

Sonoma County Library
Basic Financial Statements
For the Year Ended June 30, 2008

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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"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Sonoma County Library** as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2008, on our consideration of **Sonoma County Library's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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* and important in assessing the results of our audit.

The management's discussion and analysis ("MD&A") on pages 3 through 7 and the budgetary comparison information on pages 32 and 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BEELS SOPER LLP

Petaluma, California
December 1, 2008

Management's Discussion and Analysis

June 30, 2008

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 ended June 30, 2008. We encourage our readers to consider the information presented here in conjunction with the Library's basic financial statements (pages 9 to 13) and the accompanying notes to the basic financial statements (pages 14 to 30).

Financial Highlights

The financial statements included in this report provide insight into the financial status of the Library for the year ended June 30, 2008. Based on the operations of the year ended June 30, 2008, the Library's net assets increased by \$155,386, resulting in ending net assets of \$10,616,947.

Total spending for all governmental activities was \$15,825,276 and \$14,723,285 for the years ended June 30, 2008 and 2007, respectively, which was \$1,102,330 and \$1,527,194 less than the grants, contributions, fines, fees, services, property taxes, investment earnings, intergovernmental, and other revenue received for this governmental activity, totaling \$16,927,606 and \$16,250,479 respectively.

The interest earned on cash and investments in the County of Sonoma Treasury ("County Treasury") was \$422,995 and \$398,236 for the years ended June 30, 2008 and 2007, respectively. This increase is primarily related to an increase from 2007 to 2008 in the balance of cash and investments pooled with the County Treasury in the amount of \$936,174.

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 statements are designed to provide readers with a broad view of the Library's finances, in a manner similar to private-sector business.

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

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements – 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.

June 30, 2008

Overview of the Financial Statements (continued)*Fund Financial Statements – Governmental Funds* (continued)

Governmental funds are used to account for essentially the same functions reported in the 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.

The Library adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with its budget.

The governmental funds financial statements can be found on pages 11 to 13 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 to 30 of this report.

Required Supplementary Information

Schedules presenting budgetary comparison information for the Library's governmental funds can be found on pages 32 and 33 of this report.

Management's Discussion and Analysis

June 30, 2008

Net Assets	June 30, 2007	June 30, 2008	Percentage Change
Cash and investments in County Treasury	\$ 10,575,273	\$ 11,511,447	8.9 %
Other current assets	48,730	63,744	30.8 %
Capital assets	1,683,297	1,689,742	0.4 %
Total assets	12,307,300	13,264,933	7.8 %
Current liabilities	1,127,390	908,023	(19.5) %
Non-current liabilities	718,349	1,739,963	142.2 %
Total liabilities	1,845,739	2,647,986	43.5 %
Invested in capital assets, net of related debt	1,669,657	1,686,851	1.0 %
Unrestricted	8,791,904	8,930,096	1.6 %
Total net assets	\$ 10,461,561	\$ 10,616,947	1.5 %

The largest portion of the Library's net assets reflects the cash and investments with the County Treasury. The balance of cash and investments in the County Treasury increased \$936,174 primarily attributable to the excess of revenues over expenses in the amount of \$155,386, and an increase in unfunded net obligations for other post employment benefits in the amount of \$981,262 for the year ended June 30, 2008. The increase in non-current liabilities reflects the increase in the unfunded net obligation for other post employment benefits.

Changes in Net Assets	Year Ended June 30, 2007	Year Ended June 30, 2008	Percentage Change
Revenues:			
Program revenues	\$ 894,741	\$ 1,005,049	12.3 %
General revenues			
Property taxes	13,790,192	14,534,021	5.4 %
Investment earnings	398,236	422,995	6.2 %
Intergovernmental	1,068,853	857,060	(19.8) %
Other revenue	98,457	108,481	10.2 %
Total revenue	16,250,479	16,927,606	4.2 %
Expenses			
Personnel	\$ 10,375,080	\$ 12,151,801	17.1 %
Materials	1,628,544	1,706,406	4.8 %
Depreciation	183,027	212,671	16.2 %
Other program expenses	2,539,789	2,701,342	6.4 %
Total expenses	14,726,440	16,772,220	13.9 %
Increase in net assets	\$ 1,524,039	\$ 155,386	(89.8) %

