

Sonoma County Library
Basic Financial Statements
For the Year Ended June 30, 2007

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Independent Auditors' Report

Library Commission
Sonoma County Library
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Sonoma County Library** (the "Library"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2007, 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, 2007, 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 October 17, 2007, 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 should be considered in assessing the results of our audit.

The management's discussion and analysis ("MD&A") on pages 3 through 7 and the budgetary comparison information on pages 31 and 32 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
October 17, 2007

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 ended June 30, 2007. We encourage our readers to consider the information presented here in conjunction with the Library's basic financial statements (pages 9 to 13) and the accompanying notes to the basic financial statements (pages 14 to 29).

Financial Highlights

The financial statements included in this report provide insight into the financial status of the Library for the year ended June 30, 2007. Based on the operations of the year ended June 30, 2007, the Library's net assets increased by \$1,524,039, resulting in ending net assets of \$10,461,561.

Total spending for all governmental activities was \$14,723,285 and \$13,981,728 for the years ended June 30, 2007 and 2006, respectively, which was \$1,527,194 and \$1,218,774 less than the grants, contributions, fines, fees, services, property taxes, investment earnings, intergovernmental, and other revenue received for this governmental activity, totaling \$16,250,479 and \$15,200,502 respectively.

The interest earned on cash and investments in the County of Sonoma Treasury ("County Treasury") was \$398,236 and \$253,267 for the years ended June 30, 2007 and 2006, respectively. This increase is primarily related to an increase in the balance of cash and investments pooled with the County Treasury in the amount of \$1,740,263.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements – Governmental Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library's funds all fall under the category of governmental funds.

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

Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 to 29 of this report.

Required Supplementary Information

Schedules presenting budgetary comparison information for the Library's governmental funds can be found on pages 31 and 32 of this report.

Management's Discussion and Analysis

Year Ended June 30, 2007

Net Assets

	June 30, 2006	June 30, 2007	Percentage Change
Cash and investments in County Treasury	\$ 8,835,010	\$ 10,575,273	19.6 %
Other current assets	70,926	48,730	(31.2) %
Capital assets	1,771,998	1,683,297	(5.0) %
Total assets	10,677,934	12,307,300	15.2 %
Current liabilities	1,010,960	1,127,390	1.1 %
Non-current liabilities	729,452	718,349	(1.5) %
Total liabilities	1,740,412	1,845,739	0.6 %
Invested in capital assets, net of related debt	1,748,742	1,669,657	(5.6) %
Unrestricted	7,188,780	8,791,904	22.5 %
Total net assets	\$ 8,937,522	\$ 10,461,561	17.0 %

The largest portion of the Library's net assets reflects the cash and investments with the County Treasury. The balance of cash and investments in the County Treasury increased \$1,740,263, primarily attributable to the excess of revenues over expenses in the amount of \$1,524,039 for the year ended June 30, 2007.

Changes in Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2007	Percentage Change
Revenues:			
Program revenues	\$ 1,248,368	\$ 894,741	(28.3) %
General revenues			
Property taxes	12,788,550	13,790,192	7.8 %
Investment earnings	253,267	398,236	57.2 %
Intergovernmental	764,050	1,068,853	39.8 %
Other revenue	146,267	98,457	(32.7) %
Total revenue	15,200,502	16,250,479	6.9 %
Expenses			
Personnel	\$ 9,989,928	\$ 10,375,080	3.8 %
Materials	1,316,392	1,628,544	23.7 %
Depreciation	143,898	183,027	27.1 %
Other program expenses	2,677,075	2,539,789	(5.1) %
Total expenses	14,127,293	14,726,440	4.2 %
Increase in net assets	\$ 1,073,209	\$ 1,524,039	42.0 %

Changes in Net Assets (continued)

The change in revenues from year to year was primarily due to a \$1,001,642 increase in property tax revenues, an increase of \$304,803 in intergovernmental revenues and an increase of \$144,969 in investment earnings. The increase in investment earnings is primarily attributable to the \$1,740,263 increase in cash invested in the County Treasury. The two significant increases in expenses during the year ended June 30, 2007 were additional salary and benefit costs of \$385,152 (includes a 3.0% cost of living adjustment), and an increase of \$312,152 in Library books and materials expenditures.

