

Sonoma County Library
Basic Financial Statements
For the Year Ended June 30, 2013

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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, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

BEELS SUPER UP

Petaluma, California
December 16, 2013

Statement of Net Position

June 30, 2013

Assets

Cash and investments in County Treasury	\$ 9,951,858
Other cash	27,098
Accounts receivable	89,124
Other assets	10,000
Capital assets (net of accumulated depreciation, where applicable)	
Land	207,000
Building and improvements	2,707,002
Furnishings and equipment	391,494
Equipment held under capital leases	2,786
Vehicles	42,155

Total capital assets, net	3,350,437
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Total assets	13,428,517
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Liabilities

Amounts payable within one year:	
Accounts payable and accrued liabilities	\$ 628,171
Current portion of obligations under capital lease	1,367
Amounts payable after one year:	
Compensated absences	833,977
Net obligation for post-employment benefits	5,634,767

Total liabilities	7,098,282
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Net position

Invested in capital assets, net of related liabilities	3,349,070
Unrestricted	2,981,165

Total net position	\$ 6,330,235
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Statement of Activities

Year Ended June 30, 2013

Program expenses

Library:

Personnel	\$ 11,746,251
Materials	1,658,291
Depreciation	239,335
Other program expenses	2,560,260

Total program expenses	16,204,137
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Program revenues

Operating grants and contributions	393,989
Charges for fines, fees and services	541,624

Total program revenues	935,613
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Net program expenses	15,268,524
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General revenues

Property taxes	14,881,487
Investment losses	(39,087)
Intergovernmental	334,974
Other	94,149

Total general revenues	15,271,523
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Increase in net position	2,999
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Net position at beginning of year	6,327,236
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Net position at end of year	\$ 6,330,235
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Balance Sheet - Governmental Funds

June 30, 2013

	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	\$ 6,552,785	\$ 736,107	\$ 1,025,301	\$ 708,611	\$ 929,054	\$ 9,951,858
Other cash	27,098	-	-	-	-	27,098
Accounts receivable	30,840	-	-	5,721	52,563	89,124
Other assets	-	-	-	-	10,000	10,000
Total assets	\$ 6,610,723	\$ 736,107	\$ 1,025,301	\$ 714,332	\$ 991,617	\$ 10,078,080
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	\$ 603,389	\$ -	\$ -	\$ 10,504	\$ 18,278	\$ 632,171
Fund balances						
Committed:						
Capital improvement	1,590,000	-	-	-	-	1,590,000
Stabilization fund	1,930,772	-	-	-	-	1,930,772
Assigned	461,220	736,107	1,025,301	703,828	973,339	3,899,795
Unassigned	2,029,342	-	-	-	-	2,029,342
Total fund balances	6,011,334	736,107	1,025,301	703,828	973,339	9,449,909
Total liabilities and fund balances	\$ 6,614,723	\$ 736,107	\$ 1,025,301	\$ 714,332	\$ 991,617	
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets, net of related obligations under capital lease in the amount of \$1,367, used in governmental activities are not financial resources and therefore are not reported in the governmental funds						3,349,070
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:						
Compensated absences						(833,977)
Obligation for post-employment benefits						(5,634,767)
Net position of governmental activities						\$ 6,330,235

See accompanying Notes to the Basic Financial Statements

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

Year Ended June 30, 2013

	Special Revenue Funds					Total Governmental Funds
	General Fund	G. E. Cromwell Fund	Leoleon Hopkins Fund	Gifts & Donations Fund	Other Funds	
Revenues						
Property taxes	\$ 14,881,487	\$ -	\$ -	\$ -	\$ -	\$ 14,881,487
Library fines, fees and services	541,624	-	-	-	-	541,624
Intergovernmental	334,974	-	-	-	-	334,974
Investment losses	(31,583)	(1,695)	(2,677)	(1,374)	(1,757)	(39,086)
Grants and contributions	3,249	-	-	173,105	217,635	393,989
Other	94,149	-	-	-	-	94,149
Total revenues	15,823,900	(1,695)	(2,677)	171,731	215,878	16,207,137
Expenditures						
Current						
Salaries and benefits	10,958,593	-	-	-	-	10,958,593
Operating	3,898,332	-	-	180,487	156,483	4,235,302
Capital outlay	77,749	-	-	25,000	-	102,749
Total expenditures	14,934,674	-	-	205,487	156,483	15,296,644
Excess (deficiency) of revenues over expenditures	889,226	(1,695)	(2,677)	(33,756)	59,396	910,494
Other financing sources (uses)						
Transfers in	8,153	-	-	-	-	8,153
Transfers out	-	-	-	(8,153)	-	(8,153)
Total other financing sources (uses)	8,153	-	-	(8,153)	-	-
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	897,379	(1,695)	(2,677)	(41,909)	59,396	910,494
Fund balance at beginning of year	5,113,955	737,802	1,027,978	745,737	913,943	8,539,415
Fund balance at end of year	\$ 6,011,334	\$ 736,107	\$ 1,025,301	\$ 703,828	\$ 973,339	\$ 9,449,909