June 30, 2008

Changes in Net Assets (continued)

The change in revenues from year to year was primarily due to a \$110,308 increase in program revenues, a \$743,829 increase in property tax revenues, a \$24,759 increase in investment earnings, a \$211,793 decrease in intergovernmental revenues, and a \$10,024 increase in other revenue. The increase in investment earnings is primarily attributable to the \$936,174 increase in cash invested in the County Treasury. The three significant increases in expenses during the year ended June 30, 2008, were additional salary and benefit costs of \$1,776,721 (including a 3.8% cost of living adjustment and other post employment benefit accrual), an increase of \$77,862 in Library books and materials expenditures and an increase of \$161,552 in other program expense.

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, 2008 and 2007, the Library's general fund reported a fund balance of \$7,513,318 and \$6,719,224, respectively. This increase is primarily attributable to a \$743,829 increase in property tax revenues, a \$24,759 increase in investment earnings, and a \$22,213 increase in other revenue.

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 \$692,700 to \$702,426 for the year ended June 30, 2008. Investment earnings amounted to \$31,380 and the fund expended \$21,654 related to capital outlays for the year ended June 30, 2008.
- 2) Leoleon Hopkins Fund – fund balance increased from \$943,396 to \$974,887 for the year ended June 30, 2008. Investment earnings amounted to \$41,033 and the fund expended \$9,542 related to capital outlays for the year ended June 30, 2008.
- 3) Gifts & Donations Fund – fund balance increased from \$713,630 to \$865,557 for the year ended June 30, 2008. The fund experienced an increase in investment earnings and grants and contributions in the amount of \$54,328 from year to year.
- 4) Other Funds – fund balance increased from \$498,779 to \$613,871 for the year ended June 30, 2008. The fund experienced an increase in total revenues of \$50,857, primarily attributable to an increase of \$4,109 in investment earnings and an increase of \$46,748 in grants and contributions.

There were no transfers between the special revenue funds and the general fund for the year ended June 30, 2008.

General Fund Budgetary Highlights

The Library's budget was revised twice during the year ended June 30, 2008. A budgetary adjustment request form dated September 26, 2007, appropriated \$20,000 into in-service training for a Library all staff day and appropriated \$38,000 into books and materials to purchase a downloadable audio collection. The appropriations were for the general fund and were transferred from the professional services category.

June 30, 2008

General Fund Budgetary Highlights (continued)

A budgetary adjustment request form dated January 29, 2008, appropriated \$9,500 into furniture and fixtures for the Leoleon Hopkins fund, \$1,500 into furniture and fixtures for the other funds, and \$24,000 into furniture and fixtures for the G.E. Cromwell fund. The appropriations were transferred from the Library equipment category.

The actual expenditures were under the final budgeted amounts for the year ended June 30, 2008. The actual revenues available for expenditures were over the final budgeted amounts for the year ended June 30, 2008. More detailed information about the Library's budget can be found in Note C of the basic financial statements and in the required supplementary information on pages 32 and 33.

Capital Assets

At June 30, 2008, the Library had \$1,686,851 invested in capital assets, including land, buildings and improvements, vehicles, furnishings and equipment, and capital leases, net of accumulated depreciation of \$3,827,763 and net of related debt of \$2,891. For the year ended June 30, 2008, there were additions of \$219,116 which were primarily related to the acquisition of a facilities maintenance truck, branch improvements and replacement of furnishings. Depreciation expense totaled \$212,671 for the year ended June 30, 2008. More detailed information about the Library's capital assets is presented in Note E of the basic financial statements.

Debt

As of June 30, 2008 and June 30, 2007, the Library had \$758,701 and \$775,825, respectively, in compensated absence liabilities and \$2,891 and \$13,640, respectively, in obligations under capital leases. As of June 30, 2008, the Library had \$981,262 in obligations for other post employment benefits. More detailed information about the Library's debt is presented in Note K and other post employment benefits in Note H of the financial statements.

