

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

SACRAMENTO PUBLIC LIBRARY AUTHORITY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor’s Report..... 1
Management’s Discussion and Analysis..... 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Funds Balance Sheet 10
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances 14
Notes to the Basic Financial Statements 16

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund 41
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – County of Sacramento Special Revenue Fund..... 42
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – City of Sacramento Special Revenue Fund 43
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – City of Sacramento Parcel Tax Special
Revenue Fund 44
Schedule of Changes in the Net Pension Liability and Related Ratios
(Unaudited)..... 45
Schedule of Contributions to the Pension Plan (Unaudited)..... 46
Schedule of Changes in the Net OPEB Liability and Related Ratios
(Unaudited)..... 47
Schedule of Contributions to the OPEB Plan (Unaudited) 48

COMPLIANCE REPORT

Independent Auditor’s 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..... 49



550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sacramento Public Library Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sacramento Public Library Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. 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 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.

To the Board of Directors
Sacramento Public Library Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of June 30, 2018, 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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Emphasis of Matter

As discussed in Note 16 to the financial statements, during the year ended June 30, 2018 the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and 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 Authority's internal control over financial reporting and compliance.

Richardson & Company, LLP

November 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Sacramento Public Library Authority (the Authority) is pleased to provide this overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the Financial Statements and the Required Supplementary Schedules that follow this discussion.

Financial Highlights

The total net position of the Authority as of June 30, 2018 was \$32,317,374 compared to that of the prior year balance of \$36,037,188, a decrease of \$3,719,814. The decrease is due primarily to the implementation of Governmental Accounting Standards Board (GASB) Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, effective fiscal year 2018. As such, the Library recorded an additional OPEB obligation in the amount of \$5,534,915, bringing the total OPEB balance to \$8,006,437 as of June 30, 2018. The net investment in capital assets was \$818,492 higher than the previous year mainly due to the one-time \$800,000 books and materials refresh at the Arcade Library, North Highlands-Antelope Library, Southgate Library and Arden-Dimick Library. County of Sacramento property tax contributions were \$23,522,880 for fiscal year 2018, an increase of \$1,556,747 from the fiscal year 2017 amount of \$21,966,133, which is a reflection of the robust real estate market. The City of Sacramento's General Fund contribution increased by \$1,250,000 for a total of \$8,885,600 for fiscal year 2018. This is the first time the City has increased its General Fund contribution over the last eight fiscal years to help balance the budget for the City of Sacramento Libraries. Assessments and taxes were \$170,812 higher for Parcel Tax Measure X and Measure B combined, which is in line with the Consumer Price Index (CPI) increase for fiscal year 2018.

The financial statements starting on page 10 through page 15 have been reformatted to separate out the General Fund (includes: Shared Fund, Book Fund, Donation Funds, Technology Funds and Grant Funds), County of Sacramento Fund, City of Sacramento General Fund, City of Sacramento Parcel Tax Fund and Permanent Fund for the fiscal year ended June 30, 2018. This format provides a clear picture of each of the Library's funding sources, especially County of Sacramento Fund and City of Sacramento Funds.

Of the \$32,317,374 current year net position balance, \$11,896,256 is invested in capital assets. After factoring the adjusted long-term liabilities (net of deferred outflows and inflows of resources) in the amount of \$21,203,175 (\$11,607,212 for CalPERS; \$7,847,144 for OPEB; \$1,748,819 for accrued compensated absences), \$14,824,585 is restricted for County branches plus \$436,765 representing a bequest restricted for the Elk Grove Library; City of Sacramento branches ended fiscal year 2018 with a City deficit of (\$1,207,836); Restricted for Agency-wide includes \$2,033,644 for book purchases (includes \$1,783,780 for book purchases per the Erin C. and Heidi K. Hurst Trust Agreement); \$573,987 is restricted for donor approved projects; \$390,366 is restricted as described in Note 2, regarding the Permanent Fund; \$14,036 is restricted for grant programs and \$3,043,950 is unrestricted for agency-wide expenditures. With the implementation of GASB No. 68 requirements to record pension liabilities over the last three fiscal years and GASB No. 75 standards to record Other Postemployment Benefits (OPEB) starting in fiscal year 2018, the Statement of Net Position has been formatted to itemize the various external restrictions on the use of resources.

The Authority's cash and investments balance at June 30, 2018 was \$43,218,198, an increase of \$3,288,872 from the prior year balance of \$39,929,326. The increase is due primarily from the higher property tax revenues received in the amount of \$1,556,747, the \$1,250,000 additional City of Sacramento General Fund contribution and the \$436,765 from the Schulz bequest for the Elk Grove Library during fiscal year 2018.

For the year ended June 30, 2018 program revenues in the Statement of Activities were \$41,215,073 which represents an increase of \$2,869,792 from the prior year balance of \$38,345,281. The increase is due primarily from higher County property tax revenues and increased City of Sacramento General Fund

contributions during fiscal year 2018 as noted above. Included in the total program revenues is \$135,337 in First 5 Grant, money received from the County of Sacramento to fund year three of the Raising Readers program, a project to provide bookmobile services and family literacy workshops for families of children 0-5 years in age in affordable housing communities. Fiscal year 2018 was the final year of funding for First 5 programs. Additionally, general revenues were \$2,428,344 for the year ended 2018, an increase of \$546,593 from the prior year amount of \$1,881,751. The increase is mainly due to the Schulz bequest received for the Elk Grove Library as noted above during fiscal year 2018. Education expenditures for fiscal year ended 2018 were \$42,171,818, an increase of \$4,010,988 from the 2017 fiscal year amount of \$38,160,830. The increase is due primarily to higher salaries and benefits expenses, increased services and supplies expenses and higher depreciation expenses.

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions with compliance effective with the fiscal year ended June 30, 2011. This new standard does not change the total amount of a given fund balance, but it substantially altered the categories and terminology used to describe the components that make up a fund balance. The Authority's Governmental Funds Balance Sheet, as shown on pages 10 and 11 of this report continues to be presented in compliance with GASB No. 54 requirements. Overall, the fund balances were \$5,659,210 for the General Fund; \$26,937,063 for County of Sacramento Fund; \$2,449,290 for City of Sacramento Fund; \$5,628,236 for City of Sacramento Parcel Tax Fund and \$390,366 for the Permanent Fund, for a combined fund balance of \$41,064,165.

The Authority's Statement of Net Position and Governmental Funds Balance Sheet, as shown on pages 10 through 13, shows a deferred inflows balance of \$560,128 which represents revenues not received in the Authority's 60 day availability period and total net position balance of \$32,317,374 at June 30, 2018, a decrease of \$3,719,814 from the prior year net position balance of \$36,037,188

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits. Subsequently, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. In compliance with these GASB statements, the Library recorded a net pension liability in the amount of \$17,236,474 as of June 30, 2018, which represents an increase of \$2,864,169 from the prior year balance of \$14,372,305. This increase is mainly due to changes of assumptions, which CalPERS reduced their discount rate from 7.65% to 7.15 percent as of the measurement date of June 30, 2017. In addition, deferred outflows of resources in the amount of \$6,449,079 and deferred inflows of resources in the amount of \$819,817 were recorded in its accrual basis financial statements as of June 30, 2018. Note 10, Pension Plans, describes the Library's defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS).