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, 2013

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)	\$ 910,494
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 expense (\$239,335) exceeded capital outlay (\$102,749) in the current period.	(136,586)
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.	16,751
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.	31,855
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.	(819,515)

Increase in net position of governmental activities (page 4)	\$ 2,999
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The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Sonoma County Library as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Capital Assets
- Note F. 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. Related Party Transactions
- Note N. Subsequent Events

Note A. Defining the Financial Reporting Entity

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

The Library is a component unit of the County. The Library is a separate legal entity/agency and presents basic financial statements. The County exercises financial oversight over the Library, in accordance with the terms of the JPA. In accordance therewith, the financial data of this component unit will be combined with the County's annual financial report for the fiscal year ended June 30, 2013. 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*Adoption of New Accounting Pronouncements*

Effective July 1, 2012, the Library implemented the provisions of GASB Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption primarily had the effect of replacing the term "net assets" with "net position" and did not affect the recorded assets or liabilities of the Library. Additionally, no deferred outflows or inflows of resources were recognized as a result of the adoption of this statement.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information on the Library as a whole. These financial statements include the financial activities of the Library's 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 position presents the financial condition of the government activities of the Library at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Program expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Taxes other than property taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within 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 2004. The funds are to be used for the substantial enrichment and/or enhancement of the Petaluma Library in the areas of facilities, collections and services.

Gifts & Donations Fund

The Gifts and Donations Fund is a major fund and includes donations and various other gifts. The funds are used for various Library projects, programs, collections and services.

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 assigned to expenditure for particular purposes.

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

Capital Assets

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

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

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

Buildings	50 years
Building improvements	30 years
Vehicles	5 years
Furnishings and equipment	5 years
Equipment under capital lease	5 years

The Library's collection of library books is not capitalized. This collection is unencumbered, held for public exhibition and education, protected, cared for and preserved, and subject to the Library's policy that requires proceeds from the sale of these items to be used to acquire other collection items.

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

Library employees are entitled to certain compensated absences based on their length of employment. Employees may accumulate earned vacation benefits that can be accrued up to a maximum of 240 to 280 hours per employee based on years of service. Accumulation of vacation time in excess of this limit may be granted upon recommendation of the Director with confirmation by the Commission. Terminated employees are entitled to full payment of unused vacation benefits.

Employees may also accumulate unused sick leave benefits without limit. Accumulated sick leave benefits may convert to compensatory time for up to a maximum of four days determined by a sliding scale based on actual sick days used during the previous year. Employees separated from library service, for reasons other than disability, may receive payment of 25% of the monetary equivalent of their accumulated unused sick leave benefit, not to exceed 500 hours. Employees separated from library service due to disability may receive full payment for all unused sick leave. Employees retiring from the library may choose to receive payment as described above or to have unused sick leave converted to additional service credit as provided by the Public Employees' Retirement System ("PERS").

A liability is calculated for all of the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs used to calculate the liability are those in effect as of June 30, 2013. Because vacation and sick leave balances do not require the use of current financial resources, no liability is recorded within the governmental funds. However, this liability is reflected in the government-wide statement of net position.

Net Position – Government-wide Financial Statements

Net position represents the difference between assets and liabilities. "Net position 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. "Restricted net position" is reported as restricted if the use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. "Unrestricted net position" consists of all other net position that does not meet the definition of the above two components and is available for general use by the Library.

