

Sonoma County Library
Basic Financial Statements
For the Year Ended June 30, 2016

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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, 2016, 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 qualified audit opinion.

Basis for Qualified Opinion

During the audit we noted material differences between the Library's general ledger and the capital asset subsidiary ledger, which management was unable to reconcile. Additionally, the Library has not performed a physical inventory of its capital asset listing for several years. Given these circumstances, we were not able to obtain sufficient appropriate audit evidence to conclude that the carrying value of the Library's capital assets and related depreciation amounts are stated in accordance with GAAP. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Independent Auditor's Report (continued)

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Sonoma County Library, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 March 24, 2017, 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.

Perenti & Brink LLP

Santa Rosa, California
March 24, 2017

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, 2016.

Financial Highlights

- The liabilities of the Library exceeded its assets at June 30, 2016 by \$2,200,654 (net position deficit). The Library's total net position increased by \$2,275,361 from the previous year.
- As of June 30, 2016, the Library's governmental funds reported combined ending fund balances of \$13,178,569, an increase of \$1,840,728 in comparison with the prior year. Approximately 41% or \$5,397,858 is available for spending at the Library's discretion (unassigned fund balance).
- As of June 30, 2016, the unassigned fund balance for the general fund was \$5,397,858 or 32% of the total general fund expenditures for the year ended June 30, 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction 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 governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and major special revenue funds (G.E. Cromwell, Leoleon Hopkins and Gifts & Donations). Other Funds contains all of the non-major funds aggregated and presented in a single column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the basic financial statement section of this report.

Required Supplementary Information

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, liabilities exceed assets by \$2,200,654 at the close of the most recent fiscal year.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Statements of Net Position	As of June 30, 2015	As of June 30, 2016
Cash and investments	\$ 12,030,898	\$ 13,592,984
Other current assets	108,545	114,481
Capital assets	3,230,885	3,082,535
Total assets	15,370,328	16,790,000
Deferred outflows - pensions	1,192,715	3,426,735
Current liabilities	801,602	528,896
Non-current liabilities	16,844,575	17,690,961
Total liabilities	17,646,177	18,219,857
Deferred inflows - pensions	3,392,881	4,197,532
Invested in capital assets	3,230,885	3,082,535
Restricted	-	3,009,209
Unrestricted	(7,706,900)	(8,292,398)
Total net position (deficit)	\$ (4,476,015)	\$ (2,200,654)
	For the year ended	For the year ended
Statements of Activities	June 30, 2015	June 30, 2016
Revenues		
Program revenues	\$ 893,068	\$ 871,310
Property taxes	16,104,447	17,155,821
Investment earnings	89,026	(1,750)
Intergovernmental	299,300	602,995
Other revenue	97,202	109,736
Total revenue	17,483,043	18,738,112
Expenses		
Personnel	11,800,406	11,561,725
Materials	1,653,069	1,868,725
Depreciation	229,378	229,378
Other program expenses	2,668,638	2,802,923
Total expenses	16,351,491	16,462,751
Increase in net position	1,131,552	2,275,361
Net position (deficit) at beginning of year	6,089,352	(4,476,015)
Change in accounting principle - GASB 68	(11,696,919)	-
Net position deficit at the end of the year	\$ (4,476,015)	\$ (2,200,654)

Governmental Funds

General Fund

As previously mentioned, the Library uses funds to help control and manage money for particular purposes. As of June 30, 2016 and 2015, the Library's general fund reported a fund balance of \$10,033,675 and \$8,269,043, respectively. This increase is primarily attributable to unanticipated revenue of approximately \$1.1 million. The majority (\$1 million) of the unanticipated revenue was due to an increase in property tax revenues and distribution of assets from dissolved redevelopment agencies. On the expenditure side, the Library was under budget in the salaries and benefits area by approximately \$900,000. This was mainly due to many positions going unfilled during the year.