In June 2015, the GASB issued Statement No. 75 (this Statement replaces the requirements of Statement No. 45), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Other Postemployment Benefits or OPEB)*, which revises and establishes new financial reporting requirements for governments that provide their employees with OPEB plans. In compliance with GASB No. 75, the Library recorded an OPEB obligation in the amount of \$8,006,437 as of June 30, 2018, which represents an increase of \$5,534,915 from the prior year balance of \$2,471,522. Note 11, Other Postemployment Benefits Plans, describes the Library's OPEB plans in more details.

All financial assets of the Authority continue to be devoted to providing library services to the citizens of Sacramento County and the cities of Citrus Heights, Elk Grove, Galt, Isleton, Rancho Cordova, and Sacramento.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the following components, in addition to management's discussion

and analysis: 1) Authority government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Authority government-wide and fund financial statements are presented in a combined format on pages 10 through 15. Items in the adjustment column are discussed in Notes 3 and 4.

The Authority continues to report the government-wide financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended June 30, 2018. The intent of GASB Statement No. 34 is to reflect all assets and liabilities of the Authority. It also redefines the way various funds are classified into fund types and focuses attention on major funds. The Authority has only governmental-type funds and all are major except for the Permanent Fund which is a non-major fund.

Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

Fund Financial Statements

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 Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority has two funds, both of which are governmental-type funds.

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 the Authority'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 the governmental funds with similar information presented for governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a column detailing the differences (adjustments) between the governmental funds and governmental activities. These adjustments are discussed in further detail in Notes 3 and 4 of the basic financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 40 of this report.

Government-Wide Financial Analysis

The government-wide financial statements provide long-term and short-term information about the Authority's overall financial condition. This analysis addresses the financial statements of the Authority as a whole.

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. At June 30, 2018, the Authority's assets exceeded its liabilities by \$32,317,374 representing a decrease of \$3,719,814 from the prior year amount of \$36,037,188, mainly due to the posting of the additional OPEB liability in the Statement of Net Position in compliance with GASB No. 75, as described above.

As noted above, the Statement of Net Position for fiscal year 2018 has been formatted to itemize the restricted net position for County branches, City of Sacramento branches and Agency-wide to reflect the available resources after factoring the Library's long-term liabilities.

CONDENSED STATEMENTS OF NET POSITION (Amounts shown in thousands)

	June 30,	
	2018	2017
ASSETS		
Current and other assets	\$ 44,972	\$ 41,662
Capital assets	11,897	11,078
Total assets	<u>56,869</u>	<u>52,740</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plans	6,449	5,393
Other Postemployment Benefits	159	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,608</u>	<u>5,393</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>63,477</u>	<u>58,133</u>
LIABILITIES		
Net pension liability	17,236	14,372
Other postemployment benefits obligation	8,006	2,472
Other liabilities	5,098	3,795
Total liabilities	<u>30,340</u>	<u>20,639</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Plans	820	1,457
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>820</u>	<u>1,457</u>
NET POSITION		
Net investment in capital assets	11,896	11,078
Restricted - County branches	15,410	17,687
Restricted - City of Sacramento branches	163	1,654
Restricted - Agency-wide	3,012	2,861
City of Sacramento deficit	(1,208)	-
Unrestricted	3,044	2,757
TOTAL NET POSITION	<u>\$ 32,317</u>	<u>\$ 36,037</u>

Overall, actual revenues ended the year at \$43,643,417 in the Statement of Activities, an increase of \$3,416,385 from the prior year total of \$40,227,032, mainly due to higher property tax revenues and additional General Fund contribution from the City of Sacramento in fiscal year 2018. Expenditures were \$42,171,818, an increase of \$4,010,988 from the prior year total of \$38,160,830. Salaries and benefits were \$26,507,294 an increase of \$2,818,847 from the prior year total of \$23,688,447, mainly due to employee salary step increases, cost of living adjustment, higher health care costs as well as higher pension and OPEB expenses in fiscal year 2018. Services and supplies were \$9,822,167, an increase of \$818,509 from the prior year total of \$9,003,658 mainly due to higher consultant costs to assess the Human Resources Department needs and an Interim Human Resources Manager to oversee the Department's operations (due to the HR Manager position vacancy) as well as IT database/equipment refresh during fiscal year 2018. Books and media subscriptions decreased by \$29,841. Depreciation expense increased by \$341,742. The final third year of the First 5 Grant program expenditures added \$130,508 to the total expenditures. During the fiscal year 2018, the Authority implemented GASB No. 75 requirements, resulting in a restatement in the amount of \$5,191,413 to the beginning Net Position balance as explained in Note 16.

CONDENSED STATEMENTS OF ACTIVITIES
(Amounts shown in thousands)

	June 30,	
	2018	2017
REVENUES		
Program revenues:		
Charges for services	\$ 8,373	\$ 8,302
Operating grants and contributions	32,841	30,044
General revenues:		
Gifts and donations	1,088	606
E-rate	470	432
Investment income	544	431
Other	327	412
Total revenues	43,643	40,227
 EXPENSES		
Education	42,172	38,161
(Decrease) increase in net position	1,471	2,066
 Net position, beginning of year	36,037	33,971
Restatement	(5,191)	-
 NET POSITION, END OF YEAR	\$ 32,317	\$ 36,037

Financial Analysis of the Authority's Governmental Funds

The focus of the Authority's funds, all of which are governmental-type funds, is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, fund balance may serve as a useful measure of the Authority's net resources available for spending for program purposes at the end of the fiscal year.

As of June 30, 2018, the Authority had ending fund balances of \$41,064,165 compared to the June 30, 2017 ending fund balances of \$38,786,709. The \$2,277,456 increase in fund balance is mainly due to higher property tax revenues, Schulz bequest received for the Elk Grove Library and other expenditure savings in fiscal year 2018. The Authority's major source of revenues is member contributions. The Authority's major expenditures are personnel costs followed by services and supplies. The General Fund transfers out and the County of Sacramento, City of Sacramento and City of Sacramento Parcel Tax Funds transfers in include \$25,268,239 transferred to establish the opening fund balances of the new funds. Note that the government-wide financial analysis is fairly applicable to the governmental funds with the exception of reconciliation discussion, as shown in Notes 3 and 4.

Budgetary Highlights

The final budget of the General Fund anticipated that there would be expenditures of \$8,411,385 while actual expenditures were \$6,407,788, resulting in positive variance of \$2,003,597. The budget savings is mainly due to services and supplies expenditures coming under budget by approximately \$1,200,000, mainly due to \$615,000 in Information Technology hardware and software costs as well as approximately \$530,000 in donations that have not yet been spent. In addition, approximately \$200,000 in Sierra server upgrade cost savings along with another \$100,000 of security video surveillance system upgrade project postponement added to the positive variance. The surveillance system upgrade project has been re-budgeted in fiscal year 2019.

The final budget of the County of Sacramento Fund anticipated total expenditures and transfers out of \$24,797,164 while actual expenditures and transfers out were \$23,091,732, resulting in a positive variance of \$1,705,432. The budget savings is mainly due to the Sylvan Library refresh project delays in fiscal year 2018. The Sylvan Library refresh project has been re-budgeted in fiscal year 2019. Actual revenues were higher than budgeted by \$205,847.

The final budget of the City of Sacramento Fund anticipated total expenditures and transfers out of \$9,316,106 while actual expenditures and transfers out were \$8,471,090, resulting in a budget savings of \$845,016 mainly due to reclassifying operating expenditures from the City of Sacramento Fund to close out the Parcel Tax X (Sunset) Fund in fiscal year 2018. Actual revenues were slightly higher than budgeted by \$63,749.

