Sonoma County Library

Basic Financial Statements

For the Year Ended June 30, 2009

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BEELS | SOPER LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Library Commission
Sonoma County Library
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Sonoma County Library** (the "Library"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2009, 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, 2009, 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 November 2, 2009, 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 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management of the Sonoma County Library has elected to omit this information.

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The budgetary comparison information on pages 24 and 25 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
November 2, 2009

	June 30, 2009
Assets	
Cash and investments in County Treasury	$ 10,576,224
Other cash	29,253
Accounts receivable	46,476
Other assets	10,000
Capital assets (net of accumulated depreciation, where applicable)	
Land	207,000
Building and improvements	1,448,113
Furnishings and equipment	473,905
Equipment held under capital leases	86,809
Vehicles	69,757
Total capital assets, net	2,285,584
Total assets	12,947,537
Liabilities	
Amounts payable within one year:	
Accounts payable and accrued liabilities	864,159
Current portion of compensated absences	99,704
Current portion of obligations under capital lease	22,276
Amounts payable after one year:	
Compensated absences	749,255
Obligations under capital lease	66,980
Net obligation for post-employment benefits	1,957,586
Total liabilities	3,759,960
Net assets	
Invested in capital assets, net of related debt	2,196,328
Unrestricted	6,991,249
Total net assets	$ 9,187,577

	Year Ended June 30, 2009
Program Expenses	
Library:	
Personnel	$ 12,965,157
Materials	1,731,109
Depreciation	197,063
Other program expenses	3,229,783
Total program expenses	18,123,112
Program revenues	
Operating grants and contributions	400,139
Charges for fines, fees and services	570,448
Total program revenues	970,587
Net program expenses	17,152,525
General revenues	
Property taxes	14,594,844
Investment earnings	234,498
Intergovernmental	775,523
Other revenue	118,290
Total general revenues	15,723,155
Decrease in net assets	(1,429,370)
Net assets at beginning of year	10,616,947
Net assets at end of year	$ 9,187,577

Balance Sheet - Governmental Funds

June 30, 2009

	General Fund	G. E. Cromwell Fund (Special Revenue Funds)	Leoleon Hopkins Fund (Special Revenue Funds)	Gifts & Donations Fund (Special Revenue Funds)	Other Funds (Special Revenue Funds)	Total Governmental Funds
Assets						
Cash and investments in County Treasury	$ 7,231,238	$ 719,334	$ 997,898	$ 846,625	$ 781,129	$ 10,576,224
Other cash	29,253	-	-	-	-	29,253
Accounts receivable	44,984	-	-	62	1,430	46,476
Other assets	-	-	-	-	10,000	10,000
Total assets	$ 7,305,475	$ 719,334	$ 997,898	$ 846,687	$ 792,559	$ 10,661,953
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	$ 863,434	$ -	$ -	$ 549	$ 176	$ 864,159
Fund balances						
Reserved for:						
Petty cash	1,220	-	-	-	-	1,220
Unreserved						
Designated for capital outlay	3,911,655	-	-	-	-	3,911,655
Undesignated	2,529,166	719,334	997,898	846,138	792,383	5,884,919
Total fund balances	6,442,041	719,334	997,898	846,138	792,383	9,797,794
Total liabilities and fund balances	$ 7,305,475	$ 719,334	$ 997,898	$ 846,687	$ 792,559	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of related obligations under capital lease in the amount of $89,256, used in governmental activities are not financial resources and therefore are not reported in the governmental funds	2,196,328
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(848,959)
Obligation for post-employment benefits	(1,957,586)
Net assets of governmental activities	$ 9,187,577

Year Ended June 30, 2009

		Special Revenue Funds				
	General Fund	G. E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	Total Governmental Funds
Revenues						
Property taxes	$ 14,594,844	$ -	$ -	$ -	$ -	$ 14,594,844
Library fines, fees and services	570,448	-	-	-	-	570,448
Intergovernmental	775,523	-	-	-	-	775,523
Investment earnings	157,074	16,908	23,011	21,125	16,380	234,498
Grants and contributions	89,607	-	-	94,485	216,047	400,139
Other	118,290	-	-	-	-	118,290
Total revenues	16,305,786	16,908	23,011	115,610	232,427	16,693,742
Expenditures						
Current						
Salaries and benefits	11,898,575	-	-	-	-	11,898,575
Operating	4,794,094	-	-	81,604	107,340	4,983,038
Capital outlay	684,394	-	-	-	-	684,394
Total expenditures	17,377,063	-	-	81,604	107,340	17,566,007
Excess (deficiency) of revenues over expenditures	(1,071,277)	16,908	23,011	34,006	125,087	(872,265)
Other financing sources (uses)						
Transfers in	-	-	-	-	53,425	53,425
Transfers out	-	-	-	(53,425)	-	(53,425)
Total other financing sources (uses)	-	-	-	(53,425)	53,425	-
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(1,071,277)	16,908	23,011	(19,419)	178,512	(872,265)
Fund balance at beginning of year	7,513,318	702,426	974,887	865,557	613,871	10,670,059
Fund balance at end of year	$ 6,442,041	$ 719,334	$ 997,898	$ 846,138	$ 792,383	$ 9,797,794