Governmental Funds*General Fund*

As previously mentioned, the Library uses funds to help control and manage money for particular purposes. For the years ended June 30, 2007 and 2006, the Library's general fund reported a fund balance of \$6,719,224, and \$5,387,980, respectively. This increase is primarily attributable to a \$1,001,642 increase in property tax revenues and a \$96,647 increase in investment earnings, offset by a \$827,903 increase in operating and capital outlay expenditures.

Special Revenue Funds

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

- 1) G.E. Cromwell Fund – fund balance increased from \$661,768 to \$692,700 for the year ended June 30, 2007. The fund experienced an increase in investment earnings from year to year of \$9,309.
- 2) Leoleon Hopkins Fund – fund balance increased \$903,463 to \$946,396 for the year ended June 30, 2007. The fund experienced a \$16,845 decrease in grant and contribution revenue and an increase in investment earnings of \$12,676 from year to year.
- 3) Gifts & Donations Fund – fund balance increased from \$651,051 to \$713,630 for the year ended June 30, 2007. The fund experienced a decrease in investment earnings and grants and contributions in the amount of \$181,178 from year to year.
- 4) Other Funds – fund balance increased from \$436,273 to \$498,779 for the year ended June 30, 2007. The fund experienced a decrease in total revenues of \$148,598, primarily attributable to a decrease of \$162,162 in grants and contributions, and a decrease in expenditures of \$59,367.

There were no transfers between the special revenue funds and the general fund for the year ended June 30, 2007.

General Fund Budgetary Highlights

The Library's budget was revised once during the year ended June 30, 2007. The revision was in the general fund. A budgetary adjustment request form dated May 9, 2007, appropriated \$50,000 into the Library equipment category to purchase ergonomic chairs for staff workspaces based on an ergonomic study conducted by State Compensation Fund.

The actual expenditures were under the final budgeted amounts for the year ended June 30, 2007. The actual revenues available for expenditures were over the final budgeted amounts for the year ended June 30, 2007. More detailed information about the Library's budget can be found in Note C of the basic financial statements and in the required supplementary information on pages 31 and 32.

Capital Assets

At June 30, 2007, the Library had \$1,669,657 invested in capital assets, including land, buildings and improvements, vehicles, furnishings and equipment, and capital leases, net of accumulated depreciation of \$3,675,291 and net of related debt of \$13,640. For the year ended June 30, 2007, there were additions of \$94,326, which were primarily related to the replacement of a book delivery truck and purchases of information technology equipment. Depreciation expense totaled \$183,027 for the year ended June 30, 2007. More detailed information about the Library's capital assets is presented in Note E of the basic financial statements.

Debt

As of June 30, 2007 and June 30, 2006, the Library had \$775,825 and \$851,755, respectively, in compensated absence liabilities and \$13,640 and \$23,256, respectively, in obligations under capital leases. More detailed information about the Library's debt is presented in Note K of the financial statements.

Economic Factors and Next Year's Budget

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

The plan also recommends focusing on growth planning to assist the Library in adapting to changes in the decades ahead. During the year ended June 30, 2008, the Library will appropriate funds from reserves to begin implementation of the re-design of five Library branches over a period of eighteen months. The appropriations will primarily be used for design, facility remodels, technology upgrades, furniture, and fixtures.

Over the past few years, the Library has been using reserves to fund one-time items in general operations. The Library Commission has adopted a policy requiring maintaining minimum levels of fund balance. The Library's general fund balance in the adopted budget was projected to decrease by \$151,350 by the close of June 30, 2008.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. Any questions about this report or requests for additional information may be directed to Sandra M. Cooper, Library Director, Third and E Streets, Santa Rosa, California, 95404.

