	4,178,961		4,178,961	(4,178,961)	
County funded building improvements	13,723		13,723	(13,723)	
Donations	642,295		642,295	(642,295)	
Grant programs	16,003		16,003	(16,003)	
Trust obligations - spendable		237,797	237,797	(237,797)	
Committed to:					
Supplemental services	385,276		385,276	(385,276)	
Economic uncertainty	2,649,660		2,649,660	(2,649,660)	
Assigned to:					
Equipment replacement	668,033		668,033	(668,033)	
Open contracts	90,252		90,252	(90,252)	
Deferred maintenance	275,167		275,167	(275,167)	
Branch operations and maintenance	103,281		103,281	(103,281)	
Unassigned	22,966,773		22,966,773	(22,966,773)	
TOTAL FUND BALANCES	<u>32,022,340</u>	<u>368,978</u>	<u>32,391,318</u>	<u>(32,391,318)</u>	
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 34,088,413</u>	<u>\$ 368,978</u>	<u>\$ 34,457,391</u>		
NET POSITION					
Net Investment in capital assets				7,335,952	7,335,952
Restricted for:					
Extension of services and operating hours				4,258,961	4,258,961
County funded building improvements				13,723	13,723
Donations and gifts				642,295	642,295
Trust obligations - expendable				237,797	237,797
Trust obligations - nonexpendable				131,181	131,181
Grant programs				16,003	16,003
Unrestricted				24,052,616	24,052,616
TOTAL NET POSITION				<u>\$ 36,688,528</u>	<u>\$ 36,688,528</u>

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

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

For the Year Ended June 30, 2014

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 4)	Statement of Activities
REVENUES					
Program revenues:					
Charges for services:					
Assessments and taxes	\$ 4,845,106		\$ 4,845,106		\$ 4,845,106
Fines, fees and penalties	725,827		725,827		725,827
Facility rental income	281,232		281,232		281,232
Galleria catering and other	61,889		61,889		61,889
Operating grants and contributions:					
County contributions	18,475,428		18,475,428	\$ (114,000)	18,361,428
City contributions	7,635,600		7,635,600	(10,000)	7,625,600
Other agency contributions	195,468		195,468		195,468
Federal and State grants	71,542		71,542		71,542
Total program revenues	<u>32,292,092</u>		<u>32,292,092</u>	<u>(124,000)</u>	<u>32,168,092</u>
General revenues:					
Gifts and donations	627,367		627,367		627,367
Restitution received in lawsuit	482,728		482,728		482,728
Investment income (loss)	285,781	\$ 29,892	315,673		315,673
Other	652,914		652,914	3,879	656,793
Total general revenues	<u>2,048,790</u>	<u>29,892</u>	<u>2,078,682</u>	<u>3,879</u>	<u>2,082,561</u>
TOTAL REVENUES	<u>34,340,882</u>	<u>29,892</u>	<u>34,370,774</u>	<u>(120,121)</u>	<u>34,250,653</u>
EXPENDITURES/EXPENSES:					
Education:					
Current:					
Salaries and benefits	20,427,683		20,427,683	143,542	20,571,225
Services and supplies	7,938,306		7,938,306		7,938,306
Books and media subscriptions	948,737		948,737		948,737
Depreciation				3,160,381	3,160,381
Capital outlay:					
Books and media collection	2,598,807		2,598,807	(2,598,807)	
Other capital outlay	95,422		95,422	(95,422)	
TOTAL EXPENDITURES	<u>32,008,955</u>		<u>32,008,955</u>	<u>609,694</u>	<u>32,618,649</u>
CHANGE IN FUND BALANCES/NET POSITION					
	2,331,927	29,892	2,361,819	(729,815)	1,632,004
Fund balances/net position, beginning of year	<u>29,690,413</u>	<u>339,086</u>	<u>30,029,499</u>	<u>5,027,025</u>	<u>35,056,524</u>
FUND BALANCES/NET POSITION END OF YEAR	<u>\$ 32,022,340</u>	<u>\$ 368,978</u>	<u>\$ 32,391,318</u>	<u>\$ 4,297,210</u>	<u>\$ 36,688,528</u>

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

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 Library, one bookmobile and 27 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. 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, two representatives from the City of Elk Grove, one representative of the City Councils of the Cities of Citrus Heights 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 Library Director serves as Authority Treasurer and Auditor. The Authority approves an annual contract for legal counsel.

