

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor’s Report..... 1
Management’s Discussion and Analysis..... 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Funds Balance Sheet 10
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances 12
Notes to the Basic Financial Statements 13

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund 36
Schedule of Changes in the Net Pension Liability and Related Ratios
(Unaudited)..... 37
Schedule of Contributions to the Pension Plan (Unaudited)..... 38
Schedule of Funding Progress – Other Postemployment Benefits
Plan (Unaudited)..... 39

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..... 40



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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, 2016, 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, 2016, 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 9 and 36 through 39 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 7, 2016 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 7, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016. 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, 2016 was \$33,970,986 compared to that of the prior year balance of \$30,080,647, an increase of \$3,890,339. The increase is due primarily to the County contributions (property tax revenues) coming in \$1,151,492 higher than the previous fiscal year, reflecting the continued improvement in the real estate market. Depreciable capital assets were \$1,039,407 higher than the previous year mainly due to the completion of the Arden-Dimick Library and Southgate Library building improvement projects. Gifts and donations were \$707,386 higher than the previous year mainly due to the additional receipt of the Hurst bequest. Assessments and taxes were \$245,669 higher for Parcel Tax Measure X and Measure B combined, which is in line with the Consumer Price Index (CPI) increase for fiscal year 2016.

Of the current year net position balance, \$8,658,656 is invested in capital assets; \$6,909,658 is restricted during the remaining terms of the Parcel Taxes (Measure X and Measure B) to provide income for future operations; \$701,978 is restricted for donor approved projects; \$1,787,536 is restricted for book purchases per the Erin C. and Heidi K. Hurst Trust Agreement; \$360,538 is restricted as described in Note 2, regarding the Permanent Fund; \$1,339 is restricted for grant programs and the remaining \$15,551,281 is unrestricted.

The Authority's cash and investments balance at June 30, 2016 was \$41,484,116, an increase of \$3,355,592 from the prior year balance of \$38,128,524. The increase is due primarily from the \$1,253,075 receipt of the Hurst bequest during fiscal year 2016; \$978,000 increase in the County/Cities Fund mainly due to higher property tax revenues; City of Sacramento Parcel Tax-Measure X, increased by \$1,163,000 as a result of shifting \$1,338,000 in actual costs to City of Sacramento Parcel Tax-Measure B; the Technology and Equipment Replacement funds added \$229,000 and \$115,000, respectively to the cash and investments for fiscal year 2016.

For the year ended June 30, 2016 program revenues in the Statement of Activities were \$37,070,696 which represents an increase of \$830,902 from the prior year balance of \$36,239,794. The increase is due primarily from higher property tax revenues, along with an offsetting decrease in fines, fees and penalties recognized during fiscal year 2016. Included in the total program revenues is \$69,343 in First 5 Grant, money received from the County of Sacramento to fund Raising Readers, a project to provide bookmobile services and family literacy workshops for families of children 0-5 years in age, in affordable housing communities. The Library will receive two more years of funding for First 5 programs. Additionally, general revenues were \$3,125,197 for the year ended 2016, an increase of \$404,561 from the prior year amount of \$2,720,636. The increase is mainly due to the additional Hurst bequest received with an offsetting decrease in E-Rate refund revenue in fiscal year 2016. Education expenditures for fiscal year ended 2016 were \$36,305,554, an increase of \$2,546,849 from the 2015 fiscal year amount of \$33,758,705. The increase is due primarily to increased purchases of books and media subscriptions, services and supplies, and higher salaries and benefits.

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 pages 10 and 11 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 \$38,636,050 and \$360,538 respectively, for a combined fund balance of \$38,996,588.

The Authority's Statement of Net Position and Governmental Funds Balance Sheet, as shown on pages 10 and 11, shows a deferred inflows balance of \$861,417, which represents revenues not received in the Authority's 60 day availability period and total net position balance of \$33,970,986 at June 30, 2016, an increase of \$3,890,339 from the prior year net position balance of \$30,080,647.

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. Subsequently, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. In compliance with these GASB statements, the Library recorded a net pension liability in the amount of \$11,518,352 as of June 30, 2016, which represents an increase of \$1,670,380 from the prior year balance of \$9,847,972. This increase is mainly due to changes of assumptions and lower net investment income as of the valuation measurement date of June 30, 2015. In addition, deferred outflows of resources in the amount of \$2,311,886 and deferred inflows of resources in the amount of \$1,465,520 were recorded in its accrual basis financial statements as of June 30, 2016. Note 10, Pension Plans, describes the Library's defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS).

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 10 through 12. Items in the adjustment column are discussed in Notes 3 and 4.

The Authority continues to report the government-wide financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, No. 37, and No. 38 for the year ended June 30, 2016. 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 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 13 through 35 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, 2016, the Authority's assets exceeded its liabilities by \$33,970,986 representing an increase of \$3,890,339 from the prior year, mainly due to higher property revenues received from the County of Sacramento, increased depreciable capital assets and additional Hurst bequest money received for book purchases as described above.