The final budget of the City of Sacramento Parcel Tax Fund anticipated total expenditures and transfers out of \$8,563,448 while actual expenditures and transfers out were \$8,802,014, resulting in a negative variance of \$238,566 mainly due to closing out Parcel Tax X (Sunset) Fund in 2018. Actual revenues were slightly lower than budgeted by \$15,018.

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation is \$11,896,256. Capital assets purchased during the current year includes \$3,836,979 for books and media collection, \$41,816 for construction in progress (building improvements), \$1,879,169 for completed building improvements and \$50,370 for equipment. In addition, the Library cleaned up the fixed assets database and disposed of capital assets that were fully depreciated in the amount of \$9.8 million (for furniture & fixtures, equipment, software) and the corresponding accumulated depreciation of \$9.8 million was also eliminated from the capital assets balance as of June 30, 2018. Additional information on the Authority's capital assets can be found in Note 7 of this report.

The Authority continues to capitalize the purchase of all books and media collection in compliance with GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. As noted above, the Authority capitalized another \$3,836,979 in fiscal year 2018 for books and media collections. The Authority also disposed books and media collections in the amount of \$2,557,609 that were capitalized for fiscal year 2012. With the new additions and

disposals, the Authority ended the fiscal year 2018 with a balance of \$17,353,633 for books and media collections.

Long-term Liabilities

As of June 30, 2018 the Authority's long-term liabilities consist of compensated absences, net pension liability and other postemployment benefits obligation (OPEB). The total current year balance is \$26,991,730, an increase of \$8,507,844 from the prior year balance of \$18,483,886. The major factor for this increase is the \$5,534,915 addition to the OPEB obligation balance in compliance with GASB No. 75 effective fiscal year 2018, bringing the total OPEB balance to \$8,006,437 at June 30, 2018. The Net Pension Liability increased by \$2,864,169, bringing the total Net Pension Liability balance at June 30, 2018 to \$17,236,474. As noted earlier, the recognition of net pension liability in the Library's accrual basis financial statement complies with GASB 68 requirements. In addition, Compensated absences increased by \$108,760, resulting in an ending balance of \$1,748,819 at June 30, 2018. Of that amount \$1,709,388 is due within one year. Additional information on the Authority's long-term liabilities can be found in Note 9 of this report.

Future Events That Will Financially Affect the Authority

The State of California's budget situation continues to affect the Authority's funding during the next fiscal year. For fiscal year 2019, projected revenue from the State continues to be minimal for Literacy programs. The City of Sacramento Parcel Tax, Measure X (Sunset), approved by voters in 2004, providing approximately 33% of City contributions expired in fiscal year 2017. Remaining fund balance of Measure X (Sunset) was budgeted and fully spent during fiscal year 2018. On June 7, 2016, City of Sacramento residents approved the renewal of Measure X (Renewal) by 79.12% "to fund library services". The renewal of Measure X is in effect for 10 years, generating approximately \$5.8 million annually. In June 2014, voters in the City of Sacramento approved a City of Sacramento Library Parcel Tax, Measure B, authorizing the City to collect an additional parcel tax of \$12 per year for single-family residential parcel (rates vary for other parcels types) for 12 years. Measure B generates approximately \$2.2 million annually, providing funding for "core library services". Despite the approval of Measure B and renewal of Measure X, the Authority continues to face fiscal challenges from the City of Sacramento. Authority staff has been working with the City of Sacramento's Finance staff to address the ongoing structural deficit. The CalPERS employer contribution rate is also slated to increase starting with fiscal year 2019 due to PERS lowering their discount rate from 7.5% to 7.0% over the next three years. The Library is projecting the employer contribution increase to be approximately \$2 million over the next five years. Although the economy has shown signs of improvement, the Authority may be impacted by reduced contributions from both the County and City of Sacramento due to the impact of the State's actions on their revenues. As a result, the Authority has set aside \$2,374,600 and \$1,704,460 of the County and City of Sacramento fund balances respectively, for economic uncertainty as of June 30, 2018.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances, and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Department of Finance
4th Floor
828 I Street
Sacramento, CA 95814

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2018

	Major Funds			
	General Fund	County of Sacramento Special Revenue Fund	City of Sacramento Special Revenue Fund	City of Sacramento Parcel Tax Special Revenue Fund
ASSETS				
Cash and investments	\$ 3,739,542	\$ 27,018,468	\$ 2,671,093	\$ 5,689,206
Cash and investments- restricted	2,961,137	584,987	137,863	25,536
Receivables, net:				
Due from County of Sacramento		883,999		
Fines and fees	2,939	145,655	95,036	35,030
Due from City of Sacramento	6,451			233,837
Other	251,222	3,961	11,864	992
Prepaid expenditures	76,201			
Accrued interest receivable	6,922			
Noncurrent assets:				
Capital assets not depreciated				
Capital assets depreciated, net				
TOTAL ASSETS	7,044,414	28,637,070	2,915,856	5,984,601
DEFERRED OUTFLOWS OF RESOURCES				
Pension plans				
Other postemployment benefits				
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,044,414	\$ 28,637,070	\$ 2,915,856	\$ 5,984,601
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 504,410	\$ 956,642	\$ 96,348	\$ 85,530
Accounts payable from restricted assets	579,973			
Due to other governments	95,642	243,818	22,594	88,326
Salaries and benefits payable	198,772	173,892	99,363	49,479
Unearned revenue			106,975	
Deposits			46,250	
Compensated absences due within one year				
Noncurrent liabilities:				
Compensated absences due in more than one year				
Net pension liability				
Other postemployment benefits obligation				
TOTAL LIABILITIES	1,378,797	1,374,352	371,530	223,335
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	6,407	325,655	95,036	133,030
Pension plans				
TOTAL DEFERRED INFLOWS OF RESOURCES	6,407	325,655	95,036	133,030
FUND BALANCES/NET POSITION				
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	76,201			
Trust obligations - nonspendable				
Restricted - County of Sacramento branches		26,352,076		
Restricted - City of Sacramento branches			2,311,427	5,602,700
Restricted - City of Elk Grove branch		436,765		
Restricted - Agency-wide:				
Book purchases	2,027,237			
Donations	573,058	148,222	137,863	25,536
Grant programs	14,036			
Trust obligations - spendable				
Committed - open contracts	46,845			
Assigned:				
Equipment replacement	2,153,545			
Open contracts	56,628			
Unassigned	711,660			
TOTAL FUND BALANCES	5,659,210	26,937,063	2,449,290	5,628,236
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,044,414	\$ 28,637,070	\$ 2,915,856	\$ 5,984,601

Nonmajor Fund

Permanent Fund	Total Governmental Funds	Adjustments (Note 3)	Statement of Net Position
\$ 390,366	\$ 39,118,309		\$ 39,118,309
	4,099,889		4,099,889
	883,999		883,999
	278,660		278,660
	240,288		240,288
	268,039		268,039
	76,201		76,201
	6,922		6,922
		\$ 129,544	129,544
		11,766,712	11,766,712
<u>390,366</u>	<u>44,972,307</u>	<u>11,896,256</u>	<u>56,868,563</u>
		6,449,079	6,449,079
		159,293	159,293
		<u>6,608,372</u>	<u>6,608,372</u>
<u>\$ 390,366</u>	<u>\$ 44,972,307</u>	<u>18,504,628</u>	<u>63,476,935</u>
	\$ 1,642,930		1,642,930
	579,973		579,973
	450,380		450,380
	521,506		521,506
	106,975		106,975
	46,250		46,250
		1,709,388	1,709,388
		39,431	39,431
		17,236,474	17,236,474
		8,006,437	8,006,437
	<u>3,348,014</u>	<u>26,991,730</u>	<u>30,339,744</u>
	560,128	(560,128)	
		819,817	819,817
	<u>560,128</u>	<u>259,689</u>	<u>819,817</u>
\$ 131,181	76,201	(76,201)	
	131,181	(131,181)	
	26,352,076	(26,352,076)	
	7,914,127	(7,914,127)	
	436,765	(436,765)	
	2,027,237	(2,027,237)	
	884,679	(884,679)	
	14,036	(14,036)	
259,185	259,185	(259,185)	
	46,845	(46,845)	
	2,153,545	(2,153,545)	
	56,628	(56,628)	
	711,660	(711,660)	
<u>390,366</u>	<u>41,064,165</u>	<u>(41,064,165)</u>	
<u>\$ 390,366</u>	<u>\$ 44,972,307</u>		

