

**Sonoma County Library**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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## Independent Auditor's Report

Library Commission  
Sonoma County Library  
Santa Rosa, California

### Report on the Financial Statements

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, 2018, 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 ("GAAP"); 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 an opinion 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 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 opinion.

### Opinion

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 Library as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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## **Independent Auditor's Report (continued)**

### **Emphasis of a Matter**

As discussed in Note N to the financial statements, the Library has adopted the provisions of Government Accounting Standards Board Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Library recognized a reduction to its beginning net position for the year ended June 30, 2018 in the amount of \$6,943,652.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, defined benefit pension plan and other postemployment benefits information, and management's discussion and analysis, as listed in the table of contents, 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 January 16, 2019, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

*Parent & Brink LLP*

Santa Rosa, California  
January 16, 2019

**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 the ended June 30, 2018.

### Financial Highlights

- The assets of the Library exceeded its liabilities at June 30, 2018 by \$1,675,333 (net position). The Library's total net position increased by \$8,580,553 from the previous year.
- As of June 30, 2018, the Library's governmental funds reported combined ending fund balances of \$22,013,059, an increase of \$6,937,792 in comparison with the prior year. Approximately 36% or \$7,841,365 is available for spending at the Library's discretion (unassigned fund balance).
- As of June 30, 2018, the unassigned fund balance for the general fund was \$7,696,609 or 43% of the total general fund expenditures for the year ended June 30, 2018.

### 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.

### 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 and 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 funds 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 major 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, Gifts & Donations, and Measure Y). 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**

A schedule presenting budgetary comparison information for the Library's general fund is supplementary information required by generally accepted accounting principles and immediately follows 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, assets exceed liabilities by \$1,675,333 at the close of the most recent fiscal year.

Sonoma County Library

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

<b>Summarized Statements of Net Position</b>	As of June 30, 2018	As of June 30, 2017
Cash and investments	\$ 21,243,953	\$ 14,056,908
Other current assets	2,017,049	1,661,174
Capital assets, net	5,151,575	3,773,379
<b>Total assets</b>	<b>28,412,577</b>	<b>19,491,461</b>
Deferred outflows - pensions	4,901,588	6,009,513
Deferred outflows - OPEB	731,715	-
Current liabilities	1,247,943	642,815
Non-current liabilities	29,965,083	22,221,719
<b>Total liabilities</b>	<b>31,213,026</b>	<b>22,864,534</b>
Deferred inflows - pensions	1,157,521	2,598,008
<b>Net Position</b>		
Invested in capital assets	5,151,575	3,773,379
Restricted	10,076,582	5,267,039
Unrestricted (deficit)	(13,552,824)	(9,001,986)
<b>Total net position</b>	<b>\$ 1,675,333</b>	<b>\$ 38,432</b>
<b>Summarized Statements of Activities</b>	For the year ended June 30, 2018	For the year ended June 30, 2017
<b>Revenues</b>		
Program revenues	\$ 736,289	\$ 1,096,447
Property taxes	19,234,497	18,332,120
Sales tax	12,110,478	2,235,270
Investment earnings	163,057	46,284
Intergovernmental	82,773	81,031
Other revenue	124,042	102,802
<b>Total revenue</b>	<b>32,451,136</b>	<b>21,893,954</b>
<b>Expenses</b>		
Personnel	15,276,995	13,720,264
Materials	3,158,459	2,038,341
Depreciation	326,859	216,094
Other program expenses	5,108,270	3,675,803
<b>Total expenses</b>	<b>23,870,583</b>	<b>19,650,502</b>
Increase in net position	8,580,553	2,243,452
Net position (deficit) at beginning of year, as restated	(6,905,220)	(2,205,020)
<b>Net position at the end of the year</b>	<b>\$ 1,675,333</b>	<b>\$ 38,432</b>



**Governmental Funds**

*General Fund*

As previously mentioned, the Library uses funds to help control and manage resources for particular purposes. The Library's general fund reported a fund balance of \$11,791,721 as of June 30, 2018, which is an increase from a balance of \$9,787,836 at the end of fiscal year 2017. This increase in the fund balance was due to receiving approximately \$990,000 in revenue over the budgeted amount and the difficulty in filling open staff positions during the year. Salaries and benefits were under budget by approximately \$940,000.

*Special Revenue Funds*

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

- 1) G.E. Cromwell fund – fund balance increased from \$749,488 to \$759,619 for the year ended June 30, 2018. The fund had a net investment income of \$10,131.
- 2) Leoleon Hopkins fund – fund balance increased from \$984,157 to \$997,460 for the year ended June 30, 2018. The fund had a net investment income of \$13,303.
- 3) Gifts & Donations Fund – fund balance increased from \$700,182 to \$864,444 for the year ended June 30, 2018. The fund had a net investment income of \$9,072 and grants and contributions in the amount of \$280,254 for the year. The fund also had expenditures in the amount of \$125,064.
- 4) Measure Y Fund - The Measure Y fund accounts for the revenue and expenses associated with the Sonoma County Library Sales Tax Initiative, a sales tax measure passed in November 2016. Collection of this sales tax, 1/8 cent, began on April 1, 2017. The fund balance increased from \$1,796,519 to \$6,532,433. The large surplus was mainly due to the difficulty in filling open positions that were created with the passage of the sales tax measure. Finding qualified individuals, the low unemployment rate and the high cost of living in Sonoma County are all factors that contributed to the recruiting difficulties.
- 5) Other Funds – fund balance increased from \$1,057,085 to \$1,067,382 for the year ended June 30, 2018. The fund had total revenues of \$49,712. The fund also had expenditures in the amount of \$39,415.

