Sonoma County Library

Basic Financial Statements

For the Year Ended June 30, 2015

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BEELS | SOPER LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Library Commission
Sonoma County Library
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sonoma County Library (the "Library"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Library'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Sonoma County Library, as of June 30, 2015, 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.

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Emphasis of Matter

As discussed in Note N to the basic financial statements, the Library adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an amendment of GASB Statement No. 68*, which resulted in the restatement of previously reported amounts for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 8 and 33 - 34 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 August 26, 2016, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

BEELS SOPER LLP

Petaluma, California
August 26, 2016

Management's Discussion and Analysis

As management of the Sonoma County Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year that ended June 30, 2015.

Financial Highlights

- The liabilities of the Library exceeded its assets at the close of the most recent fiscal year by $4,476,015 (net position). The Library's total net position decreased by $10,565,367 from the previous year. The net position from operations for the year increased by $1,131,552. The large decrease is due to a prior period adjustment related to the implementation of GASB Statement No. 68, which defined reporting requirements for employers that participate in pension plans. The GASB 68 prior period adjustment resulted in an $11,696,919 decrease in net position.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of $11,337,841, an increase of $1,350,067 in comparison with the prior year. Approximately 43% or $4,887,348 is available for spending at the Library's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the general fund was $4,887,348 or 30% of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statement portions of this combined reporting format are designed to provide readers with a broad overview of the Library's finances, in a manner similar to the private business sector.

The *statement of net position* presents information on all of the Library's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government'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).

Governmental Funds

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 Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library's funds all fall under the category of governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, 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 a government'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 governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Library maintains five governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and major special revenue funds (G.E. Cromwell, Leoleon Hopkins and Gifts & Donations). Other Funds contains all of the non-major funds aggregated and presented in a single column.

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 after the basic financial statement section of this report.

Required Supplementary Information

Schedules presenting budgetary comparison information for the Library's governmental funds are supplementary information required by generally accepted accounting principles and immediately follow the notes to the basic financial statements.

Government-Wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Library, liabilities exceed assets by $4,476,015 at the close of the most recent fiscal year.

Statement of Net Position

Net Assets	As of June 30, 2014	As of June 30, 2015
Cash and investments in County Treasury	$ 10,322,713	$ 11,994,145
Other current assets	94,408	145,298
Capital assets	3,367,385	3,230,885
Deferred pensions- outflows	-	1,192,715
Total assets	13,784,506	16,563,043
Current liabilities	429,287	801,602
Non-current liabilities	7,265,867	16,844,575
Total liabilities	7,695,154	17,646,177
Deferred pensions – inflows	-	3,392,881
Invested in capital assets, net of related debt	3,367,385	3,230,885
Unrestricted	2,721,967	(7,706,900)
Total net assets	$ 6,089,352	$ (4,476,015)

Statement of Activities	For the year ended June 30, 2014	For the year ended June 30, 2015
Revenues		
Program revenues	$ 932,389	$ 893,068
Property taxes	14,839,258	16,104,447
Investment earnings	197,366	89,026
Intergovernmental	399,229	299,300
Other revenue	101,273	97,202
Total revenue	16,469,515	17,483,043
Expenses		
Personnel	$ 11,810,971	$ 11,800,406
Materials	1,726,863	1,653,069
Depreciation	298,223	229,378
Other program expenses	2,874,341	2,668,638
Total expenses	16,710,398	16,351,491
Increase (decrease) in net position	$ (240,883)	$ 1,131,552
Net position at beginning of year	6,330,235	6,089,352
Change in accounting principle – GASB 68	-	(11,696,919)
Net position at the end of the year	$ 6,089,352	$ (4,476,015)

As noted earlier, the Library's net position decreased during the year ended June 30, 2015 by $10,565,367. Library operations increased the net position by $1,131,552. The large decrease in the net position of $11,696,919 is due to a prior period adjustment related to the implementation of GASB Statement No. 68, which defined reporting requirements for employers that participate in pension plans.

Governmental Funds

General Fund

As previously mentioned, the Library uses funds to help control and manage money for particular purposes. For the years ended June 30, 2015 and 2014, the Library's general fund reported a fund balance of $8,269,043 and $6,488,009, respectively. This increase is primarily attributable to the increase in property tax revenues of approximately $1,300,000 and the transfers from other funds of approximately $517,000 while expenses stayed relatively flat from year to year.

Special Revenue Funds

The changes in the special revenue funds from year to year were as follows:

1) G.E. Cromwell Fund – fund balance decreased from $751,210 to $749,064 for the year ended June 30, 2015. Investment earnings amounted to $3,793 and $5,939 was transferred to the general fund.