CONDENSED STATEMENTS OF NET POSITION

(Amounts shown in thousands)

	June 30,	
	2016	2015
ASSETS		
Current and other assets	\$ 43,072	\$ 39,727
Capital assets	8,659	7,623
	51,731	47,350
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	2,312	2,059
	54,043	49,409
LIABILITIES		
Long-term liabilities	2,134	1,718
Net pension liability	11,518	9,848
Other liabilities	4,954	4,074
Total liabilities	18,606	15,640
DEFERRED INFLOWS OF RESOURCES		
Pensions	1,466	3,688
	1,466	3,688
NET POSITION		
Net investment in capital assets	8,659	7,623
Restricted	9,761	7,176
Unrestricted	15,551	15,282
	\$ 33,971	\$ 30,081

The final budget of the General Fund anticipated that there would be expenditures of \$40,281,685 while actual expenditures were \$37,661,343 resulting in positive variance of \$2,620,342. Excess of revenues over expenditures in the General Fund increased the previous year's fund balance by \$2,520,817. In addition, investment valuations of the Moore Memorial and Fratt Memorial Trusts, accounted for in the Permanent Fund ended the year with a net unrealized loss of \$(5,098). These two changes plus the net adjustments outlined in Note 4 of the Notes to the Basic Financial Statements of \$1,374,620 account for the increase in net position of \$3,890,339. This increase, plus the beginning net position resulted in an overall net position of \$33,970,986 as of June 30, 2016.

Overall, actual revenues ended the year at \$40,195,893, an increase of \$1,235,463 from the prior year total of \$38,960,430. Expenditures were \$36,305,554, an increase of \$2,546,849 from the prior year total of \$33,758,705. Salaries and benefits increased by \$1,588,909 from last year, and were \$184,936 less than budgeted. Services and supplies increased by \$456,409 from last year, and were \$1,565,762 less than budgeted. Books and media subscriptions increased by \$481,871. Depreciation expense decreased by \$99,832. Year one of the First 5 Grant program expenditures added \$69,343 to the total expenditures. Cost savings are recognized when actual expenditures are less than budgeted.

CONDENSED STATEMENTS OF ACTIVITIES
(Amounts shown in thousands)

	June 30,	
	2016	2015
REVENUES		
Program revenues:		
Charges for services	\$ 8,201	\$ 8,525
Operating grants and contributions	28,871	27,715
General revenues:		
Gifts and donations	1,856	1,149
Investment income	358	263
E-rate	620	1,049
Other	290	259
Total revenues	40,196	38,960
EXPENSES		
Education	36,306	33,758
(Decrease) increase in net position	3,890	5,202
Net position, beginning of year	30,081	24,879
NET POSITION, END OF YEAR	\$ 33,971	\$ 30,081

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, 2016, the Authority had ending fund balances of \$38,996,588 compared to the June 30, 2015 ending fund balances of \$36,480,869. The \$2,515,719 increase in fund balance is mainly due to higher property tax revenues, receipt of the additional Hurst bequest, coupled with cost savings from actual expenditures coming below budget in fiscal year 2016. Some of these cost savings are from branch assessment building improvements and deferred maintenance projects that will be re-budgeted in fiscal year 2017. 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 \$742,151. Actual total revenues were higher than estimated by \$642,626 primarily from \$195,488 higher E-rate refunds than anticipated and \$112,540 higher investment income than budgeted.

Actual expenditures ended the year \$2,620,342 under the final adopted budget. Of this amount, salaries and benefits were \$184,936 under budget. This modest savings reflect the filling of fully funded positions along with accrued compensated absences pay out due to several retirements during fiscal year 2016. Services and supplies were \$1,565,762 under budget primarily from E-rate credits for telecommunication services, branch assessment building improvements and deferred maintenance projects that have not been started or completed as well as system-wide donations that have not yet been spent. In addition, several maintenance contracts were renegotiated with vendors to obtain better pricing, resulting in cost savings for the Library. Branch assessment building improvements and deferred maintenance budgets will be carried over to the next fiscal year. Other capital outlay were \$753,056 under budget, mainly due to the Automated Material Handling System (AMHS) budget of \$600,000 that was not purchased during fiscal year 2016. The AMHS has been re-budgeted in fiscal year 2017. 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 \$8,658,656. Capital assets purchased during the current year includes \$2,838,964 for books and media collection, \$46,128 for construction in progress (building improvements), \$991,993 for completed building improvements and \$15,619 for equipment. Additional information on the Authority's capital assets can be found in Note 7 of this report.

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 \$2,838,964 in fiscal year 2016 for books and media collections. The Authority also disposed books and media collections in the amount of \$3,832,921 that were capitalized for fiscal year 2010. With the new additions and disposals, the Authority ended the fiscal year 2016 with a balance of \$16,055,686 for books and media collections.

Long-term Liabilities

As of June 30, 2016 the Authority’s long-term liabilities consist of compensated absences, net pension liability and other postemployment benefits (OPEB) obligation. The total current year balance is \$15,392,041, an increase of \$2,155,510 from the prior year balance of \$13,236,531. The major factor for this increase is the \$1,670,380 change in Net Pension Liability, bringing the total Net Pension Liability balance at June 30, 2016 to \$11,518,352. As noted earlier, the recognition of net pension liability in the Library’s accrual basis financial statement complies with GASB 68 requirements. In addition, Other Postemployment Benefits (OPEB) obligation added \$416,402 to the increase in the Authority’s long-term liabilities. Of the current year amount \$1,724,330 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 2017, projected revenue from the State continues to be non-existent. The City of Sacramento Parcel Tax, Measure X (approved by voters in 2004), provides approximately 35% of City contributions and is set to expire in fiscal year 2016-17. On June 7, 2016, City of Sacramento residents approved the renewal of Measure X by 79.12% “to fund library services”. The renewal of Measure X

will go into effect in fiscal year 2017-2018 for 10 years, generating approximately \$5 million annually. 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 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. 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 \$2,931,260 of unassigned fund balance and another \$722,100 from the restricted fund balance (Measures X and B) in the General Fund for economic uncertainty as of June 30, 2016.