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED)

June 30, 2018

	Major Funds			
	General Fund	County of Sacramento Special Revenue Fund	City of Sacramento Special Revenue Fund	City of Sacramento Parcel Tax Special Revenue Fund
NET POSITION				
Investment in capital assets				
Restricted - County branches				
General branch expenditures				
Elk Grove branch				
Donations				
Restricted - City of Sacramento branches				
Donations				
Restricted - Agency-wide:				
Book purchases				
Donations				
Grant programs				
Trust obligations - nonspendable				
Trust obligations - spendable				
Unrestricted				
City deficit				
Agency-wide				
TOTAL NET POSITION				

The accompanying notes are an integral part of these financial statements.

Nonmajor Fund

<u>Permanent Fund</u>	<u>Total Governmental Funds</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
		\$ 11,896,256	\$ 11,896,256
		14,824,585	14,824,585
		436,765	436,765
		148,222	148,222
		163,399	163,399
		2,033,644	2,033,644
		573,987	573,987
		14,036	14,036
		131,181	131,181
		259,185	259,185
		(1,207,836)	(1,207,836)
		<u>3,043,950</u>	<u>3,043,950</u>
		<u>\$ (8,746,791)</u>	<u>\$ 32,317,374</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2018

	Major Funds			
	General Fund	County of Sacramento Special Revenue Fund	City of Sacramento Special Revenue Fund	City of Sacramento Parcel Tax Special Revenue Fund
REVENUES				
Program revenues:				
Charges for services:				
Assessments and taxes				\$ 7,547,113
Fines, fees and penalties	\$ 79,491	\$ 281,606	\$ 179,894	66,851
Facility rental income			331,156	
Galleria catering and other			67,860	
Operating grants and contributions:				
County contributions		23,502,880		
City contributions			8,885,600	
Other agency contributions	127,171			
Federal and State grants	169,670	1,061		
First 5 grant	135,337			
Total program revenues	<u>511,669</u>	<u>23,785,547</u>	<u>9,464,510</u>	<u>7,613,964</u>
General revenues:				
Gifts and donations	409,353	564,469	78,283	35,543
E-rate refund	469,918			
Investment income (loss)	39,450	378,560	20,217	95,160
Other	163,925	27,800	96,622	38,858
Total general revenues	<u>1,082,646</u>	<u>970,829</u>	<u>195,122</u>	<u>169,561</u>
TOTAL REVENUES	<u>1,594,315</u>	<u>24,756,376</u>	<u>9,659,632</u>	<u>7,783,525</u>
EXPENDITURES/EXPENSES:				
Education:				
Current:				
Salaries and benefits	3,552	13,887,749	6,581,893	4,570,368
Services and supplies	949,556	5,039,604	1,564,917	2,268,090
Books and media subscriptions	2,402,948			
First 5 grant	130,508			
Depreciation				
Capital outlay:				
Books and media collection	2,921,224	869,069	29,231	17,455
Other capital outlay		252,603	26,049	11,762
Loss on disposal of capital assets				
TOTAL EXPENDITURES	<u>6,407,788</u>	<u>20,049,025</u>	<u>8,202,090</u>	<u>6,867,675</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(4,813,473)</u>	<u>4,707,351</u>	<u>1,457,542</u>	<u>915,850</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,246,046	25,272,419	1,260,748	6,646,725
Transfers (out)	(33,179,892)	(3,042,707)	(269,000)	(1,934,339)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(27,933,846)</u>	<u>22,229,712</u>	<u>991,748</u>	<u>4,712,386</u>
CHANGE IN FUND BALANCES/NET POSITION				
	<u>(32,747,319)</u>	<u>26,937,063</u>	<u>2,449,290</u>	<u>5,628,236</u>
Fund balances/net position, beginning of year - as previously reported				
	38,406,529			
Restatement				
Fund balances/net position, beginning of year as restated	<u>38,406,529</u>			
FUND BALANCES/NET POSITION END OF YEAR	<u>\$ 5,659,210</u>	<u>\$ 26,937,063</u>	<u>\$ 2,449,290</u>	<u>\$ 5,628,236</u>

The accompanying notes are an integral part of these financial statements.

Nonmajor Fund

Permanent Fund	Total Governmental Funds	Adjustments (Note 4)	Statement of Activities
	\$ 7,547,113	\$ 8,000	\$ 7,555,113
	607,842	(188,617)	419,225
	331,156		331,156
	67,860		67,860
	23,502,880	20,000	23,522,880
	8,885,600		8,885,600
	127,171		127,171
	170,731		170,731
	135,337		135,337
	<u>41,375,690</u>	<u>(160,617)</u>	<u>41,215,073</u>
	1,087,648		1,087,648
	469,918		469,918
\$ 10,186	543,573		543,573
	327,205		327,205
<u>10,186</u>	<u>2,428,344</u>		<u>2,428,344</u>
<u>10,186</u>	<u>43,804,034</u>	<u>(160,617)</u>	<u>43,643,417</u>
	25,043,562	1,463,732	26,507,294
	9,822,167		9,822,167
	2,402,948		2,402,948
	130,508		130,508
		3,242,342	3,242,342
	3,836,979	(3,836,979)	
	290,414	(290,414)	
		66,559	66,559
	<u>41,526,578</u>	<u>645,240</u>	<u>42,171,818</u>
	38,425,938		
	<u>(38,425,938)</u>		
10,186	2,277,456	(805,857)	1,471,599
380,180	38,786,709	(2,749,521)	36,037,188
		(5,191,413)	(5,191,413)
<u>380,180</u>	<u>38,786,709</u>	<u>(7,940,934)</u>	<u>30,845,775</u>
<u>\$ 390,366</u>	<u>\$ 41,064,165</u>	<u>\$ (8,746,791)</u>	<u>\$ 32,317,374</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 1 - ORGANIZATION

The Sacramento Public Library Authority (the Authority) was created under a joint powers agreement between the City and County of Sacramento on August 31, 1993. On July 1, 2007, a joint exercise of powers agreement was modified to include the County of Sacramento and the Cities of Citrus Heights, Elk Grove, Galt, Isleton, Rancho Cordova and Sacramento (the Members). The purpose of the Authority is to provide information services to the people of the unincorporated areas of the County of Sacramento (the County) and the Cities of Citrus Heights, Elk Grove, Galt, Isleton, Rancho Cordova, and Sacramento.