2) Leoleon Hopkins Fund – fund balance decreased from $1,046,262 to $983,858 for the year ended June 30, 2015. Investment earnings amounted to $2,596 and $65,000 was transferred to the general fund.

3) Gifts & Donations Fund – fund balance decreased from $720,833 to $571,118 for the year ended June 30, 2015. The fund had investment earnings of $3,044 and grants and contributions in the amount of $359,877 for the year. The fund also had expenses in the amount of $314,095 and $198,541 was transferred to the general fund.

4) Other Funds – fund balance decreased from $981,520 to $764,758 for the year ended June 30, 2015. The fund had total revenues of $31,587 and transferred $248,349 to the general fund.

Capital Assets

The Library's investment in capital assets as of June 30, 2015, amounted to $3,230,885 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

	Library's Capital Assets (Net of Depreciation)	
	2014	**2015**
Land	$ 207,000	$ 207,000
Buildings and construction in progress	2,813,134	2,700,210
Vehicles	28,104	48,590
Equipment	319,147	275,085
Total capital assets, net	$ 3,367,385	$ 3,230,885

Additional information on the Library's capital assets can be found in Note E to these financial statements.

Long-Term Obligations

As of June 30, 2015 and June 30, 2014, the Library had $803,935 and $822,442, respectively, in compensated absence liabilities. At the end of the year, the Library had $9,378,768 in obligations for the pension liability. As of June 30, 2015, the Library had $6,661,872 in obligations for other post-employment benefits. More detailed information about the Library's compensated absences is presented in Note A and K, the pension liability in Note G and other post-employment benefits in Note H of the financial statements

General Fund Budgetary Highlights

There were two variances between the budget and actuals that are worth noting for the year ended June 30, 2015. First, the actual tax revenue received was approximately $1,300,000 higher than the budgeted amount because the property tax base for the County of Sonoma increased more than was expected. The second area was the salary and benefits area. The actual expense for salary and benefits was lower than the budgeted amount by approximately $500,000. This variance was the result of numerous positions going unfilled for an extended period of time and the actual expenses for retiree health benefits coming in lower than budget.

Economic Factors and Next Year's Budget

The tax revenue for fiscal year 2015-16 is expected to increase at approximately the same rate as it did in 2014-15 as the economy continues to recover. The increased revenue will allow the Library to address some areas where expenditures had been deferred during the recession. The Library's 2015-16 budget includes allocations for filling two long vacant positions, an IT Manager and a Facilities Manager. Other areas that will be addressed include developing a new facilities master plan, advertising and an increase in the materials budget.

The Library Commission also authorized use of approximately $900,000 of the surplus (fund balance) from fiscal year 2014-15 operations. This will be used for one-time expenses that include an additional deposit to the trust that was set up for the post-employment benefits, a marketing and outreach campaign, a refresh of the Cloverdale branch interior and initial costs for a temporary Library branch in Roseland.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. Any questions about this report or requests for additional information may be directed to Kenneth Nieman, Chief Financial Officer, 211 E Street, Santa Rosa, California 95404.

Basic Financial Statements

	June 30, 2015
Assets	
Cash and investments in County Treasury	$ 11,994,145
Other cash	36,753
Accounts receivable	97,596
Other assets	10,949
Capital assets (net of accumulated depreciation, where applicable)	
Land	207,000
Building and improvements	2,700,210
Furnishings and equipment	275,085
Vehicles	48,590
Total capital assets, net	3,230,885
Deferred outflows of resources	
Deferred pensions	1,192,715
Total deferred outflows of resources	1,192,715
Total assets	16,563,043
Liabilities	
Amounts payable within one year:	
Accounts payable and accrued liabilities	$ 801,602
Amounts payable after one year:	
Compensated absences	803,935
Net pension liability	9,378,768
Net obligation for post-employment benefits	6,661,872
Total liabilities	17,646,177
Deferred inflows of resources	
Deferred pensions	3,392,881
Total deferred inflows of resources	3,392,881
Net position	
Invested in capital assets, net of related liabilities	3,230,885
Unrestricted	(7,706,900)
Total net position	$ (4,476,015)

	Year Ended June 30, 2015
Program expenses	
Library:	
Personnel	$ 11,800,406
Materials	1,653,069
Depreciation	229,378
Other program expenses	2,668,638
Total program expenses	16,351,491
Program revenues	
Operating grants and contributions	381,024
Charges for fines, fees and services	512,044
Total program revenues	893,068
Net program expenses	15,458,423
General revenues	
Property taxes	16,104,447
Investment income	89,026
Intergovernmental	299,300
Other	97,202
Total general revenues	16,589,975
Increase in net position	1,131,552
Net position at beginning of year	6,089,352
Change in accounting principle - GASB 68	(11,696,919)
Net position at beginning of year, as restated	(5,607,567)
Net position at end of year	$ (4,476,015)