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, 2016

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
ASSETS					
Cash and investments	\$ 41,123,578	\$ 360,538	\$ 41,484,116		\$ 41,484,116
Receivables, net:					
Due from County of Sacramento	786,249		786,249		786,249
Fines and fees	566,776		566,776		566,776
Due from City of Sacramento	105,000		105,000		105,000
Other	45,038		45,038		45,038
Prepaid expenditures	78,284		78,284		78,284
Accrued interest receivable	6,741		6,741		6,741
Noncurrent assets:					
Capital assets not depreciated				\$ 129,559	129,559
Capital assets depreciated, net				8,529,097	8,529,097
TOTAL ASSETS	42,711,666	360,538	43,072,204	8,658,656	51,730,860
DEFERRED OUTFLOWS OF RESOURCES					
Pensions				2,311,886	2,311,886
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 42,711,666	\$ 360,538	\$ 43,072,204	10,970,542	54,042,746
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 814,394		\$ 814,394		814,394
Due to other governments	963,239		963,239		963,239
Salaries and benefits payable	1,297,248		1,297,248		1,297,248
Unearned revenue	101,568		101,568		101,568
Deposits	37,750		37,750		37,750
Noncurrent liabilities:					
Compensated absences due within one year				1,724,330	1,724,330
Compensated absences due in more than one year				14,957	14,957
Net pension liability				11,518,352	11,518,352
Other postemployment benefits obligation				2,134,402	2,134,402
TOTAL LIABILITIES	3,214,199		3,214,199	15,392,041	18,606,240
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	861,417		861,417	(861,417)	
Pensions				1,465,520	1,465,520
TOTAL DEFERRED INFLOWS OF RESOURCES	861,417		861,417	604,103	1,465,520
FUND BALANCES/NET POSITION					
Fund balances:					
Nonspendable:					
Prepaid expenditures	78,284		78,284	(78,284)	
Trust obligations - nonspendable		\$ 131,181	131,181	(131,181)	
Restricted for:					
Parcel tax carryover	6,709,957		6,709,957	(6,709,957)	
Book purchases	1,782,895		1,782,895	(1,782,895)	
Donations	701,978		701,978	(701,978)	
Grant programs	1,339		1,339	(1,339)	
Trust obligations - spendable		229,357	229,357	(229,357)	
Committed to:					
Economic uncertainty	2,931,260		2,931,260	(2,931,260)	
Supplemental services	385,276		385,276	(385,276)	
Assigned to:					
Equipment replacement	1,846,289		1,846,289	(1,846,289)	
Deferred maintenance	545,467		545,467	(545,467)	
Branch operations and maintenance	162,991		162,991	(162,991)	
Open contracts	57,472		57,472	(57,472)	
Unassigned	23,432,842		23,432,842	(23,432,842)	
TOTAL FUND BALANCES	38,636,050	360,538	38,996,588	(38,996,588)	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 42,711,666	\$ 360,538	\$ 43,072,204		

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED)

June 30, 2016

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
NET POSITION					
Net investment in capital assets				\$ 8,658,656	\$ 8,658,656
Restricted for:					
Extension of services and operating hours				6,909,658	6,909,658
Book purchases				1,787,536	1,787,536
Donations				701,978	701,978
Trust obligations - spendable				229,357	229,357
Trust obligations - nonspendable				131,181	131,181
Grant programs				1,339	1,339
Unrestricted				<u>15,551,281</u>	<u>15,551,281</u>
TOTAL NET POSITION				<u>\$ (5,025,602)</u>	<u>\$ 33,970,986</u>

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, 2016

	General Fund	Permanent Fund	Total Governmental Funds	Adjustments (Note 4)	Statement of Activities
REVENUES					
Program revenues:					
Charges for services:					
Assessments and taxes	\$ 7,104,886		\$ 7,104,886		\$ 7,104,886
Fines, fees and penalties	772,108		772,108	\$ (5,310)	766,798
Facility rental income	273,226		273,226		273,226
Galleria catering and other	55,312		55,312		55,312
Operating grants and contributions:					
County contributions	20,892,016		20,892,016	(5,000)	20,887,016
City contributions	7,635,600		7,635,600	30,000	7,665,600
Other agency contributions	171,897		171,897		171,897
Federal and State grants	76,618		76,618		76,618
First 5 grant	69,343		69,343		69,343
Total program revenues	<u>37,051,006</u>		<u>37,051,006</u>	<u>19,690</u>	<u>37,070,696</u>
General revenues:					
Gifts and donations	1,855,973		1,855,973		1,855,973
E-rate refund	620,488		620,488		620,488
Investment income (loss)	363,540	\$ (5,098)	358,442		358,442
Other	291,153		291,153	(859)	290,294
Total general revenues	<u>3,131,154</u>	<u>(5,098)</u>	<u>3,126,056</u>	<u>(859)</u>	<u>3,125,197</u>
TOTAL REVENUES	<u>40,182,160</u>	<u>(5,098)</u>	<u>40,177,062</u>	<u>18,831</u>	<u>40,195,893</u>
EXPENDITURES/EXPENSES:					
Education:					
Current:					
Salaries and benefits	22,988,064		22,988,064	(320,403)	22,667,661
Services and supplies	8,776,122		8,776,122		8,776,122
Books and media subscriptions	1,935,110		1,935,110		1,935,110
First 5 grant	69,343		69,343		69,343
Depreciation				2,807,169	2,807,169
Capital outlay:					
Books and media collection	2,838,964		2,838,964	(2,838,964)	
Other capital outlay	1,053,740		1,053,740	(1,053,740)	
Loss on disposal of capital assets				50,149	50,149
TOTAL EXPENDITURES	<u>37,661,343</u>		<u>37,661,343</u>	<u>(1,355,789)</u>	<u>36,305,554</u>
CHANGE IN FUND BALANCES/NET POSITION	<u>2,520,817</u>	<u>(5,098)</u>	<u>2,515,719</u>	<u>1,374,620</u>	<u>3,890,339</u>
Fund balances/net position, beginning of year	<u>36,115,233</u>	<u>365,636</u>	<u>36,480,869</u>	<u>(6,400,222)</u>	<u>30,080,647</u>
FUND BALANCES/NET POSITION END OF YEAR	<u>\$ 38,636,050</u>	<u>\$ 360,538</u>	<u>\$ 38,996,588</u>	<u>\$ (5,025,602)</u>	<u>\$ 33,970,986</u>