Library services are provided through the Central Library, 27 branch locations and a bookmobile. Because the Library is a joint-powers authority, the facilities are owned by a variety of entities, including Sacramento County and the cities of Elk Grove, Galt and Sacramento. The library has operating agreements with five school districts [Elk Grove Unified School District (USD), Twin Rivers USD, Sacramento City USD, Natomas USD, River Delta USD]. In addition, the library operates two leased facilities: North Sacramento (City) and Orangevale (County). The Library also operates a facility, the Tsakopoulos Library Galleria, which is leased for events and generates rental income, catering and other fees.

Library services include school readiness and early literacy programs for children ages 0-5, support for K-12 students, literacy services for adults, including basic literacy, GED preparation and an accredited high school completion program, as well a variety of services and programs for all ages. In addition, the library circulates materials in a variety of formats, provides information services, helps job seekers and provides access to local history through the Sacramento Room.

The Authority Board includes all members of the Sacramento County Board of Supervisors, five representatives of the Sacramento City Council, two representatives from the Elk Grove City Council, one representative each from the Citrus Heights and Rancho Cordova city councils, and one city council member who represents the cities of Galt and Isleton. The Library Director serves as the Chief Executive Officer of the Authority and as Secretary to the governing board. The Finance Manager serves as Authority Treasurer and Auditor. Legal counsel is provided through contracted services.

Funding: At inception, the Members and non-member school districts contributed all current and capital assets under their control related to library services, excluding land and buildings. The Members and non-member school districts have agreed to provide and maintain existing and future library building facilities for the Authority, as defined in the Joint Exercise of Powers Agreement or separate agreements for the school districts that partner with the Authority.

The Authority's operating costs are primarily funded through annual appropriations from the Members. Included in the County contributions, except for the incorporated Cities of Sacramento and Folsom, is a dedicated percentage of property tax collections set aside for County Library purposes. The City of Folsom owns and operates their library system independently from the Authority. The City of Sacramento approves a contribution to the Authority as part of their budget. Library services at branches within the City of Sacramento are augmented by two voter-approved special parcel tax measures. Measure X is a ten-year special parcel tax that went into effect on July 1, 2007 and expired in June 2017. This special parcel tax revenue is restricted for use in extending operating hours, services, technology purchases and for increasing book and materials purchases at City of Sacramento branches, including the Central Library. The Authority is expected to spend the remaining funds collected through Measure X during the year ended June 30, 2018.

On June 7, 2016, City of Sacramento residents approved the renewal of Measure X by 79.12% "to fund library services." To stabilize funding for library services, City of Sacramento Ordinance No. 2016-0002

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 1 – ORGANIZATION (Continued)

to extend the Measure X parcel tax included language to “remove existing restrictions on the parcel tax revenue to allow use for all library services.” The renewal of Measure X will go into effect in fiscal year 2017-2018 for 10 years, generating approximately \$5 million annually. Measure B went into effect during the year ended June 30, 2015 and will expire in June of 2026. This parcel tax revenue is for “core library services”, including, without limitation, open hours at branches, library staff, acquisition of library materials, and access to technology at branches within the City of Sacramento. Unspent special parcel tax revenues are reported on the General Fund balance sheet as restricted fund balance for parcel tax carryover.

Operating costs of each branch are funded by the appropriate Member according to the location of the facility through Member contributions. Certain authorized maintenance and other facilities costs paid directly by the Members or non-member school districts on behalf of the Authority are not reflected as Member contributions and are not a part of these financial statements as those costs are shown directly in the appropriate fund of the respective Member or non-member school district.

In the event of termination of the joint exercise of powers agreement, the net position of the Authority would be returned to the Members in proportion to the contributions of each Member during the term of their participation in the Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (the GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

Government-wide and Fund Financial Statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority. The Authority has no component units, but receives contributions collected by the Sacramento Public Library Foundation (the Foundation) and Friends of the Sacramento Public Library (Friends of the Library). The Foundation and Friends of the Library are 501(c)(3) non-profit corporations with separate boards of directors that are not controlled by the Authority. The Authority considers the contributions received from these organizations to be immaterial to the financial statements and the Authority has not evaluated them for treatment as component units.

The accounts of the Authority are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant funds earned but not received are recorded as a receivable, and grant funds received after the revenue recognition criteria have been met are reported as deferred inflows. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term liabilities, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital assets are reported as capital outlay expenditures in governmental funds.

Interest, contributions and grants associated with the current fiscal period are considered to be susceptible to accrual, and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

- General Fund - this fund is established to account for resources devoted to administration of the activities of the Authority and excludes those resources required to be accounted for in another fund.
- County of Sacramento Special Revenue Fund – this fund accounts for resources provided by the County of Sacramento for activities at branches located within the County of Sacramento.
- City of Sacramento Special Revenue Fund – this fund accounts for resources provided by the City of Sacramento for activities at branches located within the City of Sacramento.
- City of Sacramento Parcel Tax Special Revenue Fund – this fund is established to cover extended hours of operations in the City of Sacramento branch.

Special revenue funds account for specific revenue that are legally or otherwise restricted to expenditures for particular purposes.

The Authority reports the following nonmajor governmental fund:

- Permanent Fund - this fund accounts for resources that are legally restricted, to the extent that only earnings and not principal, may be used for purposes that support the Authority's programs. See the Permanent Fund footnote for a description of this fund.

Amounts reported as program revenues include charges to customers or for goods, services or privileges provided and operating grants and contributions including special parcel taxes. Internally dedicated resources are reported as general revenues.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted committed, assigned and unassigned resources as they are needed in that order.

Cash and Investments: The Authority participates in the City of Sacramento's Investment Pool, which is not rated by national credit rating agencies. The City Treasurer pools cash with other City funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the City's investment pool. The City reviews its investment policy on a quarterly basis. The estimated fair value of investments in the pool is based on quoted market prices. The fair value of the Authority's

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

position in the pool is the same as the value of the pool shares. The value of the pool shares may be withdrawn at any time based on an amortized cost basis, which is different than the fair value of the Authority's position in the pool. Information regarding the investments within the pool, including related risks, can be found in the City of Sacramento's Comprehensive Annual Financial Report (CAFR). The Authority also maintains a separate deposit with a financial institution and has an endowment and trust assets as described in Note 5.

Receivables: Receivables are comprised mainly of County of Sacramento and City of Sacramento contributions. Other receivables consist of amounts due from other member organizations of the Authority. Management reviews the necessity of an allowance based on historical collection experience and review of current status. All receivables, other than fines and fees, are considered to be fully collectible. As of June 30, 2018, \$1,393,297 in fines and fees are owed to the Authority. Based on an analysis of the percentage of fines and fees historically collected, management estimated that approximately 20% or \$278,660 of this amount will be collected and an allowance for uncollectible accounts for the remaining \$1,114,137 has been recorded.

Capital Assets: Capital assets, which include equipment, building improvements, software, furniture and fixtures and the books and media collection, are reported in the government-wide statement of net position. Capital asset acquisitions are recorded at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. All capital assets are depreciated using the straight-line method over their estimated useful lives, which range from 3 to 20 years. The books and media collection is depreciated over the average estimated useful life of the entire collection of 5 years.

Facilities are the property of the Members and not the Authority and are not reported on the Authority's statement of net position. The Authority defines capital assets as assets with an initial, individual or group cost of more than \$5,000 and an estimated useful life in excess of one year.

The Authority has certain historical treasures maintained in the Sacramento Room. A number of items in the Sacramento Room are on loan to the Library, which do not meet the criteria for capitalization. The Authority has elected not to capitalize the remaining items in the Sacramento Room that are owned by the Authority as allowed by paragraph 27 of GASB Statement No. 34 because they are held for public exhibition and education, are protected, kept unencumbered, cared for and preserved and subject to a policy that requires proceeds from sales, if any, to be used to acquire other items for collection.