**Management's Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2018**

**Capital Assets**

The Library's investment in capital assets as of June 30, 2018, amounted to \$5,151,575 (net of accumulated depreciation). The investment in capital assets includes land, buildings, vehicles, and equipment.

	<b>Library's Capital Assets</b>	
	(Net of Depreciation)	
	<b>2017</b>	<b>2018</b>
Land	\$ 207,000	\$ 207,000
Buildings	2,869,137	3,236,678
Vehicles	13,815	166,927
Equipment	683,427	1,540,970
	\$ 3,773,379	\$ 5,151,575
<b>Total capital assets, net</b>	<b>\$ 3,773,379</b>	<b>\$ 5,151,575</b>

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, 2018 the Library had \$1,140,188 in compensated absence liabilities, \$14,055,294 in net pension liabilities and \$14,724,620 of post-employment benefit liabilities. The balances for these liabilities were \$997,422, \$13,668,158, \$7,556,128, respectively, for the year ending June 30, 2017. The Library administration and Commission recognize the importance of addressing the pension and post-employment obligations. The Library is current with its ongoing payments to the California Public Employees' Retirement System ("CalPERS"); the calculation of the rate being paid includes the unfunded liability. A committee was formed, met and made recommendations to the Library Commission to address the unfunded liability related to the post-employment benefits during the year. These recommendations were acted, on resulting in a revised Other Postemployment Benefits Policy in early in the 2018-19 fiscal year. More detailed information about the Library's compensated absences is presented in Note B and J, the pension liability in Note F, and other post-employment benefits in Note G of the financial statements.

**General Fund Budgetary Highlights**

There were three variances between the budget and actuals that are worth noting for the year ended June 30, 2018. First, the actual tax revenue received was approximately \$990,000 higher than the budgeted amount because the property tax revenue increase was greater than anticipated. The salaries and benefits were under budget by approximately \$940,000. The third area was the actual expense for contract services was higher than the budgeted amount by approximately \$140,000. This variance was the result of hiring temporary help, in the absence of full-time employees.

**Measure Y (Sales Tax) Budgetary Highlights**

There were a few areas worth mentioning with large variances between the budget and actual expenses. As mentioned before the main reason for the large surplus was the difficulty in filling the open positions. The result of this was that the actual expense for salaries and wages was approximately \$1.5 million less than budget. The shortage of permanent employees resulted in significant variances (actual under budget) in the events and programming area, \$210,000, and the capital projects accounts, \$1.1 million.

**Economic Factors and New Year's Budget**

For fiscal year 2018-19 the two major sources of revenue for the Library, property and sales tax, were estimated to be at the same level as the 2017-18 budget. The conservative approach to the revenue was taken because it was still unknown at the time what effect the October, 2017 fires would have on future revenues. The Library will continue to provide more events, classes and learning opportunities for the public and improve the interiors of the buildings throughout the system in fiscal year 2018-19.

The Library's combined fiscal 2018-19 budgets includes a refresh of the Petaluma branch interior, expenses for the planning stage for the Healdsburg branch interior improvement and significant contributions to the other post-employment benefits trust to reduce the unfunded liability.

**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, 6135 State Farm Drive, Rohnert Park, CA 94928.

**Basic Financial Statements**

**Sonoma County Library**

**Statement of Net Position**

**June 30, 2018**

<b>Assets</b>	
Cash and investments	\$ 21,243,953
Accounts receivable	63,742
Sales tax receivable	1,726,457
Other assets	226,850
Capital assets not being depreciated	
Land	207,000
Capital assets (net of accumulated depreciation)	
Building and improvements	3,236,678
Furnishings and equipment	1,540,970
Vehicles	166,927
<b>Total capital assets, net</b>	<b>5,151,575</b>
<b>Total assets</b>	<b>28,412,577</b>
<b>Deferred Outflows of Resources</b>	
Deferred pensions	4,901,588
Deferred OPEB	731,715
<b>Total deferred outflows of resources</b>	<b>5,633,303</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,247,943
Noncurrent liabilities:	
Health reimbursement account liability	44,981
Compensated absences	1,140,188
Net pension liability	14,055,294
Net obligation for post-employment benefits	14,724,620
<b>Total liabilities</b>	<b>31,213,026</b>
<b>Deferred Inflows of Resources</b>	
Deferred pensions	1,157,521
<b>Net Position</b>	
Invested in capital assets	5,151,575
Restricted	10,221,338
Unrestricted (deficit)	(13,697,580)
<b>Total net position</b>	<b>\$ 1,675,333</b>