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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, 27 branch locations and a bookmobile. Because the Library is a joint-powers authority, the facilities are owned by a variety of entities, including Sacramento County and the cities of Elk Grove, Galt and Sacramento. The library has operating agreements with five school districts [Elk Grove Unified School District (USD), Twin Rivers USD, Sacramento City USD, Natomas USD, River Delta USD]. In addition, the library operates two leased facilities: North Sacramento (city) and Orangevale (county). The Library also operates a facility, the Tsakopoulos Library Galleria, which is leased for events and generates rental income, catering and other fees.

Library services include school readiness and early literacy programs for children ages 0-5, support for K-12 students, literacy services for adults, including basic literacy, GED preparation and an accredited high school completion program, as well a variety of services and programs for all ages. In addition, the library circulates materials in a variety of formats, provides information services, helps job seekers and provides access to local history through the Sacramento Room.

The Authority Board includes all members of the Sacramento County Board of Supervisors, five representatives of the Sacramento City Council, two representatives from the Elk Grove City Council, one representative each from the Citrus Heights and Rancho Cordova city councils, and one city council member who represents the cities of Galt and Isleton. The Library Director serves as the Chief Executive Officer of the Authority and as Secretary to the governing board. The Deputy Library Director serves as Authority Treasurer and Auditor. Legal counsel is provided through contracted services.

Funding: At inception, the Members and non-member school districts contributed all current and capital assets under their control related to library services, excluding land and buildings. 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 Agreement or separate agreements for the school districts that partner with the Authority.

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 two voter-approved special parcel tax measures. Measure X is a ten year special parcel tax that went into effect on July 1, 2007 and will expire in June 2017. This special parcel tax revenue is 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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 1 – ORGANIZATION (Continued)

On June 7, 2016, City of Sacramento residents approved the renewal of Measure X by 79.12% “to fund library services.” To stabilize funding for library services, City of Sacramento Ordinance No. 2016-0002 to extend the Measure X parcel tax included language to “remove existing restrictions on the parcel tax revenue to allow use for all library services.” The renewal of Measure X will go into effect in fiscal year 2017-2018 for 10 years, generating approximately \$5 million annually. Measure B went into effect during the year ended June 30, 2015 and will expire in June of 2026. This parcel tax revenue is for “core library services”, including, without limitation, open hours at branches, library staff, acquisition of library materials, and access to technology at branches within the City of Sacramento. Unspent special parcel tax revenues are reported on the General Fund balance sheet as restricted fund balance for parcel tax 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 and are not a part of these financial statements as those costs are shown directly in the appropriate fund of the respective Member or non-member school district.

In the event of termination of the joint exercise of powers agreement, the net 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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 after 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.

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 parcel taxes. 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 and has an endowment and trust assets as described in Note 5.

Receivables: Receivables are comprised mainly of County of Sacramento and City of Sacramento 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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

collectible. As of June 30, 2016, \$4,359,814 in fines and fees are owed to the Authority. Based on an analysis of the percentage of fines and fees historically collected, management estimated that approximately 13% or \$566,776 of this amount will be collected and an allowance for uncollectible accounts for the remaining \$3,793,038 has been recorded.

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. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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.

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 – unavailable revenue includes \$566,776 of deferred fines and fees, \$290,000 of property taxes receivable under the Teeter Plan from the City and County of Sacramento and \$4,641 of other revenues 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. See Note 10 for information about the deferred inflows related to the Authority's pension 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 separations, including retirements.

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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:

- Parcel tax carryover restricted by the enabling legislation approving the special parcel tax.
- Hurst endowment restricted for book purchases.
- 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 Authority Board. These amounts cannot be used for any other purpose unless the Board 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:

- \$2,931,260 set aside for economic uncertainty that may be used according to the specific criteria defined under Resolution No. 15-31.
- Supplemental funds committed by resolution of the Board according to the JPA agreement for enhanced services at library branches.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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.
- Deferred maintenance assigned for maintenance of library branches and the Galleria rooms.
- Sylvan Oaks cell tower rents assigned for operations, maintenance and capital projects at the Sylvan Oaks library branch.
- 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.