See accompanying Notes to the Basic Financial Statements

	Year Ended June 30, 2009
Amounts reported for governmental activities in the statement of activities (page 4) are different because:	
Net change in fund balances - total governmental funds (page 6)	$ (872,265)
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 ($684,394) exceeded depreciation ($197,063) in the current period.	487,331
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.	22,146
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.	(90,258)
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.	(976,324)
Decrease in net assets of governmental activities (page 4)	$ (1,429,370)

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. Obligations Under Capital Lease

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 Event

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 will be combined with the County's annual financial report for the fiscal year ended June 30, 2009. 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. Revenues from grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

Note B. Summary of Significant Accounting Policies (continued)

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

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

The Library reports the following major governmental funds:

General Fund

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

G. E. Cromwell Fund

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

Leoleon Hopkins Fund

The Leoleon Hopkins Fund is a major fund and was established in 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.

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.

Note B. Summary of Significant Accounting Policies (continued)

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, 2009. 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 activity columns of the governmental funds balance sheet.

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.

Rent Expense

Rent expense for the year ended June 30, 2009 amounted to $30,205.

Note B. Summary of Significant Accounting Policies (continued)

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.

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. 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.

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in March 2009. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB No. 54 is effective for financial statements for periods beginning after June 15, 2010.

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. Budgetary data is presented as required supplementary information in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 24.

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.

Note D. Cash and Investments (continued)

Cash and investments as of June 30, 2009, are classified in the accompanying statement of net assets as follows:

Cash and investments in County Treasury	$ 10,576,224
Other cash	29,253
	$ 10,605,477

Investment in County Treasurer's Pooled Cash

As of June 30, 2009, the Library's investments consisted of $10,576,224 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, 2009 are disclosed in the County of Sonoma's June 30, 2009, Comprehensive Annual Financial Report.

The net increase in the fair value of the Library's investments in the Treasury Pool during fiscal year June 30, 2009, was $9,721 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 $23,767. 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, 2009, are as follows:

General Fund	$ 6,626
G.E. Cromwell Fund	663
Leoleon Hopkins Fund	929
Gifts & Donations Fund	784
Other Funds	719
	$ 9,721

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, 2009, 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.

Note D. Cash and Investments (continued)

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, 2009, the Library had on deposit with financial institutions amounts in excess of the $250,000 federally insured deposit limit. The carrying amount of cash deposits including amounts in checking accounts was $29,253 and the bank balance was $294,267, of which $100,000 was covered by federal depository insurance.

Note E. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2009, was as follows:

	July 1, 2008	Increase	Decrease	June 30, 2009
Capital assets, not being depreciated:				
Land	$ 207,000	$ -	$ -	$ 207,000
Capital assets, being depreciated:				
Buildings and improvements	1,432,452	294,938	-	1,727,390
Vehicles	210,601	-	-	210,601
Furnishings and equipment	3,627,326	389,456	(6,472)	4,010,310
Equipment held under capital leases	40,126	108,511	(40,126)	108,511
Total capital assets being depreciated	5,310,505	792,905	(46,598)	6,056,812

Note E. **Capital Assets** (continued)

Less accumulated depreciation for:				
Buildings and improvements	216,021	63,256	-	279,277
Vehicles	118,255	22,589	-	140,844
Furnishings and equipment	3,453,833	89,044	(6,472)	3,536,405
Equipment under capital leases	39,654	22,174	(40,126)	21,702
Total accumulated depreciation	3,827,763	197,063	(46,598)	3,978,228
Total capital assets being depreciated, net	1,482,742	595,842	-	2,078,584
Governmental activities capital assets, net	$ 1,689,742	$ 595,842	$ -	$ 2,285,584

Depreciation expense relating to governmental activities amounted to $197,063 for the year ended June 30, 2009, and was charged to program expenses.

Note F. **Obligations Under Capital Lease**

The Library has entered into certain lease agreements for equipment that expire on various dates through July 2014. 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 $22,174 for the year ended June 30, 2009, and is included in depreciation expense. Future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2009:

Year ending June 30,	
2010	$ 27,280
2011	27,228
2012	27,173
2013	16,490
2014	2,256
Total minimum lease payments	100,427
Less: amount representing interest	(11,171)
Present value of net minimum lease payments	89,256
Current portion	(22,276)
	$ 66,980

Interest expense associated with the leases amounted to $5,794 for the year ended June 30, 2009.