Economic Factors and Next Year's Budget

The Library Commission and Library Director developed a 20-year Facilities Master Plan during the year ended June 30, 2004. The consulting firm, Group 4 Architecture Research & Planning of South San Francisco prepared needs assessments and completed the formal master plan. The plan was designed to improve the Library's systems in the areas of collections, staffing, automation and technology, and facilities.

The plan also recommends focusing on growth planning to assist the Library in adapting to changes in the decades ahead. During the year ended June 30, 2009, the Library will again appropriate funds from reserves for the implementation of the re-design of three Library branches over a period of eighteen months. The appropriations will primarily be used for design, branch remodels, technology upgrades, furniture and fixtures.

Over the past few years, the Library has been using reserves to fund one-time items in general operations. The Library Commission has adopted a policy requiring maintaining minimum levels of fund balance. The Library's general fund balance in the adopted budget was projected to decrease by \$1,359,381 by the close of June 30, 2009. Of the \$1,359,381 use of general fund balance, \$1,050,000 is estimated to be used in connection with the re-design of the three Library branches mentioned above.

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 Sandra M. Cooper, Library Director, Third and E Streets, Santa Rosa, California 95404.

Basic Financial Statements

Statement of Net Assets

June 30, 2008

Assets

Cash and investments in County Treasury	\$ 11,511,447
Other cash	29,253
Accounts receivable	34,491
Capital assets (net of accumulated depreciation, where applicable)	
Land	207,000
Building and improvements	1,216,431
Furnishings and equipment	173,493
Equipment held under capital leases	472
Vehicles	92,346
Total capital assets, net	1,689,742
Total assets	13,264,933

Liabilities

Amounts payable within one year:	
Accounts payable and accrued liabilities	905,132
Current portion of obligations under capital leases	2,891
Amounts payable after one year:	
Compensated absences	758,701
Net obligation for post-employment benefits	981,262
Total liabilities	2,647,986

Net assets

Invested in capital assets, net of related debt	1,686,851
Unrestricted	8,930,096
Total net assets	\$ 10,616,947

Statement of Activities

Year Ended June 30, 2008

Program Expenses

Library:

Personnel	\$ 12,151,801
Materials	1,706,406
Depreciation	212,671
Other program expenses	2,701,342

Total program expenses	16,772,220
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Program revenues

Operating grants and contributions	380,587
Charges for fines, fees and services	624,462

Total program revenues	1,005,049
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Net program expenses	15,767,171
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General revenues

Property taxes	14,534,021
Investment earnings	422,995
Intergovernmental	857,060
Other revenue	108,481

Total general revenues	15,922,557
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Increase in net assets	155,386
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Net assets at beginning of year	10,461,561
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Net assets at end of year	\$ 10,616,947
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Balance Sheet - Governmental Funds

June 30, 2008

	Special Revenue Funds					Total Governmental Funds
	General Fund	G. E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	
Assets						
Cash and investments in County Treasury	\$ 8,333,543	\$ 724,080	\$ 974,887	\$ 865,693	\$ 613,244	\$ 11,511,447
Other cash	29,253	-	-	-	-	29,253
Accounts receivable	24,491	-	-	-	10,000	34,491
Total assets	\$ 8,387,287	\$ 724,080	\$ 974,887	\$ 865,693	\$ 623,244	\$ 11,575,191
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 873,969	\$ 21,654	\$ -	\$ 136	\$ 9,373	\$ 905,132
Fund balances						
Reserved for:						
Petty cash	1,220	-	-	-	-	1,220
Encumbrances	-	-	-	-	-	-
Unreserved						
Designated for capital outlay	3,911,655	-	-	-	-	3,911,655
Undesignated	3,600,443	702,426	974,887	865,557	613,871	6,757,184
Total fund balances	7,513,318	702,426	974,887	865,557	613,871	10,670,059
Total liabilities and fund balances	\$ 8,387,287	\$ 724,080	\$ 974,887	\$ 865,693	\$ 623,244	
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds						1,686,851
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:						
Compensated absences						(758,701)
Obligation for post-employment benefits						(981,262)
Net assets of governmental activities						\$ 10,616,947