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 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 Authority Board of the Library accepts 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 2015, the GASB approved Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to other postemployment benefits other than pensions (OPEB). This Statement also addresses footnote disclosures and required supplementary information requirements for

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

defined benefit OPEB plans. The alternative measurement method for OPEB plans will still be available under this Statement for employers with fewer than 100 employees (active and inactive). The provisions of this Statement are effective for periods beginning after June 15, 2017.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for periods beginning after June 15, 2015, and should be applied retroactively.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria allowing investment pools meeting certain maturity, quality, diversification and other criteria to measure its investments at amortized cost for financial reporting purposes rather than at fair value and allowing the pool's users to measure their investment in the pool at amortized cost. This Statement is effective for periods beginning after June 15, 2015 with some provisions effective for periods beginning after December 15, 2015.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information, clarifies the use of the term *deviation* for the selection of assumptions, and clarifies the classification of employer-paid member contributions and the period in which they should be recognized. The requirements of this Statement are effective for periods beginning after June 15, 2016, and should be applied retroactively.

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

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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		\$ 38,996,588
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Capital assets	\$ 28,105,021	
Less: accumulated depreciation	<u>(19,446,365)</u>	8,658,656
Pension contributions subsequent to the plan's measurement date will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.		2,311,886
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences		(1,739,287)
Net pension liability		(11,518,352)
Other postemployment benefits obligation		(2,134,402)
Long-term receivables are not available to pay current period expenditures and are reported as deferred inflows in governmental funds.		861,417
Net differences between projected and actual earnings on pension plan investments and other pension adjustments are reported as deferred inflows of resources on the statement of net position.		<u>(1,465,520)</u>
Net position in the government-wide statement of net position		<u>\$ 33,970,986</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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	\$ 2,515,719
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.	18,831
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	3,892,704
Depreciation expense	(2,807,169)
Loss on disposal of capital assets	(50,149)
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 deferred outflows of resources related to pension plan	253,345
Change in compensated absences	(68,728)
Change in net pension liability	(1,670,380)
Change in other postemployment benefits obligation	(416,402)
Change in deferred inflows of resources related to pension plan	<u>2,222,568</u>
Change in Net Position of the Statement of Activities	<u><u>\$ 3,890,339</u></u>

NOTE 5 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2016:

Cash on hand	\$ 13,064
Bank deposits	2,401,330
Investment in City of Sacramento Investment Pool	37,087,085
Investments:	
Hurst endowment investments	1,761,936
Moore Trust Fund investments	220,701
Total investments	<u>39,069,722</u>
Total	<u><u>\$ 41,484,116</u></u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 5 – CASH AND INVESTMENTS (Continued)

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

Investment Policy: Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The Authority's permissible investments for idle Authority funds include the City of Sacramento's investment pool and the State of California Local Agency Investment Fund (LAIF). The Authority's permissible investments for gifts and donations exceeding \$100,000, including the Hurst endowment, include investments consistent with the intent of the donor, or if not specified, those authorized by California Government Code Section 53601. The table below identifies the investment types that are authorized for gifts and donations exceeding \$100,000 by California Government Code 53601. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Local agency bonds	5 years	None	None	N/A
U.S. Treasury obligations	5 years	None	None	N/A
Municipal securities	5 years	None	None	N/A
U.S. Agency securities	5 years	None	None	N/A
Bankers acceptances	180 days	40%	30%	N/A
Commercial paper	270 days	25%	10%	A-1
Negotiable certificates of deposits	5 years	30%	None	N/A
Repurchase agreements	1 year	None	None	N/A
Reverse repurchase and securities lending agreements	92 days	20% of base value	None	N/A
Medium term notes	5 years	30%	None	A
Mutual funds	N/A	20%	10%	AAA
Money market mutual funds	N/A	20%	10%	AAA
Collateralized bank deposits	5 years	None	None	N/A
Secured debt obligations	5 years	None	None	N/A
Mortgage pass-through securities	5 years	20%	None	AA
JPA pools (other investment pools)	N/A	None	None	N/A
Senior unsecured unsubordinated obligations	5 years	30%	None	AA

The Permanent Fund includes a donation, the Moore Memorial Trust totaling \$229,099 at June 30, 2016, invested by an investment advisor specified by and in a manner consistent with the intent of the donor.

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. In accordance with its investment policy, the Authority

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 5 – CASH AND INVESTMENTS (Continued)

manages its exposures to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 5 years.

Information about the sensitivity of the fair values of the Authority’s investments to market rate interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity:

Type of Investment	Total	Maturities as of Year-end		
		12 Months or Less	13-24 Months	25-60 Months
U.S. Agency securities	\$ 550,710			\$ 550,710
Municipal securities	672,713	\$ 400,232		272,481
Medium term corporate notes	538,513			538,513
City of Sacramento pool	37,087,085		\$ 37,087,085	
Permanent Fund investments:				
Domestic mutual funds	39,198	39,198		
International mutual funds	9,451	9,451		
Exchange traded funds (ETF)	121,201	121,201		
Real estate investment trust (REIT)	25,180	25,180		
Alternative investments	25,671	25,671		
Total	\$ 39,069,722	\$ 620,933	\$ 37,087,085	\$ 1,361,704

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority’s investment policy, and the actual rating as of year-end for each investment type (Permanent Fund ratings are ratings of underlying investments reported by funds).