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, 2009, was 14.965% 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 $1,180,300 for the year ended June 30, 2009, for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method. The assumptions included in the June 30, 2006, 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, 2006, was 23 years for prior unfunded service.

Three Year Trend Information (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 968	100%	-
June 30, 2008	1,089	100	-
June 30, 2009	1,180	100	-

Note G. Employees' Retirement Plan (continued)

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation, the plan was 92.2% funded. The actuarial accrued liability for benefits was $37,672,219, and the actuarial value of assets was $34,723,520, resulting in an unfunded actuarial accrued liability ("UAAL") of $2,948,699. The covered payroll (annual payroll of active employees covered by the plan) was $6,946,740, and the ratio of the UAAL to the covered payroll was 42.4%.

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
6/30/05	$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
6/30/07	34,724	37,672	2,948	92.2	6,947	42.4

PERS Employer Contribution Rate

PERS estimates that employer contributions of 14.218% will be required for the year ended June 30, 2010 and 14.1% for the year ended June 30, 2011.

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, 2009, the Library contributed only the current pay-as-you-go portion of the current premium which amounted to $433,026. 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.

Note H. Other Post Employment Benefits (continued)

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
Interest on net OPEB obligation	49,063
Adjustment to annual required contribution	(43,463)
Annual OPEB cost	1,409,350
Contributions made	433,026
Increase in net OPEB obligation	976,324
Net OPEB obligation – beginning of year	981,262
Net OPEB obligation – end of year	$ 1,957,586

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, 2009, 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, 2007	N/A	N/A	N/A
June 30, 2008	$ 1,404	30.0%	$ 981
June 30, 2009	$ 1,409	30.7%	$ 1,958

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%.

Note H. Other Post Employment Benefits (continued)

Funded Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

In the 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

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. During October 2008, the Library borrowed and repaid $1,465,176 on the line of credit. Interest expense for the year ended June 30, 2009 approximated $3,300. As of June 30, 2009, 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 $848,959 at June 30, 2009 and is recorded as a long-term liability within the statement of net assets. Compensated absences are generally liquidated by the General Fund.

Changes in Long-Term Obligations

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

	Balance July 1, 2008	Increase	Decrease	Balance June 30, 2009	Amounts Due Within One Year
Compensated absences	$ 758,701	$ 90,258	$ -	$ 848,959	$ 99,704
Obligations under capital lease	$ 2,891	$108,511	$ (22,146)	$ 89,256	$ 22,276

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 Event

On September 14, 2009, the Sonoma County Library Commission authorized the Voluntary Retirement Incentive Program (the "Program") to provide eligible employees with a cash incentive to voluntarily retire from the Library and reduce personnel expenditures. The Program is available to various classifications of full and part-time employees who must be age 55 by December 31, 2009 and must have 10 or more years (20,800 hours) of service with the Library. Incentive payouts range from $1,000 to $20,000 based on years of service.

Required Supplementary Information

Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note A	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	$ 14,671,960	$ 14,671,960	$ 14,594,844	$ (77,116)
Library fines, fees and services	614,137	614,137	570,448	(43,689)
Intergovernmental	998,406	998,406	775,523	(222,883)
Investment earnings	140,500	140,500	157,074	16,574
Donations	170,000	170,000	89,607	(80,393)
Other	97,872	97,872	118,290	20,418
Total revenues	16,692,875	16,692,875	16,305,786	(387,089)
Expenditures				
Current				
Salaries and benefits	11,970,048	11,970,048	11,898,575	71,473
Operating	4,989,208	4,989,208	4,794,094	195,114
Retirement - long-term debt	18,000	18,000	-	18,000
Capital outlay	1,050,000	1,050,000	684,394	365,606
Contingency	25,000	25,000	-	25,000
Total expenditures	18,052,256	18,052,256	17,377,063	675,193
Excess of revenues over expenditures	$ (1,359,381)	$ (1,359,381)	(1,071,277)	$ 288,104
Fund balance at beginning of year			7,513,318	
Adjustments from budgetary basis to GAAP			-	
Fund balance at end of year			$ 6,442,041	

Note A. Budgetary Accounting

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

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

Compliance

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Library Commission
Sonoma County Library
Santa Rosa, California

We have audited 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, 2009, which collectively comprise the Library's basic financial statements and have issued our report thereon dated November 2, 2009. 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 exits 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)

We noted certain matters that we reported to management of the Library in a separate letter dated November 2, 2009.

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.

Beels Soper LLP

Petaluma, California
November 2, 2009