Special Revenue Funds

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

- 1) G.E. Cromwell fund – fund balance decreased from \$749,064 to \$746,271 for the year ended June 30, 2016. The fund had a net investment loss of \$2,793.
- 2) Leoleon Hopkins fund – fund balance decreased from \$983,858 to \$979,933 for the year ended June 30, 2016. The fund had a net investment loss of \$3,925.
- 3) Gifts & Donations Fund – fund balance increased from \$571,118 to \$628,662 for the year ended June 30, 2016. The fund had a net investment loss of \$3,255 and grants and contributions in the amount of \$311,023 for the year. The fund also had expenditures in the amount of \$225,225, and \$25,000 was transferred to other funds.
- 4) Other Funds – fund balance increased from \$764,758 to \$790,029 for the year ended June 30, 2016. The fund had total revenues of \$22,058. The fund had a transfer from the Gifts and Donation Fund in the amount of \$25,000 and transferred \$4,000 to the General Fund.

Management’s Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Capital Assets

The Library’s investment in capital assets as of June 30, 2016, amounted to \$3,082,535 (net of accumulated depreciation). The investment in capital assets includes land, buildings, vehicles, and equipment.

	Library's Capital Assets	
	(Net of Depreciation)	
	2015	2016
Land	\$ 207,000	\$ 207,000
Buildings	2,700,210	2,590,781
Vehicles	48,590	34,539
Equipment	275,085	250,215
	\$ 3,230,885	\$ 3,082,535
Total capital assets, net		

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, 2016 and June 30, 2015, the Library had \$882,018, \$9,876,681, \$6,932,262 and \$803,935, \$9,378,768, \$6,661,872, respectively, in compensated absence liabilities, pension liabilities, and other post-employment benefit liabilities. 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. The Library is currently forming a committee to analyze and formulate a plan to address the other post-employment obligations. 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 four variances between the budget and actuals that are worth noting for the year ended June 30, 2016. First, the actual tax revenue received was approximately \$700,000 higher than the budgeted amount because the property tax revenue increase was greater than anticipated. The actual expense for salary and benefits was lower than the budgeted amount by approximately \$900,000. This variance was the result of numerous permanent positions going unfilled during the year. The third area was for intergovernmental revenue, which was approximately \$375,000 higher than the budgeted amount because of the distribution of assets from dissolved redevelopment agencies. The fourth area was operating expenditures. The actual expenditures for operations were lower than the budgeted amount by approximately \$350,000. This variance was a result of savings in numerous expenditure categories for the year.

Economic Factors and New Year's Budget

The tax revenue for fiscal year 2016-17 is expected to increase at a slightly lower rate than it did in 2015-16 as the economy continues to recover. The increased revenue will allow the Library to address some areas where expenditures had been deferred during the recession. The Library's 2016-17 budget includes allocations for filling two long vacant positions, a Facilities Manager and a Community Engagement Coordinator. Other areas that will be addressed include developing a new facilities master plan, youth education, literacy, advertising and an increase in the materials budget.

The Library Commission also authorized the use of approximately \$1,200,000 of the surplus (fund balance) from fiscal year 2015-16 operations. This will be used for one-time expenses for fiscal year 2016-17 that include an additional deposit to the trust that was set up for the post-employment benefits, a refresh of the Cloverdale and Northwest branch interiors, and upgrading the information technology infrastructure.

Contacting the Library's Financial Management

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

Basic Financial Statements

Sonoma County Library

Statement of Net Position

June 30, 2016

Assets	
Cash and investments	\$ 13,592,984
Accounts receivable	102,362
Other assets	12,119
Capital assets not being depreciated	
Land	207,000
Capital assets (net of accumulated depreciation)	
Building and improvements	2,590,781
Furnishings and equipment	250,215
Vehicles	34,539
Total capital assets, net	3,082,535
Total assets	16,790,000
Deferred Outflows of Resources	
Deferred pensions	3,426,735
Liabilities	
Accounts payable and accrued liabilities	528,896
Noncurrent liabilities:	
Compensated absences	882,018
Net pension liability	9,876,681
Net obligation for post-employment benefits	6,932,262
Total liabilities	18,219,857
Deferred Inflows of Resources	
Deferred pensions	4,197,532
Net Position	
Invested in capital assets	3,082,535
Restricted	3,009,209
Unrestricted (deficit)	(8,292,398)
Total net position (deficit)	\$ (2,200,654)