	General Fund	Special Revenue Funds: G. E. Cromwell Fund	Special Revenue Funds: Leoleon Hopkins Fund	Special Revenue Funds: Gifts & Donations Fund	Other Funds	Total Governmental Funds
Assets						
Cash and investments in County Treasury	$ 8,937,059	$ 749,064	$ 983,858	$ 569,406	$ 754,758	$ 11,994,145
Other cash	36,753	-	-	-	-	36,753
Accounts receivable	88,416	-	-	9,180	-	97,596
Other assets	949	-	-	-	10,000	10,949
Total assets	$ 9,063,177	$ 749,064	$ 983,858	$ 578,586	$ 764,758	$ 12,139,443
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	$ 794,134	$ -	$ -	$ 7,468	$ -	$ 801,602
Fund balances						
Committed:						
Capital improvement	1,285,990	-	-	-	-	1,285,990
Stabilization fund	2,091,100	-	-	-	-	2,091,100
Assigned	4,605	749,064	983,858	571,118	764,758	3,073,403
Unassigned	4,887,348	-	-	-	-	4,887,348
Total fund balances	8,269,043	749,064	983,858	571,118	764,758	11,337,841
Total liabilities and fund balances	$ 9,063,177	$ 749,064	$ 983,858	$ 578,586	$ 764,758	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	3,230,885
Deferred outflows of resources are reported in the statement of net position but not reported in the governmental funds	1,192,715
Deferred inflows of resources are reported in the statement of net position but not reported in the governmental funds	(3,392,881)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(803,935)
Net pension liability	(9,378,768)
Net obligation for post-employment benefits	(6,661,872)
Net position of governmental activities	$ (4,476,015)

Year Ended June 30, 2015

	General Fund	Special Revenue Funds: G. E. Cromwell Fund	Special Revenue Funds: Leoleon Hopkins Fund	Special Revenue Funds: Gifts & Donations Fund	Other Funds	Total Governmental Funds
Revenues						
Property taxes	$ 16,104,447	$ -	$ -	$ -	$ -	$ 16,104,447
Library fines, fees and services	512,044	-	-	-	-	512,044
Intergovernmental	299,300	-	-	-	-	299,300
Investment income	62,756	3,793	2,596	3,044	16,837	89,026
Grants and contributions	6,397	-	-	359,877	14,750	381,024
Other	97,202	-	-	-	-	97,202
Total revenues	17,082,146	3,793	2,596	362,921	31,587	17,483,043
Expenditures						
Current						
Salaries and benefits	11,718,453	-	-	-	-	11,718,453
Operating	4,007,610	-	-	314,095	-	4,321,705
Capital outlay	92,878	-	-	-	-	92,878
Total expenditures	15,818,941	-	-	314,095	-	16,133,036
Excess of revenues over expenditures	1,263,205	3,793	2,596	48,826	31,587	1,350,007
Other financing sources (uses)						
Transfers in	517,829	-	-	-	-	517,829
Transfers out	-	(5,939)	(65,000)	(198,541)	(248,349)	(517,829)
Total other financing sources (uses)	517,829	(5,939)	(65,000)	(198,541)	(248,349)	-
Excess of revenue and other financing sources over expenditures and other financing uses	1,781,034	(2,146)	(62,404)	(149,715)	(216,762)	1,350,007
Fund balance at beginning of year	6,488,009	751,210	1,046,262	720,833	981,520	9,987,834
Fund balance at end of year	$ 8,269,043	$ 749,064	$ 983,858	$ 571,118	$ 764,758	$ 11,337,841

	Year Ended June 30, 2015
Amounts reported for governmental activities in the statement of activities (page 10) are different because:	
Net change in fund balances - total governmental funds (page 12)	$ 1,350,007
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense ($229,378) exceeded capital outlay ($92,878) in the current period.	(136,500)
Certain pension expenses in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds	117,985
The change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as an expenditure in governmental funds.	18,507
The change in the net obligation for post-employment benefits in the statement of activities does not require the use of current financial resources and therefore, is not reported as an expenditure in governmental funds.	(218,447)
Increase in net position of governmental activities (page 10)	$ 1,131,552

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Sonoma County Library as follows:

Note A. Defining the Financial Reporting Entity

The Sonoma County Library (the "Library") is a joint powers agency established between the County of Sonoma (the "County") and cities in 1975 to provide library service on an equal basis throughout the County. On August 1, 2014, the joint powers agreement between the County and the Library was amended. This amendment made changes to the governing body of the Library and ceased the Library's treatment as a component unit of the County of Sonoma. The first-amendment also established Library Advisory Boards for each city or community in which at least one regional Library branch operates. A full copy of the amended and restated JPA can be found on the Library's website at www.sonomacountylibrary.org.