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. Library services at branches within the City of Sacramento are augmented by a voter-approved ten year special assessment tax adopted during 2004, that went into effect on July 1, 2007. 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, including the Central Library. Unspent special assessment tax revenues are reported on the General Fund balance sheet as restricted fund balance for assessment district carryover.

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – ORGANIZATION (Continued)

In the event of termination of the joint exercise of powers agreement, the net position 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 position 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 inflows. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term liabilities, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital assets are reported as capital outlay expenditures in governmental funds.

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014, \$3,179,320 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 position. 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 property of the Members and not the Authority and are not reported on the Authority's statement of net position. 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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Inflows and Unearned Revenue: Deferred inflows mainly includes \$150,000 of contributions from the County and \$80,000 of property taxes receivable under the Teeter Plan from the City of Sacramento 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 Moore and Fratt families. The originally contributed principal of the Moore Trust totaling \$131,181 is nonspendable while investment earnings from the fund are considered restricted but spendable. The Authority received a restricted spendable amount totaling \$3,510 from the Francis W. Fratt Trust that may be used to purchase books of lasting value. Investment earnings from the Moore Memorial Trust may be used to purchase mystery related books. The Moore Memorial Trust requires the nonspendable principal and the spendable investment earnings 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 balance of the Moore Trust.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

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 County Tobacco Bond funds restricted for building improvements.
- 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.
- \$2,649,660 set aside for economic uncertainty that may be used according to the specific criteria defined under Resolution No. 13-45.

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 :

- Amounts that have been assigned by management for information technology and equipment replacement.
- 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.
- Sylvan Oaks cell tower rents assigned for operations, maintenance and capital projects at the Sylvan Oaks library branch.
- Deferred maintenance assigned for maintenance of library branches and the Galleria room.

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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position: In the statement of net position, net position are classified in the following categories:

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

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

Unrestricted net position – This amount is all net assets that do not meet the definition of “net investment in capital assets” or “restricted net position.”

Donations: The Authority receives donations from the Sacramento Public Library Foundation (the Foundation) and Friends of the Sacramento Public Library (Friends). The Library Director, Foundation and Friends approve activities to be funded with donations and the Board of Directors of the Library accept the donations throughout the year. 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 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 this Statement prior to the effective date above.

In November 2013, the GASB approved Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statement No. 68 requires a local government employer to recognize a net pension liability measured as of a date (measurement date) no earlier than the end of its prior fiscal year. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. This Statement will be implemented simultaneously with Statement No. 68.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 3 – RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

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

Fund balances of governmental funds		\$ 32,391,318
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Capital assets	\$ 27,340,931	
Less: accumulated depreciation	<u>(20,004,979)</u>	7,335,952
Long-term receivables are not available to pay current period expenditures and are reported as deferred inflows in governmental funds.		
		238,401
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		(1,514,000)
Accrued compensated absences		<u>(1,763,143)</u>
Net position in the government-wide statement of net position		<u><u>\$ 36,688,528</u></u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

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 position of governmental activities primarily because of the long-term focus of the statement of net position 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	\$ 2,361,819
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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. The change in capital assets consists of:

Capital outlay	2,694,229
Depreciation expense	(3,160,381)

Some revenues are reported as deferred inflows in governmental funds because they do not represent current financial resources that are recognized in the Statement of Activities. Amount represents the change in deferred inflows recognized.	(120,121)
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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.	
Change in compensated absences	58,458
Change in other postemployment benefits obligation	<u>(202,000)</u>

Change in Net Position of the Statement of Activities	<u>\$ 1,632,004</u>
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NOTE 5 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2014:

Cash on hand	\$ 12,154
Bank deposits	1,852,804
Investment in City of Sacramento Investment Pool	31,605,046
Moore Trust Fund investments	<u>254,143</u>
Total	<u>\$ 33,724,147</u>

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 5 – CASH AND INVESTMENTS (Continued)

investment policy does not contain any specific provisions intended to limit the Authority's exposure to interest rate risk, credit risk, and concentration of credit risk beyond what is specified in the California Government Code. The following disclosures related to the Authority's cash and investments are required by GASB Statement No. 40.