Basic Financial Statements

Statement of Net Assets

June 30, 2007

Assets

Cash and investments in County Treasury	\$ 10,575,273
Other cash	29,253
Accounts receivable	19,477
Capital assets (net of accumulated depreciation, where applicable)	
Land	207,000
Building and improvements	1,080,909
Furnishings and equipment	288,020
Equipment held under capital leases	10,443
Vehicles	96,925

Total capital assets, net	1,683,297
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Total assets	12,307,300
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Liabilities

Amounts payable within one year:	
Accounts payable and accrued liabilities	1,056,274
Compensated absences	60,367
Current portion of obligations under capital leases	10,749
Amounts payable after one year:	
Compensated absences	715,458
Obligations under capital leases	2,891

Total liabilities	1,845,739
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Net assets

Invested in capital assets, net of related debt	1,669,657
Unrestricted	8,791,904

Total net assets	\$ 10,461,561
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Statement of Activities

Year Ended June 30, 2007

Program Expenses

Library:

Personnel	\$ 10,375,080
Materials	1,628,544
Depreciation	183,027
Other program expenses	2,539,789

Total program expenses	14,726,440
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Program revenues

Operating grants and contributions	271,932
Charges for fines, fees and services	622,809

Total program revenues	894,741
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Net program expense	13,831,699
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General revenues

Property taxes	13,790,192
Investment earnings	398,236
Intergovernmental	1,068,853
Other revenue	98,457

Total general revenues	15,355,738
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Increase in net assets	1,524,039
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Net assets at beginning of year	8,937,522
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Net assets at end of year	\$ 10,461,561
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Balance Sheet - Governmental Funds

June 30, 2007

	Special Revenue Funds					Total Governmental Funds
	General Fund	G. E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	
Assets						
Cash and investments in County Treasury	\$ 7,726,687	\$ 692,700	\$ 943,396	\$ 713,639	\$ 498,851	\$ 10,575,273
Other cash	29,253	-	-	-	-	29,253
Accounts receivable	19,352	-	-	-	125	19,477
Total assets	\$ 7,775,292	\$ 692,700	\$ 943,396	\$ 713,639	\$ 498,976	\$ 10,624,003
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 1,056,068	\$ -	\$ -	\$ 9	\$ 197	\$ 1,056,274
Fund balances						
Reserved for:						
Petty cash	1,220	-	-	-	-	1,220
Encumbrances	23,686	-	-	-	-	23,686
Unreserved						
Designated for capital outlay	1,300,000	-	-	-	-	1,300,000
Undesignated	5,394,318	692,700	943,396	713,630	498,779	8,242,823
Total fund balances	6,719,224	692,700	943,396	713,630	498,779	9,567,729
Total liabilities and fund balances	\$ 7,775,292	\$ 692,700	\$ 943,396	\$ 713,639	\$ 498,976	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	1,683,297
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(775,825)
Obligations under capital lease	(13,640)

Net assets of governmental activities \$ 10,461,561

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

Year Ended June 30, 2007

	Special Revenue Funds					Total Governmental Funds
	General Fund	G. E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	
Revenues						
Property taxes	\$ 13,790,192	\$ -	\$ -	\$ -	\$ -	\$ 13,790,192
Library fines, fees and services	622,809	-	-	-	-	622,809
Intergovernmental	1,068,853	-	-	-	-	1,068,853
Investment earnings	270,066	30,932	41,733	30,892	24,613	398,236
Grants and contributions	30,361	-	-	104,583	136,988	271,932
Other	98,457	-	-	-	-	98,457
Total revenues	15,880,738	30,932	41,733	135,475	161,601	16,250,479
Expenditures						
Current						
Salaries and benefits	10,451,010	-	-	-	-	10,451,010
Operating	4,015,721	-	1,800	61,333	99,095	4,177,949
Capital outlay	82,763	-	-	11,563	-	94,326
Total expenditures	14,549,494	-	1,800	72,896	99,095	14,723,285
Excess of revenues over expenditures	1,331,244	30,932	39,933	62,579	62,506	1,527,194
Fund balance at beginning of year	5,387,980	661,768	903,463	651,051	436,273	8,040,535
Fund balance at end of year	\$ 6,719,224	\$ 692,700	\$ 943,396	\$ 713,630	\$ 498,779	\$ 9,567,729

See accompanying Notes to the Basic Financial Statements

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

Year Ended June 30, 2007

Amounts reported for governmental activities in the statement of activities
(page 10) are different because:

Net change in fund balances - total governmental funds (page 12)	\$ 1,527,194
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation (\$183,027) exceeded capital outlays (\$94,326) in the current period.	(88,701)
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.	9,616
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.	75,930