The Library Joint Powers Authority (JPA) is now governed by an eleven-member Library Commission (the "Commission") which includes one appointee of the Board of Supervisors, one appointee each from the cities of Cotati, Cloverdale, Healdsburg, Petaluma, Santa Rosa, Sebastopol and Sonoma, one appointee from the town of Windsor and one appointee jointly elected by the city of Santa Rosa and the Board of Supervisors.

Note B. Summary of Significant Accounting Policies

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information on the Library as a whole. These financial statements include the financial activities of the Library's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. The Library does not have any activities that are considered business-type activities.

The statement of net position presents the financial condition of the government activities of the Library at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Program expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

During the year, the Library segregates transactions in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at a more detailed level. The focus of governmental fund financial statements is on major funds. The major funds are presented in separate columns. Non-major funds are aggregated and presented in a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of the Library are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Revenues from grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

Note B. **Summary of Significant Accounting Policies** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Taxes other than property taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within three hundred sixty five days of the end of the accounting period so as to be both measurable and available. Fines and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Property taxes are accrued when their receipt occurs within sixty days of the end of the accounting period. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

The Library reports the following major governmental funds:

General Fund

The General Fund is the principal fund of the Library. General tax revenues and other sources of revenue used to finance the fundamental operations of the Library are accounted for in this fund. General operating expenditures are paid from this fund.

G. E. Cromwell Fund

The G. E. Cromwell Fund is a major fund and was established in 1987. The funds are to be used for substantial enrichment and/or enhancement of the Petaluma Library in the areas of facilities, collections and services.

Leoleon Hopkins Fund

The Leoleon Hopkins Fund is a major fund and was established in 2004. The funds are to be used for the substantial enrichment and/or enhancement of the Petaluma Library in the areas of facilities, collections and services.

Gifts & Donations Fund

The Gifts and Donations Fund is a major fund and includes donations and various other gifts. The funds are used for various Library projects, programs, collections and services.

The Other Special Revenue Funds of the Library are all considered non-major funds. Other Special Revenue Funds are used to account for specific revenues that are assigned to expenditures for particular purposes.

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during subsequent years.

Note B. Summary of Significant Accounting Policies (continued)

Cash and Investments

The Library's operating cash is pooled with the Sonoma County Treasurer except for other cash which consists of petty cash and a payroll clearing account. The County Treasurer also acts as disbursing agent for the Library.

Investments are stated at fair value in the statement of net position and the corresponding changes in fair value of investments are recognized in the year in which the change occurred. The fair value of investments is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

Capital Assets

Capital assets, which include land, buildings, improvements, vehicles, furnishings and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at the estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' life are not capitalized.

Capital assets of the Library, except land, are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	30 years
Vehicles	5 years
Furnishings and equipment	5 years
Equipment under capital lease	5 years

The Library's collection of library books is not capitalized. This collection is unencumbered, held for public exhibition and education, protected, cared for and preserved, and subject to the Library's policy that requires proceeds from the sale of these items to be used to acquire other collection items.

Compensated Absences

Library employees are entitled to certain compensated absences based on their length of employment. Employees may accumulate earned vacation benefits that can be accrued up to a maximum of 240 to 280 hours per employee based on years of service. Accumulation of vacation time in excess of this limit may be granted upon recommendation of the Director with confirmation by the Commission. Terminated employees are entitled to full payment of unused vacation benefits.

Note B. Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

Employees may also accumulate unused sick leave benefits without limit. Accumulated sick leave benefits may convert to compensatory time for up to a maximum of four days determined by a sliding scale based on actual sick days used during the previous year. Employees separated from library service, for reasons other than disability, may receive payment of 25% of the monetary equivalent of their accumulated unused sick leave benefit, not to exceed 500 hours. Employees separated from library service due to disability may receive full payment for all unused sick leave. Employees retiring from the library may choose to receive payment as described above or to have unused sick leave converted to additional service credit as provided by the Public Employees' Retirement System ("PERS").

A liability is calculated for all of the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs used to calculate the liability are those in effect as of June 30, 2015. Because vacation and sick leave balances do not require the use of current financial resources, no liability is recorded within the governmental funds. However, this liability is reflected in the government-wide statement of net position.

Vested vacation and an accrual for vested sick leave for Library employees amount to $822,442 at June 30, 2015 and is recorded as a long-term liability within the statement of net position. Compensated absences are generally liquidated by the General Fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time.

The Library's employee retirement plan qualifies for reporting in this category. Refer to Note G for additional information on deferred inflows and outflows of resources.

Net Position – Government-wide Financial Statements

Net position represents the difference between assets and liabilities. "*Net position invested in capital assets, net of related debt*", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. "*Restricted net position*" is reported as restricted if the use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. "*Unrestricted net position*" consists of all other net position that does not meet the definition of the above two components and is available for general use by the Library.