See accompanying Notes to the Basic Financial Statements

**Sonoma County Library**

**Statement of Activities**

**For the Fiscal Year Ended June 30, 2018**

<b>Program expenses</b>	
Personnel	\$ 15,276,995
Materials	3,158,459
Depreciation	326,859
Other program expenses	5,108,270
Total program expenses	23,870,583
<b>Program revenues</b>	
Operating grants and contributions	324,385
Charges for fines, fees and services	411,904
Total program revenues	736,289
Net program expenses	23,134,294
<b>General revenues</b>	
Property taxes	19,234,497
Sales tax - Measure Y	12,110,478
Investment income, net	163,057
Intergovernmental	82,773
Other	124,042
Total general revenues	31,714,847
Increase in net position	8,580,553
<b>Net position (deficit) at June 30, 2017, as adjusted (Note N)</b>	<b>(6,905,220)</b>
<b>Net position at June 30, 2018</b>	<b>\$ 1,675,333</b>

See accompanying Notes to the Basic Financial Statements

Sonoma County Library

**Balance Sheet - Governmental Funds**

June 30, 2018

	Special Revenue Funds						Total Governmental Funds
	General Fund	G.E. Cromwell	Leoleon Hopkins	Gifts & Donations	Measure Y	Other	
<b>Assets</b>							
Cash and investments	\$12,540,324	\$ 759,619	\$ 997,460	\$ 860,271	\$ 5,027,512	\$ 1,058,767	\$21,243,953
Accounts receivable	53,181	-	-	10,500	61	-	63,742
Sales tax receivable	-	-	-	-	1,726,457	-	1,726,457
Other assets	136,420	-	-	-	80,430	10,000	226,850
<b>Total assets</b>	<b>\$12,729,925</b>	<b>\$ 759,619</b>	<b>\$ 997,460</b>	<b>\$ 870,771</b>	<b>\$ 6,834,460</b>	<b>\$ 1,068,767</b>	<b>\$23,261,002</b>
<b>Liabilities and fund balances</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 938,204	\$ -	\$ -	\$ 6,327	\$ 302,027	\$ 1,385	\$ 1,247,943
<b>Fund balances</b>							
<b>Committed:</b>							
Capital improvement	273,657	-	-	-	-	-	273,657
Stabilization fund	3,819,250	-	-	-	-	-	3,819,250
Assigned	2,205	-	-	-	-	-	2,205
<b>Restricted for:</b>							
Petaluma	-	759,619	997,460	71,711	-	470,799	2,299,589
Library System	-	-	-	385,472	-	340,218	725,690
Southwest Santa Rosa - Roseland	-	-	-	152,307	-	-	152,307
Sonoma Valley	-	-	-	15,763	-	82,949	98,712
Cloverdale	-	-	-	7,413	-	70,563	77,976
Healdsburg	-	-	-	18,920	-	59,677	78,597
Santa Rosa - Northwest	-	-	-	57,884	-	-	57,884
Santa Rosa - Central	-	-	-	31,292	-	27,582	58,874
Literacy	-	-	-	37,676	-	-	37,676
Rohnert Park	-	-	-	21,283	-	-	21,283
Santa Rosa - Rincon Valley	-	-	-	28,187	-	-	28,187
Wine Library	-	-	-	-	-	15,097	15,097
History & Genealogy	-	-	-	19,341	-	-	19,341
Windsor	-	-	-	9,660	-	-	9,660
Guerneville	-	-	-	4,312	-	-	4,312
Sebastopol	-	-	-	3,223	-	497	3,720
Measure Y	-	-	-	-	6,532,433	-	6,532,433
Unassigned	7,696,609	-	-	-	-	-	7,696,609
<b>Total fund balances</b>	<b>11,791,721</b>	<b>759,619</b>	<b>997,460</b>	<b>864,444</b>	<b>6,532,433</b>	<b>1,067,382</b>	<b>22,013,059</b>
<b>Total liabilities and fund balance</b>	<b>\$12,729,925</b>	<b>\$ 759,619</b>	<b>\$ 997,460</b>	<b>\$ 870,771</b>	<b>\$ 6,834,460</b>	<b>\$ 1,068,767</b>	<b>\$23,261,002</b>

See accompanying Notes to the Basic Financial Statements

**Sonoma County Library**

**Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position**

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**June 30, 2018**

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Total fund balances - governmental funds	\$ 22,013,059
Total net position reported in the statement of net position is different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	
Capital assets, net	5,151,575
Deferred outflows of resources are reported in the statement of net position but not reported in the governmental funds	
	5,633,303
Deferred inflows of resources are reported in the statement of net position but not reported in the governmental funds	
	(1,157,521)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:	
Health reimbursement account liability	(44,981)
Compensated absences	(1,140,188)
Net pension liability	(14,055,294)
Net obligation for post-employment benefits	(14,724,620)
Total net position	\$ 1,675,333