Deferred Inflows and Unearned Revenue: Deferred inflows – unavailable revenue includes \$278,660 of deferred fines and fees, \$278,000 of property taxes receivable under the Teeter Plan from the City and County of Sacramento and \$3,468 of other revenues that were earned as of year-end, but were not received within the Authority's availability period. Unearned revenue includes mainly meeting room rents for Galleria events that will occur in future periods. The deposits for these events will be recognized as revenue in the period when the events occur. See Note 10 for information about the deferred inflows related to the Authority's pension plan.

Compensated Absences: Employees of the Authority may accumulate paid time off (PTO) leave. Upon termination or retirement, employees receive a cash payment for unused PTO leave. All PTO is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they become due and payable as a result of employee separations, including retirements.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Permanent Fund: The Authority maintains separate trust funds for contributions received from the Moore and Fratt families. The originally contributed principal of the Moore Trust totaling \$131,181 is nonspendable while investment earnings from the fund are considered restricted but spendable. The Authority received a restricted spendable amount totaling \$3,510 from the Francis W. Fratt Trust that may be used to purchase books of lasting value. Investment earnings from the Moore Memorial Trust may be used to purchase mystery related books. The Moore Memorial Trust requires the nonspendable principal and the spendable investment earnings to be invested with Wells Fargo Bank.

Fund Balance: In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds - Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items not expected to be converted to cash, for example, inventories and prepaid items. The Authority's nonspendable fund balance consists of the following:

- Prepaid expenditures.
- Permanently restricted principal balance of the Moore Trust.

Restricted Funds - Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Authority's restricted fund balance consists of the following:

- Resources held for use at County and City of Sacramento Branches. City of Sacramento parcel tax carryover is restricted by the enabling legislation approving the special parcel tax to certain expenses within the City of Sacramento Branches.
- Hurst endowment restricted for book purchases.
- Unspent donations restricted for donor approved projects.
- Amount restricted for grant programs.
- Earnings on the Moore and Fratt Trusts.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted fund balance for the County and City of Sacramento branches consisted of the following at June 30, 2018:

Restricted - County Branches:	
General branch expenditures	\$ 23,075,988
Elk Grove branch expenditures	436,765
Donations	148,222
Restricted, committed to:	
Reserve for economic uncertainty	2,374,600
Supplemental services	385,276
Restricted, assigned to:	
Deferred maintenance	249,322
Sylvan Oak Branch operations and maintenance	226,337
Open contracts	<u>40,553</u>
Total Restricted - County Branches	<u><u>\$ 26,937,063</u></u>

	<u>City Fund</u>	<u>City Parcel Tax Fund</u>
Restricted - City of Sacramento Branches:		
Parcel tax carryover - Measure X		\$ 4,851,600
Donations	\$ 137,863	25,536
General branch expenditures	865,096	
Restricted, committed to:		
Reserve for economic uncertainty	953,360	751,100
Restricted, assigned to:		
Deferred maintenance	454,887	
Open contracts	<u>38,084</u>	
Total Restricted - City of Sacramento Branches	<u><u>\$ 2,449,290</u></u>	<u><u>\$ 5,628,236</u></u>

Committed Funds - Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which is by resolution of the Authority Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed (for example legislation, resolution or ordinance) to previously commit these amounts. Although the County and City of Sacramento resources above are restricted for use at those branches, the Board provides further constraints on those funds that are consistent with the definition of committed fund balance as described below. The Authority's committed fund balance consists of the following:

- \$4,079,060 set aside for economic uncertainty that may be used according to the specific criteria defined under Resolution No. 17-33.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Supplemental funds committed by resolution of the Board according to the JPA agreement for enhanced services at library branches.
- Open purchase orders originally exceeding \$50,000 that are required to be approved by resolution of the Board that are committed to be expended on the related open contracts.

Assigned Funds - Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Although the County and City of Sacramento resources above are restricted for use at those branches, management provides further constraints on those funds that are consistent with the definition of assigned fund balance as described below. Authority's assigned fund balance consists of the following:

- Amounts that have been assigned by management for information technology and other equipment replacement.
- Deferred maintenance assigned for maintenance of library branches and the Galleria rooms.
- Sylvan Oaks cell tower rents assigned for operations, maintenance and capital projects at the Sylvan Oaks library branch.
- Open purchase orders in original amounts of less than \$50,000 approved under management's spending authority and assigned to be expended on the related open contracts.

Unassigned Funds - Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Net Position: In the statement of net position, net position are classified in the following categories:

Investment in capital assets – This amount consists of capital assets net of accumulated depreciation.

Restricted net position – This amount is restricted by external grantors, contributors, or laws or regulations of other governments. The restrictions are consistent with the restrictions of fund balance described above.

Unrestricted net position – This amount is all net assets that do not meet the definition of “net investment in capital assets” or “restricted net position”.

Donations: The Authority receives donations from the Sacramento Public Library Foundation (the Foundation) and Friends of the Sacramento Public Library (Friends). The Library Director, Foundation and Friends approve activities to be funded with donations and the Authority Board of the Library accepts the donations throughout the year. The Authority considers the donation revenue earned at the date the cash is received.

Use of Estimates: The preparation of 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.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transfers: Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the funds that statute or budget requires to expend them and (2) subsidize operating losses. During the year ended June 30, 2018, the Authority made the following interfund transfers:

Transfers Out	Transfers In	Amount
General Fund	County of Sacramento Special Revenue Fund	\$ 25,272,419
	City of Sacramento Special Revenue Fund	1,260,748
	City of Sacramento Parcel Tax Special Revenue Fund	6,646,725
County of Sacramento Special Revenue Fund	General Fund	3,042,707
City of Sacramento Special Revenue Fund	General Fund	269,000
City of Sacramento Parcel Tax Special Revenue Fund	General Fund	1,934,339
		<u>\$ 38,425,938</u>

During the year ended June 30, 2018, the Authority established new special revenue funds used to account for activity at branches within the County of Sacramento and City of Sacramento and a fund used to account for parcel taxes charged within the City of Sacramento. Those funds were previously accounted for as sub-funds within the General Fund. Due to the establishment of the new funds, a transfer out of the General Fund was made to establish the opening fund balance of the other funds of \$33,175,712 and transfers in of \$25,268,239, \$1,260,748, \$6,646,725 were recorded in the County of Sacramento Special Revenue Fund, City of Sacramento Special Revenue Fund and City of Sacramento Parcel Tax Special Revenue Fund, respectively. The remaining transfers represent transfers from each special revenue fund to the General Fund to fund book and media expenditures.