Increase in net assets of governmental activities (page 10)	\$ 1,524,039
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The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Library as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Capital Assets
- Note F. Obligations Under Capital Leases
- Note G. Employees' Retirement Plan
- Note H. Post Employment Benefits
- Note I. Deferred Compensation Plan
- Note J. Commitments
- Note K. Long-Term Obligations
- Note L. Insurance

Note A. Defining the Financial Reporting Entity

The Sonoma County Library (the "Library") is a joint powers agency established between the County of Sonoma (the "County") and cities in 1975 to provide library service on an equal basis throughout the County. The Library Joint Powers Authority (JPA) is governed by a seven-member Library Commission (the "Commission"), which includes five appointees of the Board of Supervisors, and one appointee each from the cities of Petaluma and Santa Rosa. There are currently ten regional libraries, two rural library stations, and the Santa Rosa central library.

The Library is a component unit of the County. The Library is a separate legal entity/agency and presents basic financial statements. The County, which is the primary governing unit, exercises significant financial and management control over the Library. Therefore, the financial data of this component unit has also been combined with the County's annual financial report for the fiscal year ended June 30, 2007. 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. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The Library reports the following major governmental funds:

General Fund

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

G. E. Cromwell Fund

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

Leoleon Hopkins Fund

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

Gifts & Donations Fund

The Gifts and Donations Fund is a major fund and includes the Santa Rosa Friends, the Sebastopol Friends, the Petaluma History Room, the Sonoma Lawton gift, the Miller gift, central building donations, special projects, and various miscellaneous gifts. The fund designates gifts which are used for various Library projects, programs, collections, and services.

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

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

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

Encumbrances

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

Cash and Investments

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

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

Capital Assets

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

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

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

Buildings	50 years
Building improvements	30 years
Vehicles	5 years
Furnishings and equipment	5 years

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, 2007. Because vacation and sick leave balances do not require the use of financial resources, no liability is recorded within the governmental funds. However, this liability is reflected in the government-wide statement of net assets.

Net Assets – Government-wide Financial Statements

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Equity – Governmental Funds

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

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

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

- 1) Quasi-external (charges for current services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.
- 2) Non-operating transfers - Transactions to allocate resources from one fund to another fund not contingent on the incurrence of specific expenditures in the receiving fund. These transactions are recorded as transfers in and out in the same accounting period.

These amounts are eliminated in the governmental activities columns of the statement of net assets.

Property Taxes

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

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

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

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

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

New Pronouncements

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

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in June 2004. This Statement establishes standards for the measurement, recognition, and display of postemployment benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. GASB No. 45 is effective in three phases with implementation required for financial statements for years beginning after December 15, 2006.

Statement No. 47, *Accounting for Termination Benefits* in June 2005. This Statement establishes standards for the measurement, recognition, and display for voluntary termination benefits when the offer is accepted and the amount can be estimated and for involuntary termination benefits when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employee(s) and the amount can be estimated. GASB No. 47 is effective in two phases. For termination benefits provided through an existing defined benefit plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* in September 2006. This Statement establishes requirements to improve financial reporting by establishing consistent measurement, recognition, and disclosure requirements that apply to both governmental and business type activities as it relates to exchanges of interests in expected cash flows from collecting specific receivables or specific future revenues. GASB No. 48 is effective for financial statements for years beginning after December 15, 2006.

Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* in May 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to the basic financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB No. 50 is effective for financial statements for periods beginning after June 15, 2007.

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

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 statements 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.

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

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

The Library Commission approves an annual appropriated budget for the General Fund to be effective July 1st for the ensuing fiscal year. The County Board of Supervisors then adopts the budget. The Library Director is authorized to transfer budgeted amounts within any character (group of accounts); however, any revisions that alter the total appropriations of any fund must be approved by the Library Commission and the Board of Supervisors. Annual appropriations that have not been encumbered lapse at year-end.