See accompanying Notes to the Basic Financial Statements

Sonoma County Library

Statement of Activities

For the Fiscal Year Ended June 30, 2016

Program expenses	
Personnel	\$ 11,561,725
Materials	1,868,725
Depreciation	229,378
Other program expenses	2,802,923
Total program expenses	16,462,751
Program revenues	
Operating grants and contributions	403,552
Charges for fines, fees and services	467,758
Total program revenues	871,310
Net program expenses	15,591,441
General revenues	
Property taxes	17,155,821
Investment loss	(1,750)
Intergovernmental	602,995
Other	109,736
Total general revenues	17,866,802
Increase in net position	2,275,361
Net position at June 30, 2015	(4,476,015)
Net position at June 30, 2016	\$ (2,200,654)

See accompanying Notes to the Basic Financial Statements

Balance Sheet - Governmental Funds

June 30, 2016

	Special Revenue Funds					Total Governmental Funds
	General Fund	G.E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	
Assets						
Cash and investments	\$10,407,850	\$746,271	\$979,933	\$634,692	\$780,029	\$13,548,775
Other cash	44,209	-	-	-	-	44,209
Accounts receivable	102,362	-	-	-	-	102,362
Other assets	2,119	-	-	-	10,000	12,119
Total assets	\$10,556,540	\$746,271	\$979,933	\$634,692	\$790,029	\$13,707,465
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 522,865	\$ -	\$ -	\$ 6,031	\$ -	\$ 528,896
Fund balances						
Committed:						
Capital improvement	1,204,962	-	-	-	-	1,204,962
Stabilization fund	2,276,250	-	-	-	-	2,276,250
Assigned	1,154,605	-	-	-	-	1,154,605
Restricted for:						
Petaluma	-	746,271	979,933	38,822	445,280	2,210,306
Library System	-	-	-	249,916	30,349	280,265
Southwest Santa Rosa (Roseland)	-	-	-	146,565	-	146,565
Cloverdale	-	-	-	1,633	71,311	72,944
Healdsburg	-	-	-	9,530	58,637	68,167
Santa Rosa - Central	-	-	-	21,234	27,102	48,336
Santa Rosa - Northwest	-	-	-	41,370	-	41,370
Literacy	-	-	-	39,067	-	39,067
Rohnert Park	-	-	-	30,723	812	31,535
Sonoma Valley	-	-	-	13,164	10,182	23,346
Santa Rosa - Rincon Valley	-	-	-	12,957	-	12,957
Other restrictions	-	-	-	23,680	10,671	34,351
Unassigned	5,397,858	-	-	-	135,685	5,533,543
Total fund balances	10,033,675	746,271	979,933	628,661	790,029	13,178,569
Total liabilities and fund balance	\$10,556,540	\$746,271	\$979,933	\$634,692	\$790,029	\$13,707,465

See accompanying Notes to the Basic Financial Statements

Sonoma County Library

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

	June 30, 2016
Total fund balances - governmental funds	\$ 13,178,569
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 - equipment, net	3,082,535
Deferred outflows of resources are reported in the statement of net position but not reported in the governmental funds	
	3,426,735
Deferred inflows of resources are reported in the statement of net position but not reported in the governmental funds	
	(4,197,532)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:	
Compensated absences	(882,018)
Net pension liability	(9,876,681)
Net obligation for post-employment benefits	(6,932,262)
Total net position deficit	\$ (2,200,654)