Note B. Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental funds report fund balances in specifically defined classifications in accordance with the criteria established by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Library classifies fund balances in to the following five categories:

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Library's highest level of decision making authority (the Library Commission) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – amounts that are constrained by the Library's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Library's special revenue funds.

Unassigned fund balance – the residual classification for the Library's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Library Commission establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance Policy

The Library believes that sound financial management principles require that sufficient funds be retained by the Library to provide a stable financial base at all times. To retain this stable financial base, the Library needs to maintain unrestricted fund balance in its general fund sufficient to fund cash flows of the Library and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the Library's fund balance policy is to maintain a prudent level of financial resources to protect against temporary revenue shortfalls or unpredicted one-time expenditures.

Note B. Summary of Significant Accounting Policies (continued)

Fund Balance Policy (continued)

The Library's committed fund balances are comprised of the following:

Capital improvement fund – The Library has adopted a policy to pay for priority projects to expand and/or improve the Library's services through the creation of new buildings/facilities, the addition of major new technology, or renovation of existing facilities. The funds in this category are determined using the Library's budget process and are based on its capital improvement plan.

Stabilization fund - The Library has adopted a policy and established a committed fund balance known as the stabilization fund. The stabilization fund is to be no less than 12.5% of the Library's annual operating expenditures in the current year's budget. The purpose of the Library's stabilization fund is (1) to insulate the Library programs and service levels from large unanticipated one-time expenditures due to unforeseen circumstance and (2) to temporarily insulate the Library's programs and service levels from slower revenue growth that typically occurs during an economic recession. The allowable uses of the stabilization fund are as follows:

Emergency reserves – Half of the stabilization fund, or 6.25% of the Library's approved operating expenditures for the current fiscal year, will be used in the case of unforeseen emergencies, including natural and man-made disasters, unanticipated major repairs or replacement of capital assets, or other cases in which the Library is faced with funding a large, unanticipated expenditure. Emergency reserves must begin to be restored during the next budgeted year, and the Library Director shall present a plan for the restoration within three months of its use.

Counter cyclical reserves – The balance of the stabilization fund, or 6.25% of the Library's approved operating expenditures for the current fiscal year, may be used if the property tax projections fall below the level of the previous year. The reserves may only be used to maintain current expenditure levels and provide bridge financing during the first eighteen months of an economic downturn. Counter cyclical reserves must begin to be restored within twenty-four months of their first use, and the Library Director shall present a plan for restoration within eighteen months of its use.

Interfund Transactions

The following is a description of the basic types of interfund transactions and the related accounting policies:

1) Quasi-external (charges for current services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

2) Non-operating transfers - Transactions to allocate resources from one fund to another fund not contingent on the incurrence of specific expenditures in the receiving fund. These transactions are recorded as transfers in and out in the same accounting period.

These amounts are eliminated in the governmental activity columns of the governmental funds balance sheet.

Note B. **Summary of Significant Accounting Policies** (continued)

Property Taxes

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is also responsible for the allocation of property taxes to the Library. Article XIII of the California Constitution (more commonly known as Proposition 13) limits ad valorem taxes on real property to 1% of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed 2%, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Library each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is also disclosed in the County of Sonoma Comprehensive Annual Financial Report.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has released the following new standards:

GASB Statement No. 72 – *Fair Value Measurement and Application Effective for periods beginning after June 15, 2015*, This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Effective for fiscal years beginning after June 15, 2015, this Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

Note B. **Summary of Significant Accounting Policies** (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans other than Pension Plans Effective for fiscal years beginning after June 15, 2016*, this Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with post employment benefits other than pensions (OPEB) as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pensions Effective for fiscal years beginning after June 15, 2017*, this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments Effective for fiscal years beginning after June 15, 2015*, 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 financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The impact on the basic financial statements of the Library of these pronouncements which have not yet been adopted is unknown at this time.

Rent Expense

Rent expense for the year ended June 30, 2015 amounted to $37,105.

Estimates

The preparation of the 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.

Note C. Stewardship, Compliance and Accountability

Budget and Budgetary Accounting

The Library Commission approves an annual appropriated budget for the General Fund to be effective July 1st for the ensuing fiscal year. The Library Director is authorized to transfer budgeted amounts within any character (group of accounts); however, any revisions that alter the total appropriations of any fund must be approved by the Library Commission. Annual appropriations that have not been encumbered lapse at year-end. Budgetary data is presented as required supplementary information in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 33.

Note D. Cash and Investments

The Library follows the practice of pooling cash and investments of all funds with the Sonoma County Treasurer except for petty cash and a payroll clearing account.