Type of Investment	Total	Ratings as of Year-end						
		AAA	AA	A	BBB	BB	B and below	Unrated
U.S. Agency securities	\$ 550,710		\$ 550,710					
Municipal securities	672,713	\$ 400,232	272,481					
Medium term corporate notes	538,513		538,513					
City of Sacramento pool	37,087,085							\$ 37,087,085
Permanent Fund investments:								
Domestic mutual funds	39,198	23,789	618	\$ 1,668	\$ 1,899	\$ 4,436	\$ 5,255	1,533
International mutual funds	9,451	220	31	188	2,540	2,057	2,581	1,834
Exchange traded funds (ETF)	121,201							121,201
Real estate investment trust (REIT)	25,180							25,180
Alternative investments	25,671	188		121	202	374	333	24,453
Total	\$ 39,069,722	\$ 424,429	\$ 1,362,353	\$ 1,977	\$ 4,641	\$ 6,867	\$ 8,169	\$ 37,261,286

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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 5 – CASH AND INVESTMENTS (Continued)

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

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% 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, 2016, the carrying amount and balance per bank of the Authority's bank deposits were \$2,392,932 and \$2,321,735, respectively. Of the balance per bank at June 30, 2016, \$250,000 was covered by federal depository insurance and \$2,071,735 was collateralized by the pledging financial institution's investment securities, which were not in the name of the Authority.

Investment in the City of Sacramento's Sponsored Investment Pool: The City of Sacramento (the City) Investment Pool is stated at fair value. As part of the City's total cash and investments portfolio, the City Treasurer manages an investment pool, which includes both internal and external investors. The pool is not registered with the Securities and Exchange Commission as an investment company. The City Treasurer is granted authority for managing the pool by City Charter Section 73 and City Council ordinances and resolutions. Monthly, the City Treasurer reports investment activity to the Council for review.

The fair value of investments is determined monthly. Participants' shares sold and redeemed are determined by the daily cash balance deposited in the pool (the value of its pool shares). The value of the pool shares is based upon amortized cost in day to day operations but is adjusted to the fair value at year-end. The value of the shares is supported by the value of the underlying investments. External participants, including various joint powers agencies, comprise 6.59% of pool participation.

Fair value measurements: The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 5 – CASH AND INVESTMENTS (Continued)

The Authority has the following recurring fair value measurements as of June 30, 2016:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
U.S. Agency securities	\$ 550,710		\$ 550,710	
Municipal securities	672,713		672,713	
Medium term corporate notes	538,513		538,513	
Permanent Fund investments:				
Domestic mutual funds	39,198	\$ 39,198		
International mutual funds	9,451	9,451		
Exchange traded funds (ETF)	121,201	121,201		
Real estate investment trust (REIT)	25,180	25,180		
Alternative investments	25,671	25,671		
Total investments by fair value level	1,982,637	\$ 220,701	\$ 1,761,936	\$ -
Investments measured at net asset value:				
City of Sacramento pool	37,087,085			
Total	\$ 39,069,722			

All securities classified in Level 2 are valued using pricing models based on market data, such as matrix or model pricing from outside pricing services such. These valuation techniques include third party benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications.

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, 2016, the Authority had outstanding future commitments under encumbrances reported as fund balance assigned for open contracts of \$57,472.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Deletions and Transfers	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 133,580	\$ 46,128	\$ (50,149)	\$ 129,559
Total capital assets, not being depreciated	<u>133,580</u>	<u>46,128</u>	<u>(50,149)</u>	<u>129,559</u>
Capital assets, being depreciated:				
Equipment	8,725,381	15,619		8,741,000
Building improvements	608,432	991,993		1,600,425
Software	544,783			544,783
Furniture and fixtures	1,033,568			1,033,568
Books and media collection	17,049,643	2,838,964	(3,832,921)	16,055,686
Total capital assets	<u>27,961,807</u>	<u>3,846,576</u>	<u>(3,832,921)</u>	<u>27,975,462</u>
Accumulated depreciation:				
Equipment	(8,286,367)	(112,728)		(8,399,095)
Building improvements	(233,436)	(37,846)		(271,282)
Software	(540,372)	(3,101)		(543,473)
Furniture and fixtures	(1,021,937)	(6,378)		(1,028,315)
Books and media collection	(10,390,005)	(2,647,116)	3,832,921	(9,204,200)
Total accumulated depreciation	<u>(20,472,117)</u>	<u>(2,807,169)</u>	<u>3,832,921</u>	<u>(19,446,365)</u>
Total capital assets being depreciated, net	<u>7,489,690</u>	<u>1,039,407</u>		<u>8,529,097</u>
Total capital assets, net	<u>\$ 7,623,270</u>	<u>\$ 1,085,535</u>	<u>\$ (50,149)</u>	<u>\$ 8,658,656</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, 2016 were \$165,980. 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, 2016 were as follows:

Year Ending June 30,	
2017	\$ 82,365
2018	19,043
2019	19,043
2020	19,043
2021	19,043
Thereafter	<u>231,689</u>
Total	<u>\$ 390,226</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2016 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,670,559	\$ 2,154,114	\$ (2,085,386)	\$ 1,739,287	\$ 1,724,330
Net pension liability	9,847,972	7,360,296	(5,689,916)	11,518,352	
Other postemployment benefits obligation	1,718,000	612,819	(196,417)	2,134,402	
Total long-term liabilities	<u>\$ 13,236,531</u>	<u>\$ 10,127,229</u>	<u>\$ (7,971,719)</u>	<u>\$ 15,392,041</u>	<u>\$ 1,724,330</u>

NOTE 10 - PENSION PLANS

Defined Benefit Plan - General Information about the Pension Plan:

Plan Description: All qualified permanent and probationary employees are eligible to participate in the Authority's Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues a publicly available report that includes a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit or the 1959 Survivor Benefit, Level 3. The cost of living adjustment is applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.75%
Required employer contribution rates	15.138%	15.138%

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 10 - PENSION PLANS (Continued)

The Public Employees' Pension Reform Act of 2013 (PEPRA) requires the 2.0% at 62 benefit to be used by any new participants that were not members of CalPERS on January 1, 2013.