See accompanying Notes to the Basic Financial Statements

Sonoma County Library

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

For the Fiscal Year Ended June 30, 2016

	General Fund	Special Revenue Funds			Other Funds	Total Governmental Funds
		G.E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund		
Revenues						
Property taxes	\$ 17,155,821	\$ -	\$ -	\$ -	\$ -	\$ 17,155,821
Fines, fees and services	467,758	-	-	-	-	467,758
Intergovernmental	602,995	-	-	-	-	602,995
Investment income (loss)	4,327	(2,793)	(3,925)	(3,255)	3,896	(1,750)
Grants and contributions	74,367	-	-	311,023	18,162	403,552
Other	109,736	-	-	-	-	109,736
Total revenues	18,415,004	(2,793)	(3,925)	307,768	22,058	18,738,112
Expenditures						
Current						
Salaries and benefits	12,144,708	-	-	-	-	12,144,708
Operating	4,428,636	-	-	225,225	17,787	4,671,648
Capital outlay	81,028	-	-	-	-	81,028
Total expenditures	16,654,372	-	-	225,225	17,787	16,897,384
Excess of revenues over (under) expenditures	1,760,632	(2,793)	(3,925)	82,543	4,271	1,840,728
Other financing sources (uses)						
Transfers in	4,000	-	-	-	25,000	29,000
Transfers out	-	-	-	(25,000)	(4,000)	(29,000)
Total other financing sources (uses)	4,000	-	-	(25,000)	21,000	-
Excess of revenue and other financing sources over (under) expenditures and other financing uses	1,764,632	(2,793)	(3,925)	57,543	25,271	1,840,728
Fund balance at June 30, 2015	8,269,043	749,064	983,858	571,118	764,758	11,337,841
Fund balance at June 30, 2016	\$ 10,033,675	\$ 746,271	\$ 979,933	\$ 628,661	\$ 790,029	\$ 13,178,569

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, 2016

Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds:	\$ 1,840,728
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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 depreciation expense (\$229,378) exceeded capital (\$81,028) outlay in the current period.	(148,350)
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Certain pension expenses in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds	931,456
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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.	(78,083)
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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.	(270,390)
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Increase in net position of governmental activities	\$ 2,275,361
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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. 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.

The Library Joint Powers Authority (JPA) is now governed by an eleven-member Library Commission (the “Commission”) which includes one appointee of the Board of Supervisors, one appointee each from the cities of Cotati, Cloverdale, Healdsburg, Petaluma, 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 board of Supervisors.

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information on the Library as a whole. These financial statements include the financial activities of the Library’s non fiduciary activities. For the most part, 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 sixty days of the end of the accounting period. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

The Library reports the following major governmental funds:

General Fund

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

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.

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 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, 2016. Because vacation and sick leave balances do not require the use of current financial resources, no liability is recorded within the governmental funds. However, this liability is reflected in the government-wide statement of net position.

Vested vacation and accrual for vested sick leave for Library employees amount to \$882,018 at June 30, 2016 and is recorded as a long-term liability within the statement of net position. Compensated absences are generally liquidated by the General Fund.

Deferred Outflows/Inflows of Resources

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

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, deferred inflow of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time.

The Library's employee retirement plan qualifies for reporting in this category. Refer to Note F 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.

Note B. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

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

Statement No. 72	“Fair Value Measurement and Application”	The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.
Statement No. 73	“Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68. and Amendments to Certain Provision of GASB Statements No. 67 and No. 68”	The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.
Statement No. 76	“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”	The provisions of this statement are effective for reporting periods beginning after June 15, 2015.

Rent Expense

Rent expense for the year ended June 30, 2016 amounted to \$46,388.

Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C. Stewardship, Compliance and Accountability*Budget and Budgetary Accounting*

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

Note D. Cash and Investments

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

Investment Guidelines and Authorized Investments

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

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, 2016 are classified in the accompanying statement of net position as follows:

Investment in Sonoma County Treasury Pool	\$13,548,775
Other cash	44,209
	\$13,592,984

Investment in County Treasurer's Pooled Cash

As of June 30, 2016, the Library's investments consisted of \$13,548,775 in the Treasury Pool managed by the County Treasurer, which carry a weighted average maturity of approximately twelve months. The credit rating and other information regarding the Treasury Pool for the fiscal year ended June 30, 2016 will be disclosed in the County of Sonoma's June 30, 2016 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, 2016, was \$92,295 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 gain on investments held at year end amounted to \$18,064. 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, 2016, are as follows:

General Fund	\$ (62,483)
G.E. Cromwell Fund	(6,555)
Leoleon Hopkins Fund	(8,607)
Gifts & Donations Fund	(8,021)
Other Funds	(6,629)
	\$ (92,295)

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, 2016, 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. At June 30, 2016 the bank balance of cash held by the financial institution did not exceed the federal deposit insurance limit.

Fair Value Measurements

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 input are significant unobservable inputs. The District has a recurring fair value measurement for its investment in the Sonoma Country Treasury Pool which is valued using significant other observable inputs (Level 2).

Notes to the Basic Financial Statements

Year Ended June 30, 2016

Note E. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2016, was as follows:

	July 1, 2015	Increase	Decrease	June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 207,000	\$ -	\$ -	\$ 207,000
Capital assets, being depreciated:				
Buildings and improvements	3,529,511	-	-	3,529,511
Vehicles	315,394	-	-	315,394
Furnishings and equipment	3,747,354	81,028	-	3,828,382
Total capital assets being depreciated	7,592,259	92,878	-	7,673,287
Less accumulated depreciation for:				
Buildings and improvements	829,301	112,924	-	942,225
Vehicles	266,804	14,051	-	280,855
Furnishings and equipment	3,472,269	102,403	-	3,574,672
Total accumulated depreciation	4,568,374	229,378	-	4,797,752
Total capital assets being depreciated, net	3,023,885	(136,500)	-	2,875,535
Total capital assets, net	\$ 3,230,885	\$ (136,500)	\$ -	\$ 3,082,535

Depreciation expense relating to governmental activities amounted to \$229,378 for the year ended June 30, 2016.

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.

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. The 2.0% at age 62 is a lesser benefit than the 2.0% at age 55, unless an employee works past the age of 66. As of June 30, 2016, there were 103 covered employees under the 2.0% at 55 plan and 47 covered employees under the 2.0% at 62 plan.

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

Participants are required to contribute 7% of their annual covered salary. The Library is also required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2016, was 17.78% for the annual covered payroll and was established by PERS in connection with the June 30, 2012 actuarial study. The contribution requirements of plan members and the Library are established and may be amended by PERS.

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

At June 30, 2016, the Library reported a liability of \$9,876,681 for its net pension liability. The net pension liability was measured as of June 30, 2015 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, 2016, the Library recognized pension expense of \$427,104 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, 2016, the Library reported deferred outflows of resources in the amount of \$3,426,735 of which \$1,358,560 related to contributions subsequent to the measurement date. \$2,068,175 of deferred outflows and \$4,197,532 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.

The \$1,358,560 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, 2017. 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>
2017	\$ (1,082,480)
2018	(1,082,480)
2019	(481,440)
2020	517,043
	<u>\$ (2,129,357)</u>

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

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the entry age normal actuarial cost method. The assumptions included in the June 30, 2015, 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 of \$9,876,681, as of the June 30, 2015 measurement date was 7.65%. 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, 2015, the measurement date, using a discount rate that is 1-percentage point lower (6.65%) would result in a net pension liability of \$16,743,493 and using a discount rate that is 1-percentage point higher (8.65%) would result in a net pension liability of \$4,080,858 for that same measurement date.

Note G. Other Post Employment Benefits

In addition to the pension benefits described in Note F, 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 (including coverage for the dependent spouse or domestic partner). Employees hired after October 18, 2013 must have at least 15 years of service. For employees hired between July 1, 1997 and October 18, 2013 that complete at least 20 years of service the Library will contribute to the cost of one dependent (spouse or domestic partner). The Library contributes 80% to 84% of the cost towards the retiree's health insurance benefit, depending on employee classifications. This benefit is provided by Library Commission approval of the employee labor union MOU.