Fund Balances – Governmental Funds

Governmental funds report fund balances in specifically defined classifications in accordance with the criteria established by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Library classifies fund balances in to the following five categories:

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Note B. Summary of Significant Accounting Policies (continued)*Fund Balances – Governmental Funds (continued)*

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Library's highest level of decision making authority (the Sonoma County Board of Supervisors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – amounts that are constrained by the Library's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Library's special revenue funds.

Unassigned fund balance – the residual classification for the Library's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Library Commission establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. All such occurrences within the committed fund balance must then be approved by the Sonoma County Board of Supervisors.

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

Fund Balance Policy

The Library believes that sound financial management principles require that sufficient funds be retained by the Library to provide a stable financial base at all times. To retain this stable financial base, the Library needs to maintain unrestricted fund balance in its general fund sufficient to fund cash flows of the Library and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the Library's fund balance policy is to maintain a prudent level of financial resources to protect against temporary revenue shortfalls or unpredicted one-time expenditures.

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

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

Capital improvement fund – The Library has adopted a policy to pay for priority projects to expand and/or improve the Library's services through the creation of new buildings/facilities, the addition of major new technology, or renovation of existing facilities. The funds in this category are determined using the Library's budget process and are based on its capital improvement plan.

Stabilization fund - The Library has adopted a policy and established a committed fund balance known as the stabilization fund. The stabilization fund is to be no less than 12.5% of the Library's annual operating expenditures in the current year's budget. The purpose of the Library's stabilization fund is (1) to insulate the Library programs and service levels from large unanticipated one-time expenditures due to unforeseen circumstance and (2) to temporarily insulate the Library's programs and service levels from slower revenue growth that typically occurs during an economic recession. The allowable uses of the stabilization fund are as follows:

Emergency reserves – Half of the stabilization fund, or 6.25% of the Library's approved operating expenditures for the current fiscal year, will be used in the case of unforeseen emergencies, including natural and man-made disasters, unanticipated major repairs or replacement of capital assets, or other cases in which the Library is faced with funding a large, unanticipated expenditure. Emergency reserves must begin to be restored during the next budgeted year, and the Library Director shall present a plan for the restoration within three months of its use.

Counter cyclical reserves – The balance of the stabilization fund, or 6.25% of the Library's approved operating expenditures for the current fiscal year, may be used if the property tax projections fall below the level of the previous year. The reserves may only be used to maintain current expenditure levels and provide bridge financing during the first eighteen months of an economic downturn. Counter cyclical reserves must begin to be restored within twenty-four months of their first use, and the Library Director shall present a plan for restoration within eighteen months of its use.

Interfund Transactions

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

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

These amounts are eliminated in the governmental activity columns of the governmental funds balance sheet.

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

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

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

Property taxes are recognized as revenue when they are levied 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.

New Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* and Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The objective of both Statements is to improve accounting and financial reporting data by state and local governments for pensions and pension plans. Both Statements are effective for financial statements for periods beginning after June 15, 2014.

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 B. Summary of Significant Accounting Policies (continued)*Rent Expense*

Rent expense for the year ended June 30, 2013 amounted to \$12,967.

Estimates

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

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

The Library Commission approves an annual appropriated budget for the General Fund to be effective July 1st for the ensuing fiscal year. The 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 26.

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.

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

Permitted investments include the following:

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

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

Cash and investments as of June 30, 2013, are classified in the accompanying statement of net position as follows:

Cash and investments in County Treasury	\$ 9,951,858
Other cash	27,098
	\$ 9,978,956

Investment in County Treasurer's Pooled Cash

As of June 30, 2013, the Library's investments consisted of \$9,951,858 in the Treasury Pool managed by the County Treasurer, which carry a weighted average maturity of approximately twelve months. The credit rating and other information regarding the Treasury Pool for the fiscal year ended June 30, 2013 will be disclosed in the County of Sonoma's June 30, 2013, 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, 2013, was \$100,619 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 \$65,385. The realized gains and losses from securities matured during the current fiscal year are recognized through the net change in the fair value of the investments held in the Treasury Pool.

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

The net decrease in fair value of investments by fund, and included in revenue – investment losses for the year ended June 30, 2013, are as follows:

General Fund	\$ 66,165
G.E. Cromwell Fund	7,428
Leoleon Hopkins Fund	10,405
Gifts & Donations Fund	7,190
Other Funds	9,431
	\$100,619

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As of June 30, 2013, the Library had no investments other than the cash and investments pooled with the County Treasury. Other cash consists of petty cash and a payroll checking account neither of which constitute investments that carry interest rate risk.