Employees Covered: At June 30, 2014 (the most recent valuation date), the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	190
Inactive employees entitled to but not yet receiving benefits	246
Active employees	<u>291</u>
Total	<u><u>727</u></u>

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability: The Authority's net pension liability for the Plan is measured as the total pension liability, less the plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65%
Mortality - pre-retirement	Based on 2010 CalPERS Experience Study for the period from 1997 to 2007

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 10 - PENSION PLANS (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.65% in the June 30, 2014 valuation and 7.50% in the June 30, 2013 valuation. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in the June 30, 2013 accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference, so the amount was updated in the June 30, 2014 valuation.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 10 - PENSION PLANS (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability: The changes in the Net Pension Liability for the Plan follows:

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 64,463,840	\$ 54,615,868	\$ 9,847,972
Changes in the year:			
Service cost	2,478,040		2,478,040
Interest on the total pension liability	4,818,933		4,818,933
Differences between actual and expected experience	(292,003)		(292,003)
Changes in assumptions	(1,155,132)		(1,155,132)
Changes in benefit terms			
Contribution - employer		2,030,568	(2,030,568)
Contribution - employee		966,013	(966,013)
Net investment income		1,246,200	(1,246,200)
Administrative expenses		(63,323)	63,323
Benefit payments, including refunds of employee contributions	(2,526,284)	(2,526,284)	
Net changes	3,323,554	1,653,174	1,670,380
Balance at June 30, 2016	\$ 67,787,394	\$ 56,269,042	\$ 11,518,352

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 10 - PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the Authority for the Plan, calculated using the discount rate for the Plan, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 20,503,124
Current Discount Rate	7.65%
Net Pension Liability	\$ 11,518,352
1% Increase	8.65%
Net Pension Liability	\$ 4,051,681

Pension Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

For the year ended June 30, 2016, the Authority recognized pension expense of \$1,506,353. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,311,886	
Differences between actual and expected experience		\$ (213,083)
Changes in assumptions		(842,934)
Net differences between projected and actual earnings on plan investments		<u>(409,503)</u>
Total	<u>\$ 2,311,886</u>	<u>\$ (1,465,520)</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 10 - PENSION PLANS (Continued)

The \$2,311,886 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2017	\$ (723,999)
2018	(723,999)
2019	(606,662)
2020	<u>589,140</u>
	<u>\$ (1,465,520)</u>

Payable to the Pension Plan: At June 30, 2016, the Authority reported a payable of \$188,426 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2016.

Defined Contribution Plan: The Authority has a Section 401(a) Money Purchase Plan that is a defined contribution pension plan available only to unrepresented management employees. The Plan is administered by a trustee under a trust agreement. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Authority’s Board of Directors according to the Authority’s Unrepresented Personnel Resolution. Employees may contribute up to 5% and the Authority will contribute up to 4% of the employees’ annual covered salary to an individual employee account. Contributions made during the year ended June 30, 2016 by participants and the Authority totaled \$75,798 and \$55,252, respectively. Employees vest immediately in their own contributions and the contributions of the Authority.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLANS

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 retirees with 10 to 19 years of service. Eligibility rules include retirement from the Authority at age 50 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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLANS (Continued)

Funding Policy: The contribution requirements of plan members and the Authority are established and may be amended by the Authority Board. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2016, the Authority contributed \$196,417 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	\$ 621,491
Interest on net OPEB obligation	77,310
Adjustment to annual required contribution	<u>(85,982)</u>
Annual OPEB cost (expense)	612,819
Contributions made	<u>(196,417)</u>
Increase (decrease) in net OPEB obligation	416,402
Net OPEB obligation, beginning of period	<u>1,718,000</u>
Net OPEB obligation (asset), end of period	<u><u>\$ 2,134,402</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>
6/30/2014	\$ 389,000	48.07%	\$ 1,514,000
6/30/2015	410,000	50.24%	1,718,000
6/30/2016	612,819	32.05%	2,134,402

Funded Status and Funding Progress: The funded status of the Plan as of January 1, 2016, the Plan’s most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 7,120,270
Actuarial value of Plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,120,270</u>
Funded ratio (actuarial value of Plan assets/AAL)	0.00%
Covered payroll (active Plan participants)	\$ 15,224,000
UAAL as a percentage of covered payroll	46.77%

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLANS (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, 2016 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 CalPERS 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, a 3.0% increase in payroll and no change in the maximum monthly benefit of \$225. Health insurance increases range from 5% to 7%. Vision and dental costs were assumed to increase 4% and 5%, respectively. The UAAL is being amortized over a 30 year period with 24 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 the first two pay periods each 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 \$207,535 to the Plan during the year ended June 30, 2016.

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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2016

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 opinion 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 deferred outflows of resources of \$548, an unfunded pension liability of \$216,356 and deferred inflows of resources of \$7,779 as of the latest measurement date of June 30, 2015. It is believed the Authority will be required to pay a portion of the System’s pension obligations, 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, 2016.