Investment Policy: Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The Authority's permissible General Fund investments according to the investment policy adopted with a resolution of the Board of Directors in May 24, 2013 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 \$254,143 at June 30, 2014 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 \$31,605,046 as of June 30, 2014. 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 2.19 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 rating organization. The City of Sacramento's investment pool is unrated. Approximately 8% 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 89% 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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 5 – CASH AND INVESTMENTS (Continued)

not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools, like the City of Sacramento's investment pool.

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

At June 30, 2014, the carrying amount and balance per bank of the Authority's bank deposits were \$1,852,804 and \$2,057,258, respectively. Of the balance per bank at June 30, 2014, \$250,000 was covered by federal depository insurance and \$1,807,258 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, 2014, the Authority had outstanding future commitments under encumbrances reported as fund balance assigned for open contracts of \$90,252.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 is as follows:

	Beginning Balance	Additions	Deletions and Transfers	Ending Balance
Capital assets, being depreciated:				
Equipment	\$ 8,607,189	\$ 95,422		\$ 8,702,611
Building improvements	487,305			487,305
Software	536,788			536,788
Furniture and fixtures	1,033,568			1,033,568
Books and media collection	18,700,683	2,598,807	\$ (4,718,831)	16,580,659
Total capital assets	<u>\$ 29,365,533</u>	<u>2,694,229</u>	<u>(4,718,831)</u>	<u>27,340,931</u>
Accumulated depreciation:				
Equipment	(7,868,967)	(297,672)		(8,166,639)
Building improvements	(184,107)	(24,394)		(208,501)
Software	(533,395)	(3,250)		(536,645)
Furniture and fixtures	(976,278)	(22,800)		(999,078)
Books and media collection	(12,000,682)	(2,812,265)	4,718,831	(10,094,116)
Total accumulated depreciation	<u>(21,563,429)</u>	<u>(3,160,381)</u>	<u>4,718,831</u>	<u>(20,004,979)</u>
Total capital assets being depreciated, net	<u>7,802,104</u>	<u>(466,152)</u>		<u>7,335,952</u>
Total capital assets, net	<u>\$ 7,802,104</u>	<u>\$ (466,152)</u>	<u>\$ -</u>	<u>\$ 7,335,952</u>

NOTE 8 - OPERATING LEASES

The Authority is obligated under various operating leases for the use of office buildings and the lease of four vehicles. Lease expenditures for the year ended June 30, 2014 were \$171,039. Two of the leases have options to renew for one three year period. One lease will renew at market rents and the other would renew at rents scheduled in the lease agreement with increases of 2.5% or less. Future minimum lease payments required by the lease agreements as of June 30, 2014 were as follows:

Year Ending June 30,	
2015	\$ 159,543
2016	163,001
2017	82,365
2018	19,043
2019	19,043
Thereafter	<u>269,776</u>
Total	<u>\$ 712,771</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Liability for other					
postemployment benefits	\$ 1,312,000	\$ 389,000	\$ (187,000)	\$ 1,514,000	
Compensated absences	1,821,601	1,867,290	(1,925,748)	1,763,143	\$ 1,755,486
Total long-term liabilities	<u>\$ 3,133,601</u>	<u>\$ 2,256,290</u>	<u>\$(2,112,748)</u>	<u>\$ 3,277,143</u>	<u>\$ 1,755,486</u>

NOTE 10 - EMPLOYEE RETIREMENT PLAN

The Authority provides a defined benefit pension plan provided through the California Public Employees' Retirement System (PERS) and a defined contribution Section 401(a) Money Purchase Plan to eligible employees.