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations in the General Fund for the year ended June 30, 2007 are as follows:

	Appropriations	Expenditures	Excess
Operating Expenditures			
Janitorial supplies	\$ 25,750	\$ 29,107	\$ 3,357
Memberships	5,253	6,185	932
Printing services	49,064	49,138	74
Legal services	5,628	6,460	832
Audit/accounting services	24,761	28,967	4,206
Programming	23,744	27,581	3,837
Professional development	15,299	20,074	4,775
Private car expense	53,560	54,916	1,356
Books and materials	1,575,000	1,610,276	35,276
Equipment	64,500	82,763	18,263
Temporary labor	412,000	440,013	28,013
Workers' compensation insurance	127,803	135,827	8,024

Note C. Stewardship, Compliance and Accountability (continued)*Excess of Expenditures over Appropriation* (continued)

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

Note D. Cash and Investments

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

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

Investment Guidelines

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

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

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

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

Cash and investments as of June 30, 2007 are classified in the accompanying statement of net assets as follows:

Cash and investments in County Treasury	\$10,575,273
Other cash	29,253
	\$10,604,526

Investment in County Treasurer's Pooled Cash

At of June 30, 2007, the Library's investments consisted of \$10,575,273 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, 2007 are disclosed in the County of Sonoma's June 30, 2007 Comprehensive Annual Financial Report.

The net decrease in the fair value of the Library's investments in the Treasury Pool during fiscal year June 30, 2007 was \$4,369 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 loss on investments held at year end amounted to \$6,349. 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 decrease in fair value of investments by fund, and included in revenue – investment earnings for the year ended June 30, 2007 are as follows:

General Fund	\$ 3,188
G.E. Cromwell Fund	286
Leoleon Hopkins Fund	393
Gifts & Donations Fund	296
Other Funds	206
	\$ 4,369

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, 2007, 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.

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

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under stated 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, 2007, the Library had on deposit with financial institutions amounts in excess of the \$100,000 federally insured deposit limit. The carrying amount of cash deposits including amounts in checking accounts was \$29,243 and the bank balance was \$127,492, 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, 2007, was as follows:

	July 1, 2006	Increase	Decrease	June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 207,000	\$ -	\$ -	\$ 207,000
Capital assets, being depreciated:				
Building	483,000	-	-	483,000
Improvements other than buildings	782,480	-	-	782,480
Vehicles	204,963	43,332	(55,704)	192,591
Furnishings and equipment	3,697,678	50,994	(95,281)	3,653,391
Equipment held under capital leases	40,126	-	-	40,126
Total capital assets being depreciated	5,208,247	94,326	(150,985)	5,151,588

Notes to the Basic Financial Statements

Year Ended June 30, 2007

Note E. Capital Assets (continued)

Less accumulated depreciation for:				
Building	154,560	9,660	-	164,220
Improvements other than buildings	17,371	2,980	-	20,351
Vehicles	135,349	16,021	(55,704)	95,666
Furnishings and equipment	3,316,257	144,395	(95,281)	3,365,371
Equipment under capital leases	19,712	9,971	-	29,683
Total accumulated depreciation	3,643,249	183,027	(150,985)	3,675,291
Total capital assets being depreciated, net	1,564,998	(88,701)	-	1,476,297
Governmental activities capital assets, net	\$ 1,771,998	\$ (88,701)	\$ -	\$ 1,683,297

Depreciation expense relating to governmental activities amounted to \$183,027 for the year ended June 30, 2007, and was charged to program expense.

Note F. Obligations Under Capital Leases

The Library has entered into certain lease agreements for equipment that expire on various dates through 2009. The equipment and related liability under the capital leases are recorded at the present value of the minimum payments due under the leases. The assets are amortized using the straight-line method over the lesser of their related lease terms or their estimated useful lives. Amortization expense associated with the capital leases amounted to \$9,971 for the year ended June 30, 2007, and is included in depreciation expense.

The following is a schedule by year of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2007:

Year ending June 30,	
2008	11,691
2009	2,969
Total minimum lease payments	14,660
Less: amount representing interest	(1,020)
Present value of net minimum lease payments	13,640
Current portion	(10,749)
	\$ 2,891

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, 2007, was 14.070% 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 \$1,434,896 for the year ended June 30, 2007, for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The assumptions included in the June 30, 2005, actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% depending on age, service and type of employment, and (c) 3.25% payroll growth. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period (smoothed market value). PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 23 years for prior unfunded service.