Note G. Other Post Employment Benefits (continued)*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 fund benefits as determined annually by the Library Commission. For the year ended June 30, 2016, the Library contributed \$1,052,767 which includes the current pay-as-you-go portion of the current premium, plus an additional \$500,000. OPEB plan members receiving benefits are currently not required to contribute.

Annual OPEB Cost and Net OPEB Obligation

The Library's annual OPEB cost (expense) is a calculated based on the annual required contribution (the "ARC") of the Library, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Library's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Library's net OPEB obligation to the Plan:

Annual required contribution	\$ 1,294,189
Interest on net OPEB obligation	330,878
<u>Adjustment to annual required contribution</u>	<u>(301,910)</u>
Annual OPEB cost	1,323,157
Contributions made	(1,052,767)
Increase in net OPEB obligation	270,390
<u>Net OPEB obligation - beginning of year</u>	<u>6,661,872</u>
<u>Net OPEB obligation - end of year</u>	<u>\$ 6,932,262</u>

Note G. Other Post Employment Benefits (continued)*Annual OPEB Cost and Net OPEB Obligation* (continued)

The Library's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016, and the two preceding years were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$1,356	37.8%	\$6,443
June 30, 2015	\$1,313	83.1%	\$6,662
June 30, 2016	\$1,323	79.6%	\$6,932

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$19,435,987, and the actuarial value of assets was \$587,589, resulting in an unfunded actuarial accrued liability ("UAAL") of \$18,848,398. The covered payroll (annual payroll of active employees covered by the plan) was \$7,553,936, and the ratio of the UAAL to the covered payroll was approximately 250%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note G. Other Post Employment Benefits (continued)*Actuarial Methods and Assumptions* (continued)

In the July 1, 2015 actuarial valuation, the entry age normal funding method was used. The actuarial assumptions included a 5% 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% - 6% per year. All rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016, was 30 years.

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. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. Under a MOU with the labor union, the Library agrees to make matching contributions to the Plan of up to 1% of regular compensation for all full and part time participating employees.

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

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

The Library leases space for its Forestville library facility under a month to month lease, with an 18-month termination clause which requires minimum monthly lease payments of approximately \$420. Additionally, on July 1, 2015, the Library entered into two separate 24-month leases for its Occidental library facilities. The minimum monthly lease payments amount to \$555 and \$530 for these leases.

Notes to the Basic Financial Statements

Year Ended June 30, 2016

Note I. Commitments (continued)

Operating Leases (continued)

Future minimum lease payments under the above referenced operating leases as of June 30, 2016, were as follows:

Year ending June 30,					
	2017			\$	53,920
	2018				55,420
	2019				39,379
	2020				3,699
					\$ 152,418

Note J. Long-Term Obligations

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

	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due Within One Year
Compensated absences	\$ 803,935	\$ 78,083	\$ -	\$ 882,018	\$ -

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, 2016, the Library contracted with the County of Sonoma for services related to maintaining the Library's general ledger and for access to service yards and fuel. Total expenditures for such services amounted to \$67,272.

Note M. Future Governmental Accounting Standards

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

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

Note M. Future Governmental Accounting Standards (continued)

Statement No. 82	“Pension Issues”	Effective for reporting periods beginning after June 15, 2016, this statement addresses, among other things: presentation of payroll-related measures in required supplementary information; selection of assumptions and treatment of deviations from guidance in Actuarial Standards of Practice for financial purposes; and classification of payments made by employers to satisfy plan member contribution requirements.
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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