Investment Guidelines and Authorized Investments

The Library's pooled cash and investments are invested pursuant to investment policy guidelines established by the Sonoma County Treasurer and approved by the Sonoma County Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity, and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal agency securities
- Bonds issued by local agencies
- Registered State warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers authority pools
- Investment Trust of California (Caltrust)

Note D. **Cash and Investments** (continued)

Investment Guidelines and Authorized Investments (continued)

A copy of the County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

Cash and investments as of June 30, 2015, are classified in the accompanying statement of net position as follows:

Cash and investments in County Treasury	$ 11,994,145
Other cash	36,753
	$ 12,030,898

Investment in County Treasurer's Pooled Cash

As of June 30, 2015, the Library's investments consisted of $11,994,145 in the Treasury Pool managed by the County Treasurer, which carry a weighted average maturity of approximately twelve months. The credit rating and other information regarding the Treasury Pool for the fiscal year ended June 30, 2015 will be disclosed in the County of Sonoma's June 30, 2015, Comprehensive Annual Financial Report.

The net increase in the fair value of the Library's investments in the Treasury Pool during fiscal year June 30, 2015, was $29,488 and is included in investment earnings. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The net unrealized gain on investments held at year end amounted to $111,887. The realized gains and losses from securities matured during the current fiscal year are recognized through the net change in the fair value of the investments held in the Treasury Pool.

Investment in County Treasurer's Pooled Cash (continued)

The net increase in fair value of investments by fund, and included in revenue – investment income for the year ended June 30, 2015, are as follows:

General Fund	$ 21,983
G.E. Cromwell Fund	1,864
Leoleon Hopkins Fund	2,596
Gifts & Donations Fund	1,394
Other Funds	1,651
	$ 29,488

Note D. Cash and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest 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 is to changes in market interest rates. As of June 30, 2015, the Library had no investments other than the cash and investments pooled with the County Treasury. Other cash consists of petty cash and a payroll checking account neither of which constitute investments that carry interest rate risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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 County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. 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. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the state or local governmental unit. California law also allows financial institutions to secure the Library's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The California Government Code also limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Concentration of Credit Risk

At various times during the year, the Library had on deposit with financial institutions amounts in excess of the $250,000 federally insured deposit limit. At June 30, 2015, the bank balance of cash held by a financial institution did not exceed the federal deposit insurance limit.

Note E. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2015, was as follows:

	July 1, 2014	Increase	Decrease	June 30, 2015
Capital assets,				
not being depreciated:				
Land	$ 207,000	$ -	$ -	$ 207,000
Capital assets,				
being depreciated:				
Buildings and improvements	3,529,511	-	-	3,529,511
Vehicles	280,857	34,537	-	315,394
Furnishings and equipment	3,821,076	58,341	(132,063)	3,747,354
Total capital assets being depreciated	7,631,444	92,878	(132,063)	7,799,259
Less accumulated depreciation for:				
Buildings and improvements	716,377	112,924	-	829,301
Vehicles	252,753	14,051	-	266,804
Furnishings and equipment	3,501,929	102,403	(132,063)	3,472,269
Total accumulated depreciation	4,471,059	229,378	(132,063)	4,568,374
Total capital assets being depreciated, net	3,160,385	(136,500)	-	3,023,885
Governmental activities capital assets, net	$ 3,367,385	$ (136,500)	$ -	$ 3,230,885

Depreciation expense relating to governmental activities amounted to $229,378 for the year ended June 30, 2015, and was charged to program expenses.

Note F. Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities* the Library recognizes deferred outflows and inflows of resources in the government-wide net position statement. Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period while deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period.

The Library reported one item as a deferred outflows of resources and one item as a deferred inflow of resources, both of which are related to pensions and explained further in Note G.

Note G. Employees' Retirement Plan

Plan Description

The Library contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and county ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 Q Street, Sacramento, California 95814.

In September 2012, Governor Brown signed the Public Employee Pension Reform Act of 2013 ("PEPRA"). PEPRA went into effect on January 1, 2013. The impact of PEPRA on the Library retirement benefits is that all new employees are mandated into a new tier of PERS retirement benefits titled 2.0% at age 62. The 2.0% at age 62 is a lesser benefit that the 2.0% at age 55, unless an employee works past the age of 66. As of June 30, 2015, there were 129 covered employees under the 2.0% at 55 plan and 8 covered employees under the 2.0% at 62 plan.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The Library is also required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2015, was 16.458% for the annual covered payroll and was established by PERS in connection with the June 30, 2012 actuarial study. The contribution requirements of plan members and the Library are established and may be amended by PERS.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Library reported a liability of $6,661,872 for its net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Note G. Employees' Retirement Plan (continued)

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2015, the Library recognized pension expense of $1,074,730 in the government-wide statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or methods, and plan benefits. At June 30, 2015, the Library reported deferred outflows of resources in the amount of $1,192,715 related to contributions subsequent to the measurement date and deferred inflows of resources in the amount of $3,392,881 related to differences between the expected and actual experience of the plan.