See accompanying Notes to the Basic Financial Statements

Sonoma County Library
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

Year Ended June 30, 2008

	Special Revenue Funds					Total Governmental Funds
	General Fund	G. E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	
Revenues						
Property taxes	\$ 14,534,021	\$ -	\$ -	\$ -	\$ -	\$ 14,534,021
Library fines, fees and services	624,462	-	-	-	-	624,462
Intergovernmental	857,060	-	-	-	-	857,060
Investment earnings	286,358	31,380	41,033	35,502	28,722	422,995
Grants and contributions	42,550	-	-	154,301	183,736	380,587
Other	108,481	-	-	-	-	108,481
Total revenues	16,452,932	31,380	41,033	189,803	212,458	16,927,606
Expenditures						
Current						
Salaries and benefits	11,187,663	-	-	-	-	11,187,663
Operating	4,284,713	-	-	37,876	95,908	4,418,497
Capital outlay	186,462	21,654	9,542	-	1,458	219,116
Total expenditures	15,658,838	21,654	9,542	37,876	97,366	15,825,276
Excess of revenues over expenditures	794,094	9,726	31,491	151,927	115,092	1,102,330
Fund balance at beginning of year	6,719,224	692,700	943,396	713,630	498,779	9,567,729
Fund balance at end of year	\$ 7,513,318	\$ 702,426	\$ 974,887	\$ 865,557	\$ 613,871	\$ 10,670,059

See accompanying Notes to the Basic Financial Statements

Sonoma County Library
**Statement of Revenues, Expenditures and Changes in Fund Balances -
 Governmental Funds (continued)**

Year Ended June 30, 2008

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)	\$ 1,102,330
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 capital outlay (\$219,116) exceeded depreciation (\$212,671) in the current period.	
	6,445
Governmental funds report principal payments and obligations as expenditures in the period incurred. However, no expense is recognized in the statement of activities as the capital leases are recorded as assets with a corresponding liability in the statement of net assets.	
	10,749
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.	
	17,124
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.	
	(981,262)

Increase in net assets of governmental activities (page 10)	\$ 155,386
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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 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. Obligations Under Capital Leases
- Note G. Employees' Retirement Plan
- Note H. Other Post Employment Benefits
- Note I. Deferred Compensation Plan
- Note J. Commitments
- Note K. Long-Term Obligations
- Note L. Insurance
- Note M. Subsequent Events

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. The Library Joint Powers Authority (JPA) is governed by a seven-member Library Commission (the "Commission") which includes five appointees of the Board of Supervisors, and one appointee each from the cities of Petaluma and Santa Rosa. There are currently ten regional libraries, two rural library stations, and the Santa Rosa central library.

The Library is a component unit of the County. The Library is a separate legal entity/agency and presents basic financial statements. The County, which is the primary governing unit, exercises significant financial and management control over the Library. Therefore, the financial data of this component unit has also been combined with the County's annual financial report for the fiscal year ended June 30, 2008. There are no other organizations or agencies whose basic financial statements should be combined and presented with the basic financial statements of the Library.

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

The government-wide financial statements (i.e., the statement of net assets 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 assets 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 assets. 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. Grants and similar items 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 fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 January 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 the Santa Rosa Friends, the Sebastopol Friends, the Petaluma History Room, the Sonoma Lawton gift, the Miller gift, central building donations, special projects, and various miscellaneous gifts. The fund designates gifts which 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 legally restricted to expenditure for particular purposes.

Note B. Summary of Significant Accounting Policies (continued)*Measurement Focus, Basis of Accounting, and Financial Statement Presentation* (continued)

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.

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.

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 assets 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, building, 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.

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 June 30, 2008. 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 assets.