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

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Assessment and taxes	\$ 7,085,000	\$ 7,085,000	\$ 7,104,886	\$ 19,886
Fines, fees and penalties	671,000	721,000	772,108	51,108
Facility rental income	287,000	242,000	273,226	31,226
Galleria catering and other	71,000	56,000	55,312	(688)
Operating grants and contributions:				
County contributions	20,210,000	20,800,000	20,892,016	92,016
City contributions	7,635,600	7,635,600	7,635,600	
Other agency contributions	307,000	131,000	171,897	40,897
Federal and State grants		76,618	76,618	
First 5 grant		69,343	69,343	
Total program revenues	<u>36,266,600</u>	<u>36,816,561</u>	<u>37,051,006</u>	<u>234,445</u>
General revenues:				
Gifts and donations		1,855,973	1,855,973	
E-rate refund	625,000	425,000	620,488	195,488
Investment income (loss)	251,000	251,000	363,540	112,540
Other	193,000	191,000	291,153	100,153
Total general revenues	<u>1,069,000</u>	<u>2,722,973</u>	<u>3,131,154</u>	<u>408,181</u>
TOTAL REVENUES	<u>37,335,600</u>	<u>39,539,534</u>	<u>40,182,160</u>	<u>642,626</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	23,103,000	23,173,000	22,988,064	184,936
Services and supplies	8,893,635	10,341,884	8,776,122	1,565,762
Books and media subscriptions	1,500,000	1,941,876	1,935,110	6,766
First 5 grant		69,343	69,343	
Capital outlay				
Books and media collection	3,202,000	2,948,786	2,838,964	109,822
Other capital outlay	976,500	1,806,796	1,053,740	753,056
TOTAL EXPENDITURES	<u>37,675,135</u>	<u>40,281,685</u>	<u>37,661,343</u>	<u>2,620,342</u>
CHANGE IN FUND BALANCE	(339,535)	(742,151)	2,520,817	3,262,968
Fund balance, beginning of year	<u>36,115,233</u>	<u>36,115,233</u>	<u>36,115,233</u>	
FUND BALANCE, END OF YEAR	<u>\$ 35,775,698</u>	<u>\$ 35,373,082</u>	<u>\$ 38,636,050</u>	<u>\$ 3,262,968</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

As of June 30, 2016

Last 10 Years

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service Cost	\$ 2,478,040	\$ 2,429,839
Interest on total pension liability	4,818,933	4,490,108
Differences between expected and actual experience		
Changes in assumptions	(1,155,132)	
Changes in benefits	(292,003)	
Benefit payments, including refunds of employee contributions	<u>(2,526,284)</u>	<u>(2,218,568)</u>
Net change in total pension liability	3,323,554	4,701,379
Total pension liability - beginning	<u>64,463,840</u>	<u>59,762,461</u>
Total pension liability - ending (a)	<u>\$ 67,787,394</u>	<u>\$ 64,463,840</u>
Plan fiduciary net position		
Contributions - employer	\$ 2,030,568	\$ 1,951,143
Contributions - employee	966,013	986,310
Net investment income	1,246,200	8,072,125
Benefit payments	(2,526,284)	(2,218,568)
Administrative expenses	(63,323)	
Net change in plan fiduciary net position	<u>1,653,174</u>	<u>8,791,010</u>
Plan fiduciary net position - beginning	<u>54,615,868</u>	<u>45,824,858</u>
Plan fiduciary net position - ending (b)	<u>\$ 56,269,042</u>	<u>\$ 54,615,868</u>
Net pension liability - ending (a)-(b)	<u>\$ 11,518,352</u>	<u>\$ 9,847,972</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83.01%</u>	<u>84.72%</u>
Covered - employee payroll	<u>\$ 15,006,598</u>	<u>\$ 13,654,614</u>
Net pension liability as percentage of covered - employee payroll	<u>76.76%</u>	<u>72.12%</u>
Notes to Schedule:		
Valuation date	June 30, 2014	June 30, 2013
Measurement period - fiscal year ended	June 30, 2015	June 30, 2014

Benefit changes. The figures above do not include any liability impact that may have resulted from changes after measurement date.

Changes in assumptions. During the measurement period ending June 30, 2015 the discount rate was changed from 7.50% to 7.65%. There were no changes in assumptions during the measurement period ending June 30, 2014.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

As of June 30, 2016

Last 10 Years

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution for measurement period	\$ 2,030,568	\$ 1,951,143
Contributions in relation to the actuarially determined contributions	<u>(2,030,568)</u>	<u>(1,951,143)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll for measurement period	\$ 15,006,598	\$ 13,654,614
Contributions as a percentage of covered - employee payroll	13.53%	14.29%

Notes to Schedule:

Valuation date	June 30, 2014	June 30, 2013
Measurement period - fiscal year ended	June 30, 2015	June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.65% in 2016 and 7.5% in 2015, net of pension plan investment expense, including inflation
Retirement age	50-67 years. Probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	Based on 2010 CalPERS Experience Study for the period from 1997 to 2007.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT
BENEFIT PLAN (UNAUDITED)

June 30, 2016

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%
1/1/2016		7,120,270	7,120,270	0.00%	15,224,000	46.77%

Note: The June 30, 2013 and June 30, 2015 information was not included in either the January 1, 2012 or the January 1, 2014 valuation and is not available to report above.

COMPLIANCE REPORT



550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

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, 2016, 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 7, 2016

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 7, 2016