See accompanying Notes to the Basic Financial Statements



**Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds**

**For the Fiscal Year Ended June 30, 2018**

	Special Revenue Funds						Total Governmental Funds
	General Fund	G.E. Cromwell	Leoleon Hopkins	Gifts & Donations	Measure Y	Other	
<b>Revenues</b>							
Property taxes	\$ 19,234,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,234,497
Sales tax	-	-	-	-	12,110,478	-	12,110,478
Fines, fees and services	411,904	-	-	-	-	-	411,904
Intergovernmental	82,773	-	-	-	-	-	82,773
Investment income, net	107,826	10,131	13,303	9,072	12,112	10,613	163,057
Grants and contributions	5,032	-	-	280,254	-	39,099	324,385
Other	124,042	-	-	-	-	-	124,042
<b>Total revenues</b>	<b>19,966,074</b>	<b>10,131</b>	<b>13,303</b>	<b>289,326</b>	<b>12,122,590</b>	<b>49,712</b>	<b>32,451,136</b>
<b>Expenditures</b>							
Current							
Salaries and benefits	12,605,430	-	-	-	2,936,130	-	15,541,560
Operating	5,335,817	-	-	125,064	2,781,528	24,320	8,266,729
Capital outlay	20,942	-	-	-	1,669,018	15,095	1,705,055
<b>Total expenditures</b>	<b>17,962,189</b>	<b>-</b>	<b>-</b>	<b>125,064</b>	<b>7,386,676</b>	<b>39,415</b>	<b>25,513,344</b>
<b>Excess of revenues over expenditures</b>	<b>2,003,885</b>	<b>10,131</b>	<b>13,303</b>	<b>164,262</b>	<b>4,735,914</b>	<b>10,297</b>	<b>6,937,792</b>
<b>Fund balance at June 30, 2017</b>	<b>9,787,836</b>	<b>749,488</b>	<b>984,157</b>	<b>700,182</b>	<b>1,796,519</b>	<b>1,057,085</b>	<b>15,075,267</b>
<b>Fund balance at June 30, 2018</b>	<b>\$ 11,791,721</b>	<b>\$ 759,619</b>	<b>\$ 997,460</b>	<b>\$ 864,444</b>	<b>\$ 6,532,433</b>	<b>\$ 1,067,382</b>	<b>\$ 22,013,059</b>

See accompanying Notes to the Basic Financial Statements

**Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances - Governmental Funds to the Statement of Activities**

**For the Fiscal Year Ended June 30, 2018**

Net change in fund balances - total governmental funds:	\$ 6,937,792
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlay (\$1,705,055) exceeded depreciation expense (\$326,859) in the current period.	1,378,196
Certain pension expenses in the statement of activities do not require the the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.	(54,574)
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.	(142,755)
Certain health reimbursement account expenses in the statement of activities do not require the use of current financial resources, and therefore are not reported as an expenditure in governmental funds.	(44,981)
The change in the net obligation for post-employment benefits in the statement activities does not require the use of current financial resources and therefore, is not reported as an expenditure in governmental funds.	506,875
<b>Increase in net position of governmental activities</b>	<b>\$ 8,580,553</b>

**Notes to the Basic Financial Statements**

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**For the Fiscal Year Ended June 30, 2018**

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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
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Capital Assets
- Note F. Defined Benefit Pension Plan
- Note G. Other Post Employment Benefits
- Note H. Deferred Compensation Plan
- Note I. Commitments
- Note J. Long-term Obligations
- Note K. Insurance
- Note L. Related Party Transactions
- Note M. Measure Y Sales Tax Revenues
- Note N. Beginning Net Position Adjustment
- Note O. Future Governmental Accounting Standards

**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 of 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. A full copy of the amended and restated JPA can be found on the Library's website at [www.sonomacountylibrary.org](http://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 Sonoma County Board of Supervisors, one appointee each from the cities of Cotati, Cloverdale, Healdsburg, Petaluma, Rohnert Park, 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 Sonoma County 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. The effect of inter-fund 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.

**Note B. Summary of Significant Accounting Policies** (continued)*Government-wide and Fund Financial Statements* (continued)

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.

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 ninety 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.

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

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

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.

Measure Y Fund

The Measure Y fund is a major fund that was established after the Sonoma County Library Sales Tax Initiative was passed in November 2016. The 1/8 cent sales tax began on April 1, 2017 and funds are exclusively used to supplement existing funding for library operations, maintaining and enhancing library hours, programs, acquisitions and, construction and modernization.

Other special revenue funds of the Library are 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 needed. 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 asset's 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.

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

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 the end of the fiscal year. 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.

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.



**Note B. Summary of Significant Accounting Policies** (continued)*Deferred Outflows/Inflows of Resources* (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element 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 and other postemployment benefit plan qualifies for reporting in this category. Refer to Note F and 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,*" consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing 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.

*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.

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

*Fund Balances – Governmental Funds (continued)*

*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.

*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.

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

*Capital improvement* – 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.

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

*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 program 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 statement of actives.

**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 for 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.

*Sales Tax Revenue and Receivable*

Sales tax receivable represents the sales tax amount allocated to the Library through Measure Y as discussed in Note M below, but uncollected at year end. Due to the nature of the sales tax receivable, management does not consider any portion uncollectible.