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

For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Property taxes	\$16,198,823	\$16,463,823	\$ 17,155,821	\$ 691,998
Fines, fees and services	490,000	490,000	467,758	(22,242)
Intergovernmental	228,206	228,206	602,995	374,789
Investment earnings (losses)	21,000	21,000	4,327	(16,673)
Grants and contributions	3,000	3,000	74,367	71,367
Other revenue	43,000	43,000	109,736	66,736
Total revenues	16,984,029	17,249,029	18,415,004	1,165,975
Expenditures				
Current				
Salaries and employee benefits	12,841,929	13,041,929	12,144,708	897,221
Operating	4,782,100	4,782,100	4,428,636	353,464
Capital outlay	250,000	250,000	81,028	168,972
Total expenditures	17,874,029	18,074,029	16,654,372	1,419,657
Excess (deficiency) of revenues over expenditures	(890,000)	(825,000)	1,760,632	2,585,632
Other financing sources (uses)				
Transfers in	-	-	4,000	-
Net change in fund balance	\$ (890,000)	\$ (825,000)	1,764,632	\$ 2,585,632
Fund balance at beginning of year			8,269,043	
Fund balance at end of year			\$ 10,033,675	

Note to the Required Supplementary Information – Budget and Actual

Year Ended June 30, 2016

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. The Library's budgetary information was amended during the year by the Commission.

Defined Benefit Pension Plan Information

Measurement period ended June 30,	2015	2014
Total Pension Liability:		
Service Cost	\$ 1,442,797	\$ 1,490,945
Interest	4,248,946	4,138,394
Difference between expected and actual experience	(1,492,564)	-
Changes in Benefit Terms	-	-
Changes in Assumptions	(911,611)	-
Benefit Payments including refunds of employee contributions	(2,932,286)	(2,743,538)
Net Change in Total Pension Liability	355,282	2,885,801
Total Pension Liability - Beginning	58,690,688	55,804,887
Total Pension Liability - Ending (A)	\$ 59,045,970	\$ 58,690,688
Plan Fiduciary Net Position:		
Contributions - Employer	\$ 1,195,632	\$ 1,133,492
Contributions - Employee	511,408	527,839
Net Investment Income	1,134,413	7,419,651
Other Miscellaneous Income	-	-
Benefit Payments including refunds of employee contributions	(2,932,286)	(2,743,538)
Plan to Plan Resource Movement	3,532	-
Administrative Expense	(55,330)	-
Net Change in Fiduciary Net Position	(142,631)	6,337,444
Plan Fiduciary Net Position - Beginning	49,311,920	42,974,476
Plan Fiduciary Net Position - Ending (B)	\$ 49,169,289	\$ 49,311,920
Plan Net Pension Liability / (Asset) - (a)-(b)	\$ 9,876,681	\$ 9,378,768
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.27%	84.02%
Covered-Employee Payroll	\$ 7,758,220	\$ 7,748,794
Plan Net Pension Liability / (Asset) as a Percentage of Covered-Employee Payroll	127.31%	121.04%

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 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, 2016, and the notes to the financial statements which collectively comprise the Library's basic financial statements and have issued our report thereon dated March 24, 2017. Our report contained a qualified opinion for the reason discussed below related to finding 2016-1.

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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2016-1, that we consider to be a material weakness.

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*.

**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)

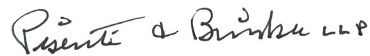
The Library's Response to Finding

The Library's response to finding 2016-1 identified in our audit is described in the accompanying Schedule of Findings and Responses. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

We noted certain other matters that we reported to management of the Library in a separate letter dated March 24, 2017.



Santa Rosa, California
March 24, 2017

Schedule of Findings and Responses and Prior Audit Findings

Fiscal Year Ended June 30, 2016

I. Findings and Responses

Finding: 2016-01

Material Weakness in internal control

Lack of physical inventory of capital assets and unreconciled variances between the general ledger and the capital asset subsidiary ledger

Recommendation: The Library should perform a physical inventory inspection of all capital assets and adjust the subsidiary ledger and general ledger accordingly.

Response: Management acknowledges the issue and will have a physical inventory completed by June 30, 2017.

II. Prior audit findings

Finding: 2015-01

Lack of physical inventory of capital assets and unreconciled variances between the general ledger and the capital asset subsidiary ledger

Status: This finding has not been resolved and is reported again as finding 2016-01.