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The $1,192,175 reported as deferred outflows of resources related to pensions resulting from Library 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 inflows of resources related to pensions will be recognized in pension expense (reduction of expense) by $848,220 per year over the next five years.

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the entry age normal actuarial cost method. The assumptions included in the June 30, 2014, actuarial valuation were: (a) 7.50% investment rate of return, (b) projected annual salary increases depending on age, service and type of employment, and (c) 2.75% payroll growth. Both (a) and (b) included an inflation component of 2.75%.

Sensitivity of the Library's Net Pension Liability to Changes in the Discount Rate

The discount rate used to measure the net pension liability of $9,378,768, as of the June 30, 2014 measurement date was 7.5 percent. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

The Library's share of the net pension liability calculated as of June 30, 2014, the measurement date, using discount rate that is 1-percentage point lower (6.5 percent) would result in a net pension liability of $16,015,815 and using a discount rate that is 1-percentage point higher (8.5 percent) would result in a net pension liability of $3,757,973 for that same measurement date.

Note H. Other Post Employment Benefits

In addition to the pension benefits described in Note G, the Library provides other post employment benefits ("OPEB") for retired employees.

Note H. **Other Post Employment Benefits** (continued)

Plan Description

The Library provides health insurance benefits to all career employees who have retired as of July 1, 1983, and thereafter at the same level of benefits as those being provided for current career employees and in accordance with the schedule of payments for the same. Any Library employee newly hired or rehired by the Library after July 1, 1997, will receive this benefit after employment with the Library for at least 10 years (including coverage for the dependent spouse or domestic partner). Employees hired after October 18, 2013 must have at least 15 years of service. For employees hired between July 1, 1997 and October 18, 2013 that complete at least 20 years of service the Library will contribute to the cost of one dependent (spouse or domestic partner). The Library contributes 80% to 84% of the cost towards the retiree's health insurance benefit, depending on employee classification. This benefit is provided by Library Commission approval of the employee labor union MOU.

Funding Policy

The contribution requirements of OPEB plan members and the Library are established and may be amended by agreement of the Library Commission and employee labor union. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Library Commission. For the year ended June 30, 2015, the Library contributed $1,094,531 which includes the current pay-as-you-go portion of the current premium, plus an additional $600,000. OPEB plan members receiving benefits are currently not required to contribute.

Annual OPEB Cost and Net OPEB Obligation

The Library's annual OPEB cost (expense) is calculated based on the annual required contribution (the "ARC") of the Library, 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 costs 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 Library's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Library's net OPEB obligation to the Plan:

Annual required contribution	$ 1,205,588
Interest on net OPEB obligation	322,171
Adjustment to annual required contribution	(214,781)
Annual OPEB cost	1,312,978
Contributions made	1,094,531
Increase in net OPEB obligation	218,447
Net OPEB obligation – beginning of year	6,443,425
Net OPEB obligation – end of year	$ 6,661,872

Note H. **Other Post Employment Benefits** (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The Library's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015, and the two preceding years were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	$ 1,356	39.5%	$ 5,635
June 30, 2014	$ 1,356	37.8%	$ 6,443
June 30, 2015	$ 1,313	83.1%	$ 6,662

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $17,388,266, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability ("UAAL") of $17,388,266. The covered payroll (annual payroll of active employees covered by the plan) was $7,367,137, and the ratio of the UAAL to the covered payroll was approximately 236%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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.

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 the plan members) and include the types 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 July 1, 2013 actuarial valuation, the entry age normal funding method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets on the employer's own investments calculated based on the funded level of the plan at the valuation date, projected salary increases of 2.8%, and an annual healthcare cost trend rate of 4% - 6% per year. All rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was 30 years.

Note I. Deferred Compensation Plan

The Library has established two deferred compensation plans (the "Plans") created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. Under a MOU with the labor union, the Library agrees to make matching contributions to the Plan of up to 1% of regular compensation for all full and part time participating employees.

The Plans' assets are held by independent investment managers in a trust for the exclusive benefit of the employees and their beneficiaries and therefore, are not recorded as assets of the Library. Each employee directs the investment of the assets in his or her account.

Note J. Commitments

Line of Credit

The Library has an open line of credit from the County of Sonoma which was approved by resolution of the Library Commission and the County Board of Supervisors. Article XVI, Section 6 of the California State Constitution authorizes this type of temporary transfer of funds upon such approval. The line of credit is granted on an as needed basis, not to exceed the greater of $1,500,000 or 85% of the Library's revenue during the fiscal year. For the year ended June 30, 2015, there were no funds advanced to the Library and therefore, no interest costs associated with the line of credit.