Sales tax revenues are presented net of administrative assessments by the State Board of Equalization in the amount of \$526,640.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

*New Accounting Pronouncements*

The following Governmental Standards Board (GASB) Statement has been implemented in the current financial statements:

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 employees. 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.
Statement No. 85	“Omnibus 2017”	Effective for reporting periods beginning after June 15, 2017, this statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This also addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

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

*Rent Expense*

Rent expense for the year ended June 30, 2018 amounted to \$368,475.

*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 1<sup>st</sup> 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.

**Note D. Cash and Investments**

The Library follows the practice of pooling substantially all 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.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2018**

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

*Investment Guidelines and Authorized Investments (continued)*

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)

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, 2018 are classified in the accompanying statement of net position as follows:

Investment in Sonoma County Treasury Pool	\$21,127,888
<u>Other cash</u>	<u>116,065</u>
	<u>\$21,243,953</u>

*Investment in County Treasurer's Pooled Cash*

As of June 30, 2018, the Library's investments in the Treasury Pool managed by the County Treasurer has 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, 2018 will be disclosed in the County of Sonoma's June 30, 2018 Comprehensive Annual Financial Report.

**Note D. Cash and Investments (continued)***Investment in County Treasurer's Pooled Cash (continued)*

The net decrease in the fair value of the Library's investments in the Treasury Pool during fiscal year June 30, 2018, was \$63,367 and is included in investments earnings. This amount takes into account all changes in fair value (including purchase and sales) that occurred during the year. The net unrealized loss on investments held at year end amounted to (\$118,846). 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.

The net decrease in fair value of investments by fund, and included in revenue – investment income (loss) for the year ended June 30, 2018, is as follows:

General Fund	\$ (25,981)
G.E. Cromwell Fund	(347)
Leoleon Hopkins Fund	(455)
Gifts & Donations Fund	(1,883)
Measure Y Fund	(30,909)
Other Funds	(3,792)
	\$ (63,367)

*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, 2018, the Library had no investments other than the cash and investments pooled with the County Treasury.

*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.



**Note D. Cash and Investments (continued)***Custodial Credit Risk (continued)*

The California Government code and the County's invest 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*

The Library maintains other cash in a financial institution insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). At times, the cash balance may exceed the FDIC insurance coverage amount. Amounts in excess of the FDIC insurance coverage are collateralized. At June 30, 2018 the bank balance of cash held by the financial institution did not exceed the federal deposit insurance limit.

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

**Note E. Capital Assets**

Capital asset activity for the governmental activities for the year ended June 30, 2018, was as follows:

	July 1, 2017	Increase	Decrease	June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 207,000	\$ -	\$ -	\$ 207,000
Capital assets, being depreciated:				
Buildings and improvements	4,144,074	495,428	-	4,639,502
Vehicles	149,941	160,019	-	309,960
Furnishings and equipment	1,991,722	1,049,608	-	3,041,330
<b>Total capital assets being depreciated</b>	<b>6,285,737</b>	<b>1,705,055</b>	<b>-</b>	<b>7,990,792</b>
Less accumulated depreciation for:				
Buildings and improvements	1,274,937	127,887	-	1,402,824
Vehicles	136,126	6,907	-	143,033
Furnishings and equipment	1,308,295	192,065	-	1,500,360
<b>Total accumulated depreciation</b>	<b>2,719,358</b>	<b>326,859</b>	<b>-</b>	<b>3,046,217</b>
<b>Total capital assets being depreciated, net</b>	<b>3,566,379</b>	<b>1,378,196</b>	<b>-</b>	<b>4,944,575</b>
<b>Total capital assets, net</b>	<b>\$3,773,379</b>	<b>\$1,378,196</b>	<b>\$ -</b>	<b>\$ 5,151,575</b>

Depreciation expense relating to governmental activities amounted to \$326,859 for the year ended June 30, 2018.

**Note F. Defined Benefit Pension 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.

**Note F. Defined Benefit Pension Plan (continued)***Plan Description (continued)*

In September 2012, Governor Brown signed the Public Employer 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 (PEPRA). As of June 30, 2018, there were 103 covered employees under the 2.0% at 55 (Classic) plan and 92 covered employees under the 2.0% at 62 (PEPRA) plan.

*Funding Policy*

Classic participants are required to contribute 7% of their annual covered salary. PEPRA plan participants are required to contribute 8.25% 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, 2018, was 11.528% for the annual covered payroll and was established by PERS in connection with the June 30, 2016 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, 2018, the Library reported \$14,055,294 for its net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the Library recognized pension expense of \$1,935,195 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, 2018, the Library reported deferred outflows of resources in the amount of \$4,901,588 of which \$1,880,621 related to contributions subsequent to the measurement date. \$3,020,967 of deferred outflows and \$1,157,521 of deferred inflows relate 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.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2018**

**Note F. Defined Benefit Pension Plan (continued)**

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

The \$1,880,621 of deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of expense) as follows:

<u>Year ending June 30,</u>	<u>Deferred (inflow) Outflow</u>
2019	\$ 401,394
2020	1,380,060
2021	466,824
2022	<u>(384,832)</u>
	<u>\$ 1,863,446</u>

*Actuarial Assumptions*

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the entry age normal actuarial cost method. The assumptions included in the June 30, 2017, 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) 3.00% 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 as of the June 30, 2017 measurement date was 7.15%. 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, 2017, the measurement date, using a discount rate that is 1-percentage point lower (6.15%) would result in a net pension liability of \$21,832,278 and using a discount rate that is 1-percentage point higher (8.15%) would result in a net pension liability of \$7,503,626 for that same measurement date.