Defined Benefit Plan with PERS:

Plan Description: The Authority provides retirement benefits through 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 qualified employees 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 provides a 2.0% at 55 Plan to employees hired prior to July 1, 2012 or January 1, 2013, depending on the bargaining unit, and 2.0% at 62 Plan for all new hires classified as Public Employees' Pension Reform Act of 2013 (PEPRA) members after those dates. 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, 2014, employees contributed \$729,604. The Authority is required to contribute at an actuarially determined rate, which was 14.404% of annual covered payroll for the year ended June 30, 2014. 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, 2014, the Authority's annual pension cost of \$2,127,997 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
6/30/2012	\$ 2,315,315	100%	\$ -
6/30/2013	2,009,370	100%	
6/30/2014	2,127,997	100%	

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 10 - EMPLOYEE RETIREMENT PLAN (Continued)

The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses) and projected annual salary increases of 3.3% to 14.2%, cost of living increases of 3.0%, and an inflation component of 2.75%. 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, 2013, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 57,297,000
Actuarial value of Plan assets	45,756,000
Unfunded actuarial accrued liability (UAAL)	<u>11,541,000</u>
Funded ratio (actuarial value of Plan assets/AAL)	79.86%
Covered payroll (active Plan participants)	\$ 13,257,000
UAAL as a percentage of covered payroll	87.06%

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.

Defined Contribution Section 401(a) Money Purchase Plan

The Authority's Section 401(a) Money Purchase Plan is a defined contribution pension plan available only to unrepresented management employees. The Plan is administered by a trustee under a trust agreement. Employees may contribute up to 5% and the Authority will contribute up to 4% of the employees' annual covered salary. Benefit provisions and all other requirements are established and may be amended by resolution of the Authority's Board of Directors according to the Authority's Unrepresented Personnel Resolution. Contributions made during the year ended June 30, 2014 by participants and the Authority totaled \$81,701 and \$46,914, respectively.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN

The Authority provides two other postemployment benefits (OPEB) plans to employees that are available to employees based on their hire date.

First OPEB Plan – Retiree Health Insurance Contribution

Plan Description: The Authority's first other postemployment benefits OPEB healthcare plan (the Plan) provides medical benefits to retired employees and their eligible dependents for represented employees hired prior to January 1, 2012 and unrepresented employees hired prior to July 1, 2011. Employees hired after these dates are not eligible for the benefit. The Plan has 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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

retirees with 10 to 19 years of service. Eligibility rules include retirement from the Authority at age 55 or later, with 10 years of employment.

There is no age limit if the employee has 30 or more years of service. 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, 2014, the Authority contributed approximately \$187,000 to the Plan through pay-as-you-go health and dental insurance benefit payments on behalf of Plan members. Plan members did not make any contributions to the Plan and the Plan is unfunded.

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	\$ 391,000
Interest on net OPEB obligation	59,000
Adjustment to annual required contribution	<u>(61,000)</u>
Annual OPEB cost (expense)	389,000
Contributions made including credited interest	<u>(187,000)</u>
Increase (decrease) in net OPEB obligation	202,000
Net OPEB obligation, beginning of period	<u>1,312,000</u>
Net OPEB obligation (asset), end of period	<u><u>\$ 1,514,000</u></u>

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 432,000	36.11%	\$ 1,125,000
6/30/2013	366,000	48.74%	1,312,000
6/30/2014	389,000	48.07%	1,514,000

Funded Status and Funding Progress: The funded status of the Plan as of January 1, 2014, the Plan’s most recent actuarial valuation date, was as follows:

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Actuarial accrued liability (AAL)	\$ 5,166,000
Actuarial value of Plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 5,166,000</u>
Funded ratio (actuarial value of Plan assets/AAL)	0.00%
Covered payroll (active Plan participants)	\$ 13,137,000
UAAL as a percentage of covered payroll	39.32%

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, 2014 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% investment rate of return, a 2.8% rate of inflation and a 3.0% increase in payroll and no change in the maximum monthly benefit of \$225. The UAAL is being amortized over a 30 year period with 26 years remaining.

Second OPEB Plan – Health Savings Accounts

The Authority suspended the first OPEB benefit described above for represented employees hired on or after July 1, 2012 and unrepresented employees hired on or after July 1, 2011 and replaced it with a plan where the Authority makes a deposit into a retirement health savings account in the name of each eligible employee on a monthly basis. The contributions are held in trust for employees and are administered by an external trustee. Employees may not contribute to the Plan. 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. Effective July 1, 2014, a contribution of \$60 per month was approved for unrepresented employees. A contribution of \$60 per month beginning July 1, 2013 was approved for Local 39 employees. Benefit provisions and all other requirements are established and may be amended by resolution of the Authority’s Board of Directors according to the Authority’s labor agreements. The Authority contributed \$190,262 to the Plan during the year ended June 30, 2014.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

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– CONTINGENCIES

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 was a member of the Mountain Valley Library System (the System) prior to the System being absorbed into NorthNet Library System. It has been determined by CalPERS that the System has an unfunded pension liability. It is believed the Authority will be required to pay a portion of this liability, which will be shared by the members based on their length of membership and other factors. The amount that will ultimately be owed by the Authority is unknown and was not accrued as of June 30, 2014.