Net Assets – Government-wide Financial Statements

Net assets represent the difference between assets and liabilities. Net assets 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. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Equity – Governmental Funds

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note B. Summary of Significant Accounting Policies (continued)*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 activities columns of the statement of net assets.

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.

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

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Pronouncements

The Governmental Accounting Standards Board ("GASB") issued the following:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in June 2007. This Statement requires that all intangible assets not specifically excluded by the Statement's scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also establishes guidance specific to intangible assets related to amortization. GASB No. 51 is effective for financial statements for periods beginning after June 15, 2009.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments – an amendment of GASB Statements No. 31* in November 2007. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This Statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance. GASB No. 52 is effective for financial statements for periods beginning after June 15, 2008.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* in June 2008. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value. GASB No. 53 is effective for financial statements for periods beginning after June 15, 2009.

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

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 County Board of Supervisors then adopts the budget. 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 and the Board of Supervisors. Annual appropriations that have not been encumbered lapse at year-end.

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations in the General Fund for the year ended June 30, 2008, are as follows:

	Appropriations	Expenditures	Excess
Salaries & Benefits			
Part-time and extra help	\$ 412,000	\$ 562,794	\$ 150,794
Unemployment insurance	5,000	19,981	14,981
Operating Expenses			
Data lines	60,000	61,435	1,435
Maintenance - parts	15,045	27,137	12,092
Memberships	5,411	7,909	2,498
Postage	36,715	46,018	9,303
Printing	50,536	53,331	2,795
County services	43,398	44,094	696
Permits	274	361	87
Legal services	5,797	6,891	1,094
Bookkeeping	8,114	11,596	3,482
Special department studies	87,593	110,812	23,219
Summer reading supplies	15,467	18,762	3,295
Programming	34,956	60,027	25,071
Professional development	15,758	18,279	2,521
Binding	19,026	22,339	3,313
County car expense	25,409	29,008	3,599
Private car expense	54,567	58,569	4,002

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

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 earnings on pooled cash and investments are allocated quarterly to the various funds based on the average daily balances by fund during the quarter.

Investment Guidelines

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
- Collateralized mortgage obligations

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

Cash and investments as of June 30, 2008 are classified in the accompanying statement of net assets as follows:

Cash and investments in County Treasury	\$ 11,511,447
Other cash	29,253
	\$ 11,540,700

Investment in County Treasurer's Pooled Cash

As of June 30, 2008, the Library's investments consisted of \$11,511,447 in the Treasury Pool managed by the County Treasurer, which carry a weighted average maturity of approximately two years. The credit rating and other information regarding the Treasury Pool for the fiscal year ended June 30, 2008 are disclosed in the County of Sonoma's June 30, 2008, Comprehensive Annual Financial Report.

Note D. Cash and Investments (continued)

The net increase in the fair value of the Library's investments in the Treasury Pool during fiscal year June 30, 2008 was \$20,395 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 unrealized gain on investments held at year end amounted to \$14,046. The realized gain and loss 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 increase in fair value of investments by fund, and included in revenue – investment earnings for the year ended June 30, 2008 are as follows:

General Fund	\$ 14,717
G.E. Cromwell Fund	1,288
Leoleon Hopkins Fund	1,751
Gifts & Donations Fund	1,548
Other Funds	1,091
	\$ 20,395

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 to changes in market interest rates. As of June 30, 2008, 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. 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 ended June 30, 2008, the Library had on deposit with financial institutions amounts in excess of the \$100,000 federally insured deposit limit. The carrying amount of cash deposits including amounts in checking accounts was \$29,253 and the bank balance was \$144,141, of which \$100,000 was covered by federal depository insurance.