**Note G. Other Postemployment Benefits**

In addition to the pension benefits described in Note F, the Library provides other postemployment benefits (“OPEB”) for retired employees through the California Employers’ Retirement Benefit Trust fund.

*Plan Description*

The Library, through an agent multiple-employer plan, 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.

*Benefits Provided*

The Library contributes toward post-retirement benefits for employees who retire under CalPERS and choose medical coverage under plans offered to County of Sonoma employees. The Library pays a portion of the monthly medical premiums, up to a maximum of 80%, 82%, or 84%, depending on the employee’s employment tier while working. These percentages are pro-rated if the retiring employee worked less than full-time. The retired employee is responsible for paying the balance of the premiums. This benefit is provided by Library Commission approval of the employee labor union Memorandum of Understanding (MOU).

Benefits are paid for the lifetime of the retired employee, as long as the retiree remains covered under employer-sponsored health plans and pays their share of the monthly premiums. For employees hired before July 1, 1997, a spouse or domestic partner is also covered. For employees hired between July 1, 1997 and November 5, 2013, a spouse or domestic partner is covered if the retiree worked at least 20 years. For all other retirees, dependents may be covered if the retiree pays the premiums. Benefits for employees hired after November 5, 2013 cease at age 65.

The Library also reimburses covered retirees for Medicare Part B premiums. Retired employees may be covered under the Library’s dental and vision plans, but must pay the entire premium for those coverages.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2018**

**Note G. Other Postemployment Benefits (continued)**

*Employees Covered by Benefit Terms*

As of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	88
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	189
	277

*Contributions*

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 fund benefits as determined annually by the Library Commission. For the year ended June 30, 2018, the Library contributed \$726,328 which includes the current pay-as-you-go portion of the current premium, plus an additional \$150,000 which represented 7.96 percent of covered-employee payroll. OPEB plan members receiving benefits are currently not required to contribute.

*Net OPEB Liability*

The Library's net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.0 percent
Investment rate of return	5.0 percent
Healthcare cost trend rates	4.0 percent

Mortality rates were based off the 2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous" report.

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

**Note G. Other Postemployment Benefits (continued)**

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the flowing table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	24%	5.25%
Fixed income	39	0.99
Treasury securities	26	0.45
Real estate trusts	8	4.50
Commodities	3	3.90
	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the total OPEB liability was 5 percent. The projection of cash flows used to determine the discount rate assumed that Library contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was project to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

**Note G. Other Postemployment Benefits (continued)***Changes in the Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability {a}	Plan Fiduciary Net Position {b}	Net OPEB Liability {a}-(b)
Balances at June 30, 2017	\$ 15,639,580	\$ 1,139,800	\$ 14,499,780
Changes for the year:			
Service Cost	308,811	-	308,811
Interest	765,727	-	765,727
Difference between expected and actual experience	-	-	-
Contributions - employer	-	800,044	(800,044)
Net investment income	-	50,241	(50,241)
Benefit payments	(650,044)	(650,044)	-
Administrative expenses	-	(587)	587
Net changes	424,494	199,654	224,840
Balance at June 30, 2018	<u>\$ 16,064,074</u>	<u>\$ 1,339,454</u>	<u>\$ 14,724,620</u>

*Sensitivity of the net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the Library, as well as what the Library's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4 percent) or 1-percentage-point higher (6 percent) than the current discount rate:

	1% Decrease 4.0 %	Discount Rate 5.0 %	1% Increase 6.0 %
Net OPEB Liability (Asset)	\$ 17,185,952	\$ 14,724,620	\$ 12,737,805



Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

**Note G. Other Postemployment Benefits (continued)**

*Sensitivity of the net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the net OPEB liability of the Library, as well as what the Library's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3 percent) or 1-percentage-point higher (5 percent) than the current healthcare cost rate:

	1% Decrease 3.0 %	Healthcare Cost Trend Rates 4.0 %	1% Increase 5.0 %
Net OPEB Liability (Asset)	\$ 13,302,866	\$ 14,724,620	\$ 16,462,774

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2018 the Library recognized OPEB expense of \$224,840. At June 30, 2018 the Library reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Library contributions subsequent to the measurement date	731,715	-
Total	\$ 731,715	\$ -

Amounts reported as deferred outflow of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ 1,347
2020	1,347
2021	1,347
2022	1,346
2023	-
Thereafter	-

**Note G. Other Postemployment Benefits (continued)***Retiree Health Reimbursement Account*

For employees hired or rehired after November 6, 2013, the Library recognizes a liability for future qualified post-employment health related expenditure reimbursements. Eligibility for this benefit is based upon completion of two full years of consecutive regular service with the Library and for part-time employees to be scheduled to work at least 50% of the amount of hours regularly worked by full-time employees. Employees earn a prorated share of the benefit up to \$1,200 a year. Once an employee has worked the two full years of service an initial accrual is made and there are no further service requirements. Upon retirement from the Library and application for service retirement benefits or disability retirement benefits from the California Public Employees' System ("CalPERS"), participants ages 55 or older may submit claims for reimbursement for eligible expenses. Eligible reimbursement requests are administered by a third party.