Custodial Credit Risk

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

The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the state or local governmental unit. The California Government Code also limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

Concentration of Credit Risk

At various times during the year, the Library had on deposit with financial institutions amounts in excess of the \$250,000 federally insured deposit limit. At June 30, 2013, the bank balance of cash held by a financial institution did not exceed the federal deposit insurance limit.

Notes to the Basic Financial Statements

Year Ended June 30, 2013

Note E. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2013, was as follows:

	July 1, 2012	Increase	Decrease	June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 207,000	\$ -	\$ -	\$ 207,000
Capital assets, being depreciated:				
Buildings and improvements	3,317,716	2,888	-	3,320,604
Vehicles	280,857	-	-	280,857
Furnishings and equipment	3,952,129	99,861	91,120	3,960,870
Equipment held under capital leases	108,511	-	-	108,511
Total capital assets being depreciated	7,659,213	102,749	91,120	7,670,842
Less accumulated depreciation for:				
Buildings and improvements	560,631	52,971	-	613,602
Vehicles	206,641	32,061	-	238,702
Furnishings and equipment	3,523,272	137,224	91,120	3,569,376
Equipment under capital leases	88,646	17,079	-	105,725
Total accumulated depreciation	4,379,190	239,335	91,120	4,527,405
Total capital assets being depreciated, net	3,280,023	(136,586)	-	3,143,437
Governmental activities capital assets, net	\$ 3,487,023	\$ (136,586)	\$ -	\$ 3,350,437

Depreciation expense relating to governmental activities amounted to \$239,335 for the year ended June 30, 2013, and was charged to program expenses.

Note F. Obligations Under Capital Lease

The Library has entered into certain capital lease agreements for equipment that expire on various dates through July 2013. 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 \$17,079 for the year ended June 30, 2013, 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, 2013 amounted to \$1,367, all of which is due during the year ending June 30, 2014.

Interest expense associated with the leases amounted to \$1,994 for the year ended June 30, 2013.

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 Q Street, Sacramento, California 95814.

In September 2012, Governor Brown signed the Public Employee Pension Reform Act of 2013 ("PERPA"). PERPA went into effect on January 1, 2013. The impact of PERPA on the Library retirement benefits is that all new employees are mandated into a new tier of PERS retirement benefits titled 2.0% at age 62. The 2.0% at age 62 is a lesser benefit than the 2.0% at age 55, unless an employee works past the age of 66. As of June 30, 2013, there were 148 covered employees under the 2.0% at 55 plan and 3 covered employees under the 2.0% at 62 plan.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The Library is also required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2013, was 16.582% for the annual covered payroll. The contribution requirements of plan members and the Library are established and may be amended by PERS.

Note G. Employees' Retirement Plan (continued)*Annual Pension Cost*

The Library's annual pension cost of \$1,195,259 for the year ended June 30, 2013, for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The assumptions included in the June 30, 2010, actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.55% 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, 2010, was 22 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, 2011	\$ 1,054	100%	-
June 30, 2012	1,148	100	-
June 30, 2013	1,195	100	-

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation, the plan was 90.9% funded (based on the actuarial value of the assets). The actuarial accrued liability for benefits was \$48,921,418, and the actuarial value of assets was \$44,451,507, resulting in an unfunded actuarial accrued liability ("UAAL") of \$4,469,911. The covered payroll (annual payroll of active employees covered by the plan) was \$7,480,871, and the ratio of the UAAL to the covered payroll was 59.7%.

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
6/30/09	39,918	45,204	5,286	88.3	8,065	65.5%
6/30/10	42,081	47,030	4,949	89.5	7,339	67.4
6/30/11	44,452	48,921	4,469	90.9	7,481	59.7

PERS Employer Contribution Rate

PERS estimates that employer contributions of 15.919% and 16.40% will be required for the years ending June 30, 2014 and June 30, 2015, respectively.

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. The Library contributes 80% to 84% of the cost towards the retiree’s health insurance benefit, depending on employee classification. This benefit is provided by Library Commission approval of the employee labor union MOU.