Notes to the Basic Financial Statements

Year Ended June 30, 2008

Note E. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2008, was as follows:

	July 1, 2007	Increase	Decrease	June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 207,000	\$ -	\$ -	\$ 207,000
Capital assets, being depreciated:				
Building	483,000	166,972	-	649,972
Improvements other than buildings	782,480	-	-	782,480
Vehicles	192,591	18,010	-	210,601
Furnishings and equipment	3,653,391	34,134	(60,199)	3,627,326
Equipment held under capital leases	40,126	-	-	40,126
Total capital assets being depreciated	5,151,588	219,116	(60,199)	5,310,505
Less accumulated depreciation for:				
Building	164,220	9,660	-	173,880
Improvements other than buildings	20,351	21,790	-	42,141
Vehicles	95,666	22,589	-	118,255
Furnishings and equipment	3,365,371	148,661	(60,199)	3,453,833
Equipment under capital leases	29,683	9,971	-	39,654
Total accumulated depreciation	3,675,291	212,671	(60,199)	3,827,763
Total capital assets being depreciated, net	1,476,297	6,445	-	1,482,742
Governmental activities capital assets, net	\$ 1,683,297	\$ 6,445	\$ -	\$ 1,689,742

Depreciation expense relating to governmental activities amounted to \$212,671 for the year ended June 30, 2008, and was charged to program expenses.

Note F. Obligations Under Capital Leases

The Library has entered into certain lease agreements for equipment that expire on various dates through 2009. The equipment and related liability under the capital leases are recorded at the present value of the minimum payments due under the leases. The assets are amortized using the straight-line method over the lesser of their related lease terms or their estimated useful lives. Amortization expense associated with the capital leases amounted to \$9,971 for the year ended June 30, 2008, and is included in depreciation expense. Interest expense associated with the leases amounted to \$942 for the year ended June 30, 2008.

Future minimum capital lease payments required during the year ending June 30, 2009, amount to \$2,891, net of interest in the amount of \$78, and is included in the statement of net assets as amounts payable within one year.

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 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. However, as per the Memorandum of Understanding entered on July 1, 2002 between the Library and the employee's union, the Library agreed to pay 1% of the employee's contribution to PERS on January 1, 2004, and an additional 1% on January 1, 2005. The Library is also required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2008, was 14.912% for the annual covered payroll. The contribution requirements of plan members and the Library are established and may be amended by PERS.

Annual Pension Cost

The Library's annual pension cost of \$1,088,833 for the year ended June 30, 2008, for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The assumptions included in the June 30, 2005, actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% depending on age, service and type of employment, and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period (smoothed market value). PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 23 years for prior unfunded service.

Notes to the Basic Financial Statements

Year Ended June 30, 2008

Note G. Employees' Retirement Plan (continued)*Three Year Trend Information* (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 960	100%	-
June 30, 2007	\$ 968	100%	-
June 30, 2008	\$ 1,089	100%	-

Funded Status and Funding Progress

As of June 30, 2006, the most recent actuarial valuation, the plan was 90.0% funded. The actuarial accrued liability for benefits was \$35,229,365, and the actuarial value of assets was \$31,729,023, resulting in an unfunded actuarial accrued liability ("UAAL") of \$3,500,342. The covered payroll (annual payroll of active employees covered by the plan) was \$6,960,732, and the ratio of the UAAL to the covered payroll was 50.3%.

Schedule of Funding Progress (in thousands):

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability as Percentage of Covered Payroll
6/30/04	26,622	28,814	2,192	92.4	6,189	35.4
6/30/05	29,015	32,219	3,204	90.1	6,308	50.8
6/30/06	31,729	35,229	3,500	90.1	6,961	50.3

PERS Employer Contribution Rate

PERS estimates that employer contributions of 14.965% will be required for the year ended June 30, 2009 and 14.6% for the year ended June 30, 2010.

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.

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. When an employee has been with the Library at least 20 years the Library will contribute to the cost of one dependent. This benefit is provided by Library Commission approval of the employee labor union Memorandum of Understanding.