**Note H. 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. Additionally, in lieu of Social Security and in accordance with FICA requirements, the Library uses these plans to provide a deferred compensation plan for part-time, seasonal and temporary employees who are not eligible for CalPERS. The contribution rates are 4.5% for the employer and 3% for the employee.

The Plans' assets are held by CalPERS and Nationwide Insurance 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 I. Commitments***Operating Leases*

The Library leases copiers for its branches under an operating lease agreement that expires in 2023. The minimum monthly lease payment for the copiers amounts to approximately \$3,131, which includes service.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2018**

**Note I. Commitments (continued)**

*Operating Leases (continued)*

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 \$432. Additionally, on July 1, 2017, the Library entered into a 5-year leases for its Occidental library facilities. The minimum monthly lease payments amount to \$1,140 for this lease.

On April 1, 2017, the Library entered into a 6-year lease for an office building in Rohnert Park for its administrative headquarters. The minimum monthly lease payments starting on October 1, 2017 amount to \$33,125.

Future minimum lease payments under the above referenced operating leases as of June 30, 2018, were as follows:

Year ending June 30,	
2019	\$ 428,236
2020	434,397
2021	447,517
2022	461,037
2023	457,828
Thereafter	153,604
	<u>\$ 2,382,619</u>

**Note J. Long-Term Obligations**

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

	Balance			Balance	Amounts
	July 1, 2017	Increase	Decrease	June 30, 2018	Due Within One Year
Compensated absences	\$ 997,433	\$ 142,755	\$ -	\$ 1,140,188	\$ -

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2018**

**Note K. 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 L. Related Party Transactions**

During the year ended June 30, 2018, the Library contracted with the County of Sonoma for services related to maintaining the Library's general ledger, legal advice, project management and for access to service yards and fuel. Total expenditures for such services amounted to \$193,124.

**Note M. Measure Y Sales Tax Revenues**

The Measure Y Special Revenue Fund was created in November 2016 with the passage of the Sonoma County Library Maintenance, Restoration and Enhancement Act to account for the related sales tax revenues and expenditures of Measure Y. Measure Y is funded by a one-eighth of one percent (0.125%) sales tax in Sonoma County and created a stable funding source to supplement existing funding for library operations.

According to the Sonoma County Library Maintenance, Restoration and Enhancement Act sales tax revenue should be used for the following:

- Maintaining and enhancing library hours and programs
- Reversing the deterioration in services at existing libraries
- Upgrading and maintaining facilities services and collections throughout the incorporated and unincorporated territory of the County

**Note N. Beginning Net Position Adjustment**

During the fiscal year ended June 30, 2018, the Library implemented the provisions of GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). Refer to Note G for additional OPEB information. GASB 75 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 recorded a beginning balance adjustment of \$6,943,652 at July 1, 2017 to reduce net position for the prior period's actuarially determined OPEB liability.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

**Note N. Beginning Net Position Adjustment (continued)**

The restatement of net position is summarized as follows:

Net position at July 1, 2017 as previously stated	\$ 38,432
Net other postemployment benefits liability adjustment	(6,943,652)
<u>Net position (deficit) at July 1, 2017, as restated</u>	<u>\$ (6,905,220)</u>

**Note O. Future Governmental Accounting Standards**

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

Statement No. 83	“Certain Asset Retirement Obligations”	This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
Statement No. 87	“Leases”	Effective for reporting periods beginning after December 15, 2019, this statement better meets the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

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

**Required Supplementary Information**

Sonoma County Library

**Schedule of Revenues, Expenditures and Changes in Fund Balance-  
Budget and Actual - General Fund**

For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 18,242,000	\$ 18,242,000	\$ 19,234,497	\$ 992,497
Fines, fees and services	430,000	430,000	411,904	(18,096)
Intergovernmental	226,000	226,000	82,773	(143,227)
Investment earnings	24,000	24,000	107,826	83,826
Grants and contributions	15,000	15,000	5,032	(9,968)
Other revenue	40,000	40,000	124,042	84,042
Total revenues	18,977,000	18,977,000	19,966,074	989,074
<b>Expenditures</b>				
Current				
Salaries and employee benefits	13,550,000	13,550,000	12,605,430	944,570
Operating	5,406,000	5,406,000	5,335,817	70,183
Capital outlay	21,000	21,000	20,942	58
Total expenditures	18,977,000	18,977,000	17,962,189	1,014,811
<b>Excess of revenues over expenditures</b>	-	-	2,003,885	2,003,885
<b>Net change in fund balance</b>	\$ -	\$ -	2,003,885	\$ 2,003,885
<b>Fund balance at beginning of year</b>			9,787,836	
<b>Fund balance at end of year</b>			\$ 11,791,721	