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, 2013, the Library contributed only the current pay-as-you-go portion of the current premium which amounted to \$536,560. By decision of management and the Library Commission, no amounts were contributed to prefund benefits. OPEB plan members receiving benefits are currently not required to contribute.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,275,821
Interest on net OPEB obligation	240,763
Adjustment to annual required contribution	(160,508)
<hr/>	
Annual OPEB cost	1,356,075
Contributions made	536,560
<hr/>	
Increase in net OPEB obligation	819,515
Net OPEB obligation – beginning of year	4,815,252
<hr/>	
Net OPEB obligation – end of year	\$ 5,634,767

Note H. Other Post Employment Benefits (continued)

The Library's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013, 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, 2011	\$ 1,260	44.4%	\$ 4,005
June 30, 2012	\$ 1,343	39.6%	\$ 4,815
June 30, 2013	\$ 1,356	39.5%	\$ 5,635

Funded Status and Funding Progress

As of November 1, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$13,468,429, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability ("UAAL") of \$13,468,429. The covered payroll (annual payroll of active employees covered by the plan) was \$7,146,045, and the ratio of the UAAL to the covered payroll was approximately 188%.

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, 2011 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 June 30, 2013, 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 MOU with the labor union, the Library agrees to make matching contributions to the Plan of up to 1% of regular compensation for all full and part time participating employees.

The Plans' assets are held by 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. For the year ended June 30, 2013, there were no funds advanced to the Library and therefore, no interest costs associated with the line of credit.

Note K. Long-Term Obligations*Compensated Absences*

Vested vacation and an accrual for vested sick leave for Library employees amount to \$833,977 at June 30, 2013 and is recorded as a long-term liability within the statement of net position. 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, 2012	Increase	Decrease	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences	\$ 865,832	\$ -	\$ 31,855	\$ 833,977	\$ -
Obligations under capital lease	\$ 18,118	\$ -	\$ 16,744	\$ 1,374	\$ 1,374

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. Related Party Transactions

During 2013, the Library contracted with the County of Sonoma for services related to maintaining the Library's general ledger and for access to service yards and fuel. Total expenditures for such services amounted to \$137,234 for the year.

Note N. Subsequent Events

In accordance with ASC 855, The Library subsequent events through December 16, 2013, the date these financial statements were available to be issued. With the exception of those matters discussed below, there were no material subsequent events that required recognition or additional disclosure in the financial statements.

Tentative Agreement with Labor Union

On November 6, 2013, the Library adopted a Tentative Agreement (the "Agreement") with the service Employees International Union ("SEIU"). The Agreement amends the Memorandum of Understanding ("MOU") dated November 3, 2011.

The term of the successor MOU is July 1, 2013 to June 30, 2016. It includes a one-time ratification bonus of \$1,720 to be paid out to each full-time permanent employee (pro-rated for part-time employees) at an approximate cost of \$242,760. This one-time bonus was paid out in November 2013.

Additionally, the Agreement stipulates a 2.5% cost of living adjustment ("COLA") to be paid out in July 2014 totaling approximately \$211,842 and a 1.5% COLA to be paid out in July 2015 totaling \$130,283.

The Agreement includes the creation of a third tier for retiree health benefits for new employees hired after the date of adoption. Under the third tier, the Library will provide health insurance for the retiree only at the same percentage cost to the retiree as provided for current active employees up until the retiree reaches the age of eligibility for Medicare at which time the Library will cease contributions. Newly hired employees in the new third tier will receive contributions from the Library of \$2,400 per year into a health reimbursement account, effective two years after the date of hire. Long-term effects from the creation of the third tier are unknown and will be evaluated with the next actuarial study for OPEB.