Trend Information

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 877	100%	-
June 30, 2006	\$ 1,418	100%	-
June 30, 2007	\$ 1,435	100%	-

Note G. Employees' Retirement Plan (continued)*Trend Information (continued)*

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
6/30/03	25,138	26,311	1,173	95.5	5,942	19.7
6/30/04	26,622	28,814	2,192	92.4	6,189	35.4
6/30/05	29,015	32,219	3,204	90.1	6,308	50.8

PERS Employer Contribution Rate

For the year ended June 30, 2007, the Library contributed \$948,462 in accordance with the required employer contribution rate of 14.070% of total payroll. Additionally, PERS estimated that employer contributions of 14.912% would be required for the year ended June 30, 2008 and 14.8% for the year ended June 30, 2009.

Note H. Post Employment Benefits

In addition to the pension benefits described in Note G, the Library provides postretirement health care benefits for retired employees.

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.

There were 60 employees eligible and receiving this benefit at June 30, 2007. During the year, expenditures of approximately \$416,240 were recognized for postretirement health care. The Library's contributions are financed on a pay-as-you-go basis.

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.

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*Central Building Agreement*

The Library entered into an agreement with the City of Santa Rosa to pay the City \$42,000 annually, through June 30, 2007, to be used only for the specific purpose of library building maintenance and improvements, jointly funded and cooperatively managed by the City and the Library. This agreement will be subject to renewal after July 1, 2007.

Operating Leases

The Library makes total monthly lease payments of approximately \$954 for leases of the premises of its branch libraries in Occidental and Forestville. These payments are reported in operating expenditures. Leases with Forestville and Occidental are twelve month leases with annual renewal options.

The Library has five-year operating lease agreements with companies for copiers and other office equipment. Lease payments on the copiers and office equipment amount to approximately \$1,190 per month.

The minimum future lease payments for these leases are as follows:

Year ending June 30,	
2008	\$ 14,718
2009	540
	<hr/>
	\$ 15,258

Rent expense amounted to \$40,575 for the year ended June 30, 2007.

Line of Credit

The Library has an open line of credit from the County of Sonoma which was approved by resolution of the Library Commission and the County Board of Supervisors. Article XVI, Section 6 of the California State Constitution authorizes this type of temporary transfer of funds upon such approval. The line of credit is granted on an as needed basis, not to exceed the greater of \$1,500,000 or 85% of the Library's revenue during the fiscal year. The line of credit is primarily used by the Library when its cash balances are depleted prior to receiving property tax revenue from the County. As of June 30, 2007, 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 \$775,825 at June 30, 2007. Compensated absences in the amount of \$60,367 as of June 30, 2007, were expected to be due within one year. The balance of the obligation in the amount of \$715,458 at June 30, 2007, is recorded as a long-term liability within the statement of net assets. Compensated absences are generally liquidated by the General Fund.

Notes to the Basic Financial Statements

Year Ended June 30, 2007

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

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

	Balance July 1, 2006	Increase	Decrease	Balance June 30, 2007	Amounts Due Within One Year
Compensated absences	\$ 851,755	\$ -	\$(75,930)	\$ 775,825	\$ 60,367
Obligations under capital lease	\$ 23,256	\$ -	\$(9,616)	\$ 13,640	\$ 10,749

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.

Required Supplementary Information

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

Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 13,433,463	\$ 13,433,463	\$ 13,790,192	\$ 356,729
Library fines, fees and services	616,612	616,612	622,809	6,197
Intergovernmental	833,612	833,612	1,068,853	235,241
Investment earnings	105,450	105,450	270,066	164,616
Donations	62,700	62,700	30,361	(32,339)
Other	121,614	121,614	98,457	(23,157)
Total revenues	15,173,451	15,173,451	15,880,738	707,287
Expenditures				
Current				
Salaries and benefits	10,756,350	10,756,350	10,451,010	305,340
Operating	4,428,996	4,466,996	4,039,407	427,589
Retirement - long-term debt	18,000	18,000	-	18,000
Capital outlay	92,500	64,500	82,763	(18,263)
Contingency	25,000	25,000	-	25,000
Total expenditures	15,320,846	15,330,846	14,573,180	757,666
Excess (deficiency) of revenues over expenditures	\$ (147,395)	\$ (157,395)	1,307,558	\$ 1,464,953
Fund balance at beginning of year			5,387,980	
Adjustments from budgetary basis to GAAP				
Timing difference: encumbrances			<u>23,686</u>	
Fund balance at end of year			<u>\$ 6,719,224</u>	

Note A. Budgetary Accounting

Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

Compliance



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

Library Commission
Sonoma County Library
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Sonoma County Library** (the "Library"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements and have issued our report thereon dated October 17, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 07-01, 07-02, 07-03, 07-04, and 07-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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*.