Operating Leases

The Library leases copiers for its branches under an operating lease agreement that expires in 2019. The minimum monthly lease payment for the copiers amounts to approximately $2,750, which includes service.

The Library leases space for its Forestville library facility under a month to month lease, with an 18-month termination clause which requires minimum monthly lease payments of approximately $420. Additionally, on July 1, 2015, the Library entered into a 24-month lease for its Occidental library facility. The minimum monthly lease payment amounts to $555.

Future minimum lease payments under the above referenced operating leases as of June 30, 2015, were as follows:

Year ending June 30,	
2016	$ 44,721
2017	42,230
2018	33,028
2019	2,752
	$122,731

In addition to long-term lease commitments mentioned above the Library leases certain space in Occidental under month to month lease for $530 per month.

Note K. Long-Term Obligations

A summary of changes in long-term obligations for the governmental activities is as follows:

	Balance July 1, 2014	Increase	Decrease	Balance June 30, 2015	Amounts Due Within One Year
Compensated absences	$ 822,442	$ -	$ 18,507	$ 803,935	$ -

Note L. Insurance

The Library carries commercial insurance for all significant risks of loss which include public official liability, general liability, property and workers' compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note M. Related Party Transactions

During 2015, the Library contracted with the County of Sonoma for services related to maintaining the Library's general ledger and for access to service yards and fuel. Total expenditures for such services amounted to $170,385 for the year.

Note N. Beginning Net Position Adjustment – Implementation of New Accounting Principles

During the fiscal year ended June 30, 2015, the Library implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, which establishes accounting and financial reporting standards for employee retirement plans, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date-An Amendment of GASB Statement no. 68*, which addresses an issue regarding the transition provisions of Statement No. 68. Refer to the Library's Note G for additional information on employee retirement plans. GASB 68 requires that the effect of net pension liability and associated deferred items from prior fiscal periods be recorded as an adjustment to beginning net position. Accordingly, the Library reported a beginning balance adjustment of $11,696,919 to reduce net position for the prior period actuarially determined net pension liability of $12,830,411 net of $1,133,492 of employer contributions that represent prior period deferred outflows of resources.

Note O. Subsequent Events

In accordance with ASC 855, The Library subsequent events through August 26, 2016, the date these financial statements were available to be issued. With the exception of those matters discussed below, there were no material subsequent events that required recognition or additional disclosure in the financial statements.

Required Supplementary Information

Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note A	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	$ 14,831,935	$ 14,831,935	$ 16,104,447	$ 1,272,512
Library fines, fees and services	533,358	533,358	512,044	(21,314)
Intergovernmental	250,859	250,859	299,300	48,441
Investment earnings (losses)	21,210	21,210	62,756	41,546
Grants and contributions	1,010	1,010	6,397	5,387
Other	55,601	55,601	97,202	41,601
Total revenues	15,693,973	15,693,973	17,082,146	1,388,173
Expenditures				
Current				
Salaries and benefits	11,774,775	11,774,775	11,718,453	56,322
Operating	4,067,525	4,067,525	4,007,610	59,915
Retirement - long-term debt	26,000	26,000	-	26,000
Capital outlay	335,500	335,500	92,878	242,622
Contingency	25,000	25,000	-	25,000
Total expenditures	16,228,800	16,228,800	15,818,941	409,859
Excess (deficiency) of revenues over expenditures	(534,827)	(534,827)	1,263,205	1,798,032
Other financing sources (uses)				
Transfers in	534,827	534,827	517,829	(16,998)
Net change in fund balance	$ -	$ -	1,781,034	$ 1,781,034
Fund balance at beginning of year			6,488,009	
Adjustments from budgetary basis to GAAP			-	
Fund balance at end of year			$ 8,269,043	

Note A. **Budgetary Accounting**

Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds. Reimbursements are not reflected on the budgetary basis.

Although individually there were excess expenditures over appropriations in the General Fund, total operating expenditures were not in excess of appropriations.

Compliance

Independent Auditors' 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*

Library Commission
Sonoma County Library
Santa Rosa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sonoma County Library (the "Library"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated August 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library'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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library'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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of 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*.

The Library's Response to Findings

The Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beeks Soder LLP

Petaluma, California
August 26, 2016

Findings and Responses

2016-01 Physical Inventory of Fixed Assets

Finding: During the course of our audit, we noted that the Library has not performed a physical inventory of its fixed asset ledger and that there are variances between the fixed asset ledger and the general ledger.

Response: We acknowledge there was no fixed asset inventory during 2014-15. It is a high priority that a fixed asset inventory and reconciliation of the Library fixed asset records be completed prior to June 30, 2016.