Required Supplementary Information

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

Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note A	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 13,807,411	\$ 14,364,804	\$ 14,881,487	\$ 516,683
Library fines, fees and services	507,604	526,110	541,624	15,514
Intergovernmental	251,742	288,038	334,974	46,936
Investment earnings (losses)	32,300	32,300	(31,583)	(63,883)
Grants and contributions	66,000	66,000	3,249	(62,751)
Contingency	4,000	-	-	-
Other	95,600	95,600	94,149	(1,451)
Total revenues	14,764,657	15,372,852	15,823,900	451,048
Expenditures				
Current				
Salaries and benefits	11,264,630	11,384,630	10,958,593	426,037
Operating	4,001,428	4,031,544	3,898,332	133,212
Retirement - long-term debt	25,000	30,000	-	30,000
Capital outlay	346,812	346,812	77,749	269,063
Contingency	25,000	25,000	-	25,000
Total expenditures	15,662,870	15,817,986	14,934,674	883,312
Excess of revenues over expenditures	(898,213)	(445,134)	889,226	1,334,360
Other financing sources (uses)				
Transfers in	-	-	8,153	8,153
Net change in fund balance	\$ (898,213)	\$ (445,134)	897,379	\$ 1,342,513
Fund balance at beginning of year			5,113,955	
Adjustments from budgetary basis to GAAP			-	
Fund balance at end of year			<u>\$ 6,011,334</u>	

See accompanying Notes to Required Supplementary Information

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 individually 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sonoma County Library (the "Library"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Library's Response to Findings

The Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BEELS SUPER LLP

Petaluma, California
December 16, 2013

Findings and Responses

2013-01 Availability of Financial Reporting Information

Finding: Based upon the observations made during our audit, we feel the Library has a lack of control and direction regarding the accounting system and overall fiscal management. In general, an accounting and information system should be designed to provide management with accurate and timely financial information to enable well-informed decisions to be made by all levels of management. The present system fails to meet these expectations. We strongly suggest that Library seriously consider creating an accounting and information system that will facilitate the production of more useful financial information, provide for more accountability of assets and provide financial information at a departmental level to increase overall accountability throughout the Library, not just at top level of management.

Response: We acknowledge the need for an enhanced financial management system. Currently, the Library is dependent on the County of Sonoma (the "County") for financial system support. The County's financial management system is outdated and scheduled for replacement during 2014-15 fiscal year. The Library will be part of the conversion and therefore have the new system available for use and evaluation. Once the Library has sufficient time to evaluate the new County financial management system, a decision will be made to continue with the County or seek an alternative solution to meet its requirement for a financial management system.

2013-02 Accounting Policies and Procedures

Finding: During the course of our audit we noted the Library lacks a written accounting policies and procedures manual.

Response: We acknowledge there should be additional documentation of the accounting policies and procedures. This item will be assigned a priority for funding or staff assignment during the 2014-15 budget process.

2013-03 Cut-off Procedures for Recordation of Transactions

Finding: During the course of our audit we noted that proper cut-off procedures were neither followed nor properly supervised for the recordation of year-end liabilities resulting in an overstatement of the year-end liabilities.

Response: The lack of a full time chief financial officer undoubtedly contributed to this finding. It is expected this will not be an ongoing issue with the hiring of a full-time permanent chief financial officer.

2013-04 Gift Acceptance Policy

Finding: During the course of our audit we noted that the Library lacks documented gift acceptance procedures for public gifts to the Library. This lack of policy also results in an inability for gifts to be traced to their ultimate use.

Response: We acknowledge there is insufficient documentation of the accounting policies and procedures. This item will be assigned a priority for funding or staff assignment during the 2014-15 budget process.

2013-05 Supervision of Accounting Personnel

Finding: During the course of our audit we noted that there was a lack of supervision over the accounting staff during the fiscal year due to a resignation within Library management. This lack of supervision resulted in accounting errors identified during the audit. We strongly suggest that the Library fill this position with a permanent employee who possesses the qualifications and skill set to provide the necessary oversight.

Response: We acknowledge the need to have a permanent CFO. Recruitment for a CFO is in progress.

2013-06 Capital Improvement Fund

Finding: During the course of our audit, we noted that the Library lacks a detailed methodology for the establishment of its restricted capital improvement fund. We suggest that the Library implement a more thoughtful approach to establishing such balance.

Response: We acknowledge the need to include the establishment of the amount for the restricted capital improvement fund as part of the annual budget preparation and adoption process.

2013-07 Physical Inventory of Fixed Assets

Finding: During the course of our audit, we noted that the Library has not performed a physical inventory of its fixed asset ledger and that there are variances between the fixed asset ledger and the general ledger.

Response: We acknowledge there was no fixed asset inventory during 2012-13. It is a high priority that a fixed asset inventory and reconciliation of the Library fixed asset records be completed prior to June 30, 2014.