New Pronouncement: In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The Authority will analyze the impact of this new Statement prior to the effective date listed above.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 3 – RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Total fund balances of the Authority's governmental funds differ from net position of governmental activities primarily because of the long-term focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. The differences are described below:

Fund balances of governmental funds		\$ 41,064,165
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Capital assets	\$ 22,372,053	
Less: accumulated depreciation	<u>(10,475,797)</u>	11,896,256
Pension contributions subsequent to the plan's measurement date and other deferrals will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.		
		6,449,079
OPEB contributions subsequent to the measurement date and other deferrals will reduce the OPEB liability in the future and are reported as deferred outflows of resources on the statement of net position.		
		159,293
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences		(1,748,819)
Net pension liability		(17,236,474)
Other postemployment benefits obligation		(8,006,437)
Long-term receivables are not available to pay current period expenditures and are reported as deferred inflows for unavailable revenue in governmental funds.		
		560,128
Net differences between projected and actual earnings on pension plan investments and other pension adjustments are reported as deferred inflows of resources on the statement of net position.		
		<u>(819,817)</u>
Net position in the government-wide statement of net position		<u><u>\$ 32,317,374</u></u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 4 – RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The net change in fund balances of governmental funds differs from the change in net position of governmental activities primarily because of the long-term focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheet. The differences are described below:

Net Change in Fund Balances of Governmental Funds	\$ 2,277,456
Some revenues are reported as deferred inflows in governmental funds because they do not represent current financial resources that are recognized in the Statement of Activities. Amount represents the change in deferred inflows recognized.	(160,617)
Governmental funds report capital outlays as expenditures. In the Statement of Activities, however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The change in capital assets consists of:	
Capital outlay	4,127,393
Depreciation expense	(3,242,342)
Loss on disposal of capital assets	(66,559)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in deferred outflows of resources related to pension plan	1,056,216
Change in deferred outflows of resources related to OPEB plan	(23,436)
Change in compensated absences	(108,760)
Change in net pension liability	(2,864,169)
Change in other postemployment benefits obligation	(160,773)
Change in deferred inflows of resources related to pension plan	<u>637,190</u>
Change in Net Position of the Statement of Activities	<u>\$ 1,471,599</u>

NOTE 5 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2018:

Unrestricted	\$ 39,118,309
Restricted	<u>4,099,889</u>
Total	<u>\$ 43,218,198</u>
Cash on hand	\$ 13,507
Bank deposits	2,755,707
Investments:	
Investment in City of Sacramento Investment Pool	38,620,455
Hurst endowment investments in City of Sacramento Investment Pool	1,588,174
Moore Trust Fund investments	<u>240,355</u>
Total investments	<u>40,448,984</u>
Total	<u>\$ 43,218,198</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 5 – CASH AND INVESTMENTS (Continued)

The Authority's investment policy for the General Fund is established by the Authority Board and the investments in the Permanent Fund were established by the donors as described below. The Authority's investment policy does not contain any specific provisions intended to limit the Authority's exposure to interest rate risk, credit risk, and concentration of credit risk beyond what is specified in the California Government Code. The following disclosures related to the Authority's cash and investments are required by GASB Statement No. 40.

Investment Policy: Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The Authority's permissible investments for idle Authority funds include the City of Sacramento's investment pool and the State of California Local Agency Investment Fund (LAIF). The Authority's permissible investments for gifts and donations exceeding \$100,000, including the Hurst endowment, include investments consistent with the intent of the donor, or if not specified, those authorized by California Government Code Section 53601. The table below identifies the investment types that are authorized for gifts and donations exceeding \$100,000 by California Government Code 53601. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Local agency bonds	5 years	None	None	N/A
U.S. Treasury obligations	5 years	None	None	N/A
Municipal securities	5 years	None	None	N/A
U.S. Agency securities	5 years	None	None	N/A
Bankers acceptances	180 days	40%	30%	N/A
Commercial paper	270 days	25%	10%	A-1
Negotiable certificates of deposits	5 years	30%	None	N/A
Repurchase agreements	1 year	None	None	N/A
Reverse repurchase and securities lending agreements	92 days	20% of base value	None	N/A
Medium term notes	5 years	30%	None	A
Mutual funds	N/A	20%	10%	AAA
Money market mutual funds	N/A	20%	10%	AAA
Collateralized bank deposits	5 years	None	None	N/A
Secured debt obligations	5 years	None	None	N/A
Mortgage pass-through securities	5 years	20%	None	AA
JPA pools (other investment pools)	N/A	None	None	N/A
Senior unsecured unsubordinated obligations	5 years	30%	None	AA

The Permanent Fund includes a donation, the Moore Memorial Trust totaling \$240,355 at June 30, 2018, invested by an investment advisor specified by and in a manner consistent with the intent of the donor.

Interest Rate Risk: Interest rate risk is the risk that changes in market 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. In accordance with its investment policy, the Authority

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 5 – CASH AND INVESTMENTS (Continued)

manages its exposures to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 5 years.

Information about the sensitivity of the fair values of the Authority’s investments to interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity:

Type of Investment	Maturities as of Year-end			
	Total	12 Months or Less	13-24 Months	25-60 Months
U.S. Agency securities	\$ 534,226			\$ 534,226
Municipal securities	534,676		\$ 270,036	264,640
Medium term corporate notes	519,272			519,272
City of Sacramento pool	38,620,455		38,620,455	
Permanent Fund investments:				
Domestic mutual funds	22,381	\$ 22,381		
International mutual funds	13,709	13,709		
Money market funds	5,155	5,155		
Exchange traded funds (ETF)	136,382	136,382		
Real estate investment trust (REIT)	18,250	18,250		
Alternative investments	44,478	44,478		
Total	\$ 40,448,984	\$ 240,355	\$ 38,890,491	\$ 1,318,138

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority’s investment policy, and the actual rating as of year-end for each investment type (Permanent Fund ratings are ratings of underlying investments reported by funds).

Type of Investment	Total	Ratings as of Year-end						
		AAA	AA+ to AA-	A	BBB	BB	B and below	Unrated
U.S. Agency securities	\$ 534,226		\$ 534,226					
Municipal securities	534,676		534,676					
Medium term corporate notes	519,272		519,272					
City of Sacramento pool	38,620,455							\$ 38,620,455
Permanent Fund investments:								
Domestic mutual funds	22,381	\$ 9,833	546	\$ 2,870	\$ 4,359	\$ 1,595	\$ 2,721	457
International mutual funds	13,709	320	44	273	3,684	2,983	3,744	2,661
Money market funds	5,155							5,155
Exchange traded funds (ETF)	136,382	3,118	209	567	543			131,945
Real estate investment trust (REIT)	18,250							18,250
Alternative investments	44,478	588		381	634	1,177	1,047	40,651
Total	\$ 40,448,984	\$ 13,859	\$ 1,588,973	\$ 4,091	\$ 9,220	\$ 5,755	\$ 7,512	\$ 38,819,574

Concentration of Credit Risk: The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated in the California Government Code. The Authority does not have any investments in any one issuer that represents 5% or more of the Authority’s investments, other than the investment in the City of Sacramento’s investment pool.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 5 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools, like the City of Sacramento's investment pool.

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 California Government Code and the Authority's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2018, the carrying amount and balance per bank of the Authority's bank deposits were \$2,755,707 and \$2,953,342, respectively. Of the balance per bank at June 30, 2018, \$250,000 was covered by federal depository insurance and \$2,703,342 was collateralized by the pledging financial institution's investment securities, which were not in the name of the Authority. All of the Authority's U.S. agency securities, municipal securities and medium-term corporate notes were held by the same broker-dealer that was used by the Agency to buy the securities.

Investment in the City of Sacramento's Sponsored Investment Pool: The City of Sacramento (the City) Investment Pool is stated at fair value. As part of the City's total cash and investments portfolio, the City Treasurer manages an investment pool, which includes both internal and external investors. The pool is not registered with the Securities and Exchange Commission as an investment company. The City Treasurer is granted authority for managing the pool by City Charter Section 73 and City Council ordinances and resolutions. Monthly, the City Treasurer reports investment activity to the Council for review.

The fair value of investments is determined monthly. Participants' shares sold and redeemed are determined by the daily cash balance deposited in the pool (the value of its pool shares). The value of the pool shares is based upon amortized cost in day to day operations, but is adjusted to the fair value at year-end. The value of the shares is supported by the value of the underlying investments. External participants, including various joint powers agencies, comprise 8.18% of pool participation.