See accompanying Note to the Required Supplemental Information- Budget and Actual

Sonoma County Library

**Schedule of Revenues, Expenditures and Changes in Fund Balance-  
Budget and Actual - Measure Y Special Revenue Fund**

For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Sales tax	\$ 11,500,000	\$ 11,500,000	\$ 12,110,478	\$ 610,478
Investment earnings	-	-	12,112	12,112
Total revenues	11,500,000	11,500,000	12,122,590	622,590
<b>Expenditures</b>				
Current				
Salaries and employee benefits	4,456,000	4,456,000	2,936,130	1,519,870
Operating	3,631,000	3,631,000	2,781,528	849,472
Capital outlay	2,743,000	2,743,000	1,669,018	1,073,982
Total expenditures	10,830,000	10,830,000	7,386,676	3,443,324
<b>Excess of revenues over expenditures</b>	670,000	670,000	4,735,914	4,065,914
<b>Net change in fund balance</b>	\$ 670,000	\$ 670,000	4,735,914	\$ 4,065,914
<b>Fund balance at beginning of year</b>			1,796,519	
<b>Fund balance at end of year</b>			\$ 6,532,433	

See accompanying Note to the Required Supplementary Information - Budget and Actual



**Note to the Required Supplementary Information – Budget and Actual**

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**For the Fiscal Year Ended June 30, 2018**

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**Note A. Budgetary Accounting**

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. Budgets are adopted on a basis consistent with generally accepted accounting principles.

Sonoma County Library

**Defined Benefit Pension Plan Information**

Measurement period ended June 30,	2017	2016
<b>Total Pension Liability:</b>		
Service Cost	\$ 1,633,193	\$ 1,423,654
Interest	4,482,004	4,453,116
Difference between expected and actual experience	(1,445,196)	93,423
Changes in Benefit Terms	-	-
Changes in Assumptions	3,272,906	-
Benefit Payments including refunds of employee contributions	(3,387,906)	(3,281,136)
<b>Net Change in Total Pension Liability</b>	<b>4,555,001</b>	<b>2,689,057</b>
Total Pension Liability - Beginning	61,735,027	59,045,970
<b>Total Pension Liability - Ending (A)</b>	<b>\$ 66,290,028</b>	<b>\$ 61,735,027</b>
<b>Plan Fiduciary Net Position:</b>		
Contributions - Employer	\$ 1,653,431	\$ 1,352,442
Contributions - Employee	659,831	578,623
Net Investment Income	5,313,477	277,617
Other Miscellaneous Income	-	-
Benefit Payments including refunds of employee contributions	(3,387,906)	(3,281,136)
Plan to Plan Resource Movement	-	-
Administrative Expense	(70,968)	(29,966)
<b>Net Change in Fiduciary Net Position</b>	<b>4,167,865</b>	<b>(1,102,420)</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>48,066,869</b>	<b>49,169,289</b>
<b>Plan Fiduciary Net Position - Ending (B)</b>	<b>\$ 52,234,734</b>	<b>\$ 48,066,869</b>
<b>Plan Net Pension Liability / (Asset) - (a)-(b)</b>	<b>\$ 14,055,294</b>	<b>\$ 13,668,158</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>78.80%</b>	<b>77.86%</b>
Covered-Employee Payroll	\$ 8,244,700	\$ 7,818,837
<b>Plan Net Pension Liability / (Asset) as a Percentage of Covered-Employee Payroll</b>	<b>170.48%</b>	<b>174.81%</b>

Sonoma County Library

**Schedule of Changes in the Net OPEB Liability**

Report date ended June 30,	2018
<b>Total OPEB liability:</b>	
Service Cost	\$ 308,811
Interest	765,727
Changes in Benefit Terms	-
Difference between actual and expected experience	-
Changes in Assumptions	-
Benefits paid to retirees	(650,044)
Net change in Total OPEB liability	<b>424,494</b>
Total OPEB Liability - Beginning	15,639,580
Total OPEB Liability - Ending (A)	<b>\$ 16,064,074</b>
<b>Plan Fiduciary Net Position:</b>	
Contributions - Employer	\$ 800,044
Net Investment Income	50,241
Benefits paid to retirees	(650,044)
Administrative Expense	(587)
Net Change in Plan Fiduciary Net Position	199,654
Plan Fiduciary Net Position - Beginning	1,139,800
Plan Fiduciary Net Position - Ending (B)	<b>\$ 1,339,454</b>
Net OPEB Liability - Ending (A)-(B)	<b>\$ 14,724,620</b>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<b>8.34%</b>
Covered-Employee Payroll	\$ 9,128,000
Net OPEB liability as a percentage of covered-employee payroll	<b>161.31%</b>

**Compliance**



**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***

**Independent Auditor's Report**

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 statement 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"), as of and for the year ended June 30, 2018, and the notes to the financial statements which collectively comprise the Library's basic financial statements and have issued our report thereon dated January 16, 2019.

**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 opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Library'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.

**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* (continued)**

**Independent Auditor's Report (continued)**

**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*.

**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 Library'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 Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Perenti & Brink LLP*

Santa Rosa, California  
January 16, 2019