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 – SUBSEQUENT EVENT

Measure B, Sacramento Library Parcel Tax, was passed by voters within the City of Sacramento during June 2014. Measure B increases the parcel tax in the City of Sacramento by \$12 per parcel per year for twelve years beginning in the year ended June 30, 2015 for core library services within the City of Sacramento. Measure B contained a provision requiring the City of Sacramento to stop levying the parcel tax if the contributions to the library system from the City's General Fund dropped below \$7.636 million unless other General Fund spending, excluding police and fire services, dropped by the same proportion. Measure B is expected to provide \$1.9 million of revenue to the Authority each year.

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, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Assessment and taxes	\$ 4,625,000	\$ 4,850,000	\$ 4,845,106	\$ (4,894)
Fines, fees and penalties	640,000	640,000	725,827	85,827
Facility rental income	195,500	270,500	281,232	10,732
Galleria catering and other	49,500	49,500	61,889	12,389
Operating grants and contributions:				
County contributions	17,520,000	17,850,000	18,475,428	625,428
City contributions	7,635,600	7,635,600	7,635,600	
Other agency contributions	100,000	150,000	195,468	45,468
Federal and State grants		70,917	71,542	625
Total program revenues	<u>30,765,600</u>	<u>31,516,517</u>	<u>32,292,092</u>	<u>775,575</u>
General revenues:				
Gifts and donations		620,895	627,367	6,472
Restitution received in lawsuit		482,728	482,728	
Investment income (loss)	385,000	325,000	285,781	(39,219)
Other	417,560	494,060	652,914	158,854
Total general revenues	<u>802,560</u>	<u>1,922,683</u>	<u>2,048,790</u>	<u>126,107</u>
TOTAL REVENUES	<u>31,568,160</u>	<u>33,439,200</u>	<u>34,340,882</u>	<u>901,682</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	20,256,129	20,613,737	20,427,683	186,054
Services and supplies	7,422,022	9,119,628	7,938,306	1,181,322
Books and media subscriptions		893,395	948,737	(55,342)
Capital outlay				
Books and media collection	2,800,000	2,758,213	2,598,807	159,406
Other capital outlay	264,000	353,000	95,422	257,578
TOTAL EXPENDITURES	<u>30,742,151</u>	<u>33,737,973</u>	<u>32,008,955</u>	<u>1,729,018</u>
CHANGE IN FUND BALANCE	826,009	(298,773)	2,331,927	2,630,700
Fund balance, beginning of year	<u>29,690,413</u>	<u>29,690,413</u>	<u>29,690,413</u>	
FUND BALANCE, END OF YEAR	<u>\$ 30,516,422</u>	<u>\$ 29,391,640</u>	<u>\$ 32,022,340</u>	<u>\$ 2,630,700</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT PLAN WITH PERS

June 30, 2014

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]
6/30/2011	\$ 42,469,000	\$ 49,814,000	\$ 7,345,000	85.26%	\$ 14,335,000	51.24%
6/30/2012	46,487,000	53,348,000	6,861,000	87.14%	13,556,000	50.61%
6/30/2013	45,756,000	57,297,000	11,541,000	79.86%	13,257,000	87.06%

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

June 30, 2014

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]
1/1/2012	\$ -	\$ 5,066,000	\$ 5,066,000	0.00%	\$ 18,365,000	27.59%
1/1/2014		5,166,000	5,166,000	0.00%	13,137,000	39.32%

Note: The June 30, 2013 information was not included in either the January 1, 2012 or the January 1, 2014 valuation and is not available to report above. The information above is for the retiree health insurance contribution plan described in Note 11 only.

COMPLIANCE REPORT

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

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

We have audited, in accordance with the 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 18, 2014

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Sacramento Public Library Authority

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

November 18, 2014