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
October 17, 2007

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<i>unqualified</i>			
Internal control over financial reporting:				
Material weaknesses identified	_____	yes	<u> X </u>	no
Reportable conditions identified not considered to be material weaknesses	<u> X </u>	yes	_____	no
Noncompliance material to financial statements noted	_____	yes	<u> X </u>	no

Section II. Financial Statement Findings

Conditions deemed to not be material weaknesses

Policies and Procedures

Observation 07-01

During the course of our audit we noted that the Library lacks formally documented policies and procedures regarding financial matters.

Recommendation

We recommend that the Library document and adopt financial policies and procedures. A written record of the Library's policies and procedures would be most beneficial to the accounting department, Library Director, Library Commission and others involved in the fiscal management process. Such policies and procedures also minimize the time required to orient Library Commission members, as well as train new staff members. Features of the internal control system should also be documented for future review and evaluation.

Response

The Library agrees and is currently working on a plan of action to address the policies and procedures beginning with the Library Commission level.

Section II. Financial Statement Findings (continued)**Conditions deemed to not be material weaknesses (continued)****Availability of Financial and Budgetary Information***Observation 07-02*

During the course of our audit we noted that the Library does not currently have the ability to process financial and budgetary information at department levels.

Recommendation

We recommend that the Library investigate alternative technology sources that either interface with FAMIS or stand alone to provide detailed financial and budgetary information by department level. The current lack of detailed financial and budgetary information by department level increases the risk that fraud may go undetected and decreases the ability to hold management accountable for unappropriated expenditures within their respective department.

Response

The Library agrees and will be investigating alternatives to increase its ability to process detailed financial and budgetary information by department.

Staffing of the Accounting Department*Observation 07-03*

In performing our audit, we noted that the Library is experiencing delays in its accounting and reporting processes due in part to an understaffed accounting department and recent reorganization of job duties. Management reorganized the staff during the beginning of the fiscal year to better utilize the skills and experience of existing staff. This reorganization exposed certain job duties essential to the accounting function that are not performed timely.

Recommendation

We recommend that the Library evaluate the job duties, staffing levels and skill levels of the accounting department and consider hiring an additional employee. This change will greatly benefit the Library with more efficient accounting processes that produce more timely financial information.

Response

The Library agrees and has recognized that there is inadequate staffing within the accounting department. We are currently examining the duties of each staff member in order to identify appropriate additional positions for the next budget cycle.

Section II. Financial Statement Findings (continued)**Conditions deemed to not be material weaknesses** (continued)**Time Cards***Observation 07-04*

During the course of our audit we noted that the Library utilizes hand-written time cards which are maintained by each individual employee without the use of a time clock for each two-week pay period. At the end of each two-week pay period, employees submit their manually kept time card to their immediate supervisor for approval and submission to the payroll department.

Recommendation

We recommend that the Library consider implementing a more sophisticated method of tracking time through the use of automated systems such as a time clock or electronic login. The method currently used to track each employee's time for the pay period is outdated, heavily reliant on employee honesty, and highly susceptible to error and falsification.

Response

The Library agrees and has formed a committee to investigate the feasibility of web-based time reporting.

Communication of Ethical Behavior*Observation 07-05*

During the course of our audit we noted that the Library does not have an effective means of communicating to employees the importance of ethical behavior as it relates to the proper safeguarding of the Library's assets. The Library also lacks a clearly communicated policy on how employees can inform management of their concerns about identified inappropriate behavior that may have a direct effect on the Library's basic financial statements.

Recommendation

We recommend that the Library implement a program to clearly communicate to all employees the importance of ethical behavior and their roles in safeguarding the Library's assets and protecting the basic financial statements from fraud. As part of this program we recommend that the Library implement a system, which may include incentives, for employees to communicate their concerns, observations and recommendations to help safeguard the Library's assets and protect the basic financial statements from fraud.

Response

The Library agrees and plans to address the issue in conjunction with its evaluation of policies and procedures identified in Observation 07-01.