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, 2008, the Library contributed only the current pay-as-you-go portion of the current premium which amounted to \$422,488. By decision of management and the Library Commission, no amounts were contributed to prefund benefits. 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 of the Library (the “ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal 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	\$ 1,403,750
Adjustment to annual required contribution	-
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Annual OPEB cost	1,403,750
Contributions made	422,488
<hr/>	
Increase in net OPEB obligation	981,262
Net OPEB obligation – beginning of year	-
<hr/>	
Net OPEB obligation – end of year	\$ 981,262

Note H. Other Post Employment Benefits (continued)*Funded Status and Funding Progress*

As of November 1, 2006, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$14,056,973, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability ("UAAL") of \$14,056,973. The covered payroll (annual payroll of active employees covered by the plan) was \$7,439,268, and the ratio of the UAAL to the covered payroll was approximately 189%.

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 November 1, 2006 actuarial valuation, the entry age actuarial cost 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 3%, and an annual healthcare cost trend rate of 4% 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 November 1, 2006, 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 Memorandum of Understanding 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*Operating Leases*

The Library makes total monthly lease payments of approximately \$970 for leases of the premises of its branch libraries in Occidental and Forestville. These payments are reported as operating expenditures. The lease for the Forestville branch is a three year lease that commenced July 1, 2006 with an option to extend the lease for an additional three year term on July 1, 2009. The lease for the Occidental branch is a twelve month lease that was renewed on April 1, 2008 and ceases March 30, 2009. There are no extensions on the Occidental lease. The Library also has five-year operating lease agreements for copiers and other office equipment which require minimum monthly payments amounting to \$540.

Future minimum lease payments as of June 30, 2008, and due through the year ended June 30, 2009 amount to \$9,840.

Rent expense amounted to \$39,711 for the year ended June 30, 2008.

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. The line of credit is primarily used by the Library when its cash balances are depleted prior to receiving property tax revenue from the County. As of June 30, 2008, there were no funds advanced to the Library.

Note K. Long-Term Obligations*Compensated Absences*

Vested vacation and an accrual for vested sick leave for the Library employees amount to \$758,701 at June 30, 2008 and is recorded as a long-term liability within the statement of net assets. Compensated absences are generally liquidated by the General Fund.

Note K. Long-Term Obligations (continued)*Changes in Long-Term Obligations*

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

	Balance July 1, 2007	Increase	Decrease	Balance June 30, 2008	Amounts Due Within One Year
Compensated absences	\$ 775,825	\$ -	\$(17,124)	\$ 758,701	\$ -
Obligations under capital lease	\$ 13,640	\$ -	\$(10,749)	\$ 2,891	\$ 2,891

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. Subsequent Events

During July 2008, the Library entered into eight new leases for office equipment with payments totaling \$1,257 per month through June 2013.

Required Supplementary Information

Sonoma County Library
**Statement of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual - General Fund**

Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 14,388,948	\$ 14,388,948	\$ 14,534,021	\$ 145,073
Library fines, fees and services	607,512	607,512	624,462	16,950
Intergovernmental	823,538	823,538	857,060	33,522
Investment earnings	170,500	170,500	286,358	115,858
Donations	70,000	70,000	42,550	(27,450)
Other	93,372	93,372	108,481	15,109
Total revenues	16,153,870	16,153,870	16,452,932	299,062
Expenditures				
Current				
Salaries and benefits	11,494,832	11,494,832	11,187,663	307,169
Operating	4,271,370	4,271,370	4,284,712	(13,342)
Retirement - long-term debt	18,000	18,000	-	18,000
Capital outlay	295,000	330,000	186,463	143,537
Contingency	25,000	25,000	-	25,000
Total expenditures	16,104,202	16,139,202	15,658,838	480,364
Excess of revenues over expenditures	\$ 49,668	\$ 14,668	794,094	\$ 779,426
Fund balance at beginning of year			6,719,224	
Adjustments from budgetary basis to GAAP			-	
Fund balance at end of year			\$ 7,513,318	

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.

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 the accompanying 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, 2008, which collectively comprise the Library's basic financial statements and have issued our report thereon dated December 1, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's basic 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*.

**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* (continued)**

This report is intended for the information and use of the Library's management, Library Commissioners, County of Sonoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We noted certain matters that we reported to management of the Library in a separate letter dated December 1, 2008.

BEELS SMITH LLP

Petaluma, California
December 1, 2008