Fair value measurements: The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 5 – CASH AND INVESTMENTS (Continued)

The Authority has the following recurring fair value measurements as of June 30, 2018:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
U.S. Agency securities	\$ 534,226		\$ 534,226	
Municipal securities	534,676		534,676	
Medium term corporate notes	519,272		519,272	
Domestic mutual funds	22,381		22,381	
International mutual funds	13,709		13,709	
Money market funds	5,155		5,155	
Exchange traded funds (ETF)	136,382		136,382	
Real estate investment trust (REIT)	18,250		18,250	
Alternative investments	44,478		44,478	
Total investments by fair value level	<u>\$ 1,828,529</u>	<u>\$ -</u>	<u>\$ 1,828,529</u>	<u>\$ -</u>
Investments uncategorized:				
City of Sacramento pool	<u>38,620,455</u>			
Total	<u>\$ 40,448,984</u>			

All securities classified in Level 2 are valued using pricing models based on market data, such as matrix or model pricing from outside pricing services such. These valuation techniques include third party benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. Some of the investment types, such as EFTs and mutual funds, trade on active exchanges. However, it was unknown if these investments trade with enough volume or frequency to be considered level 1 investments.

NOTE 6 - BUDGETARY INFORMATION - GENERAL FUND

The joint-powers agreement establishing the Authority provides for budgetary control over general fund fiscal operations. Each year, the Authority submits to the governing board a proposed budget containing detailed estimates (provided by the staff of the Members) of the amount of funding available for the operation of the Authority. The budget is controlled at the fund level. The Members notify the Authority by September 1 of their appropriated contribution to the Authority for that fiscal year. The governing board of the Authority adopts the Authority's original budget by September 30 of each fiscal year. The budget, prepared on the modified accrual basis in accordance with accounting principles generally accepted in the United States of America, is presented as required supplementary information in the accompanying financial statements.

Encumbrance accounting is used during the year for budgetary control. Encumbrances outstanding at year-end do not constitute expenditures or liabilities, but rather outstanding future commitments at year-end. The Authority's appropriations lapse at year-end. At June 30, 2018, the Authority had outstanding future commitments under encumbrances reported as fund balance committed and assigned for open contracts of \$103,473.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 1,768,669	\$ 41,816		\$ (1,680,941)	\$ 129,544
Total capital assets, not being depreciated	<u>1,768,669</u>	<u>41,816</u>		<u>(1,680,941)</u>	<u>129,544</u>
Capital assets, being depreciated:					
Equipment	9,525,708	50,370	\$ (8,196,161)		1,379,917
Building improvements	1,676,485	198,228	(60,013)	1,680,941	3,495,641
Software	544,783		(536,788)		7,995
Furniture and fixtures	1,033,568		(1,028,245)		5,323
Books and media collection	16,074,263	3,836,979	(2,557,609)		17,353,633
Total capital assets	<u>28,854,807</u>	<u>4,085,577</u>	<u>(12,378,816)</u>	<u>1,680,941</u>	<u>22,242,509</u>
Accumulated depreciation:					
Equipment	(8,538,662)	(211,467)	8,189,194		(560,935)
Building improvements	(353,602)	(177,248)	210		(530,640)
Software	(543,228)	(1,555)	536,788		(7,995)
Furniture and fixtures	(1,030,163)	(64)	1,028,456		(1,771)
Books and media collection	(9,080,057)	(2,852,008)	2,557,609		(9,374,456)
Total accumulated depreciation	<u>(19,545,712)</u>	<u>(3,242,342)</u>	<u>12,312,257</u>		<u>(10,475,797)</u>
Total capital assets being depreciated, net	<u>9,309,095</u>	<u>843,235</u>	<u>(66,559)</u>	<u>1,680,941</u>	<u>11,766,712</u>
Total capital assets, net	<u>\$ 11,077,764</u>	<u>\$ 885,051</u>	<u>\$ (66,559)</u>	<u>\$ -</u>	<u>\$ 11,896,256</u>

NOTE 8 - OPERATING LEASES

The Authority is obligated under operating leases for the use of office buildings. Lease expenditures for the year ended June 30, 2018 were \$153,904. Two of the leases have options to renew for one three-year period. One lease will renew at market rents and the other would renew at rents scheduled in the lease agreement with increases of 2.5% or less. Future minimum lease payments required by the lease agreements as of June 30, 2018 were as follows:

Year Ending June 30,	
2019	\$ 157,944
2020	142,786
2021	88,984
2022	42,717
2023	19,043
Thereafter	<u>195,194</u>
Total	<u>\$ 646,668</u>

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 9 - LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2018 were as follows:

	Beginning Balance (as Restated)	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,640,059	\$ 2,330,918	\$ (2,222,158)	\$ 1,748,819	\$ 1,709,388
Net pension liability	14,372,305	12,687,588	(9,823,419)	17,236,474	
Other postemployment benefits obligation	7,845,664	494,040	(333,267)	8,006,437	
Total long-term liabilities	<u>\$ 23,858,028</u>	<u>\$ 15,512,546</u>	<u>\$ (12,378,844)</u>	<u>\$ 26,991,730</u>	<u>\$ 1,709,388</u>

The other postemployment benefits liability above was restated due to the implementation of GASB Statement No. 75 as described in Note 17.

NOTE 10 – PENSION PLANS

Defined Benefit Plan - General Information about the Pension Plan:

Plan Description: All qualified permanent and probationary employees are eligible to participate in the Authority’s Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues a publicly available report that includes a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit or the 1959 Survivor Benefit, Level 3. The cost of living adjustment is applied as specified by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.25%
Required employer contribution rates	9.707%	9.707%

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 10 - PENSION PLANS (Continued)

In addition to the contributions rates above, the Authority was also required to make a payment of \$782,481 toward its unfunded actuarial liability during the year ended June 30, 2018.

The Public Employees' Pension Reform Act of 2013 (PEPRA) requires the 2.0% at 62 benefit to be used by any new participants that were not members of CalPERS on January 1, 2013.

Employees Covered: At June 30, 2016 (the most recent valuation date), the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	231
Inactive employees entitled to but not yet receiving benefits	249
Active employees	<u>304</u>
Total	<u><u>784</u></u>

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability: The Authority's net pension liability for the Plan is measured as the total pension liability, less the plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
<u>Actuarial Assumptions:</u>	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15%
Mortality - pre-retirement	Based on 2010 CalPERS Experience Study for the period from 1997 to 2007

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 10 - PENSION PLANS (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.15%. This represents a change in assumptions from the previous accounting valuation where a discount rate of 7.65% was used. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

- (a) An expected inflation of 2.5% used for this period.
- (b) An expected inflation of 3.0% used for this period.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 10 - PENSION PLANS (Continued)

Changes in the Net Pension Liability: The changes in the Net Pension Liability for the Plan follows:

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016	\$ 71,244,898	\$ 56,872,593	\$ 14,372,305
Changes in the year:			
Service cost	2,798,720		2,798,720
Interest on the total pension liability	5,392,576		5,392,576
Differences between actual and expected experience	(64,196)		(64,196)
Changes in assumptions	4,412,323		4,412,323
Changes in benefit terms			
Contribution - employer		2,298,424	(2,298,424)
Contribution - employee		1,087,976	(1,087,976)
Net investment income		6,372,823	(6,372,823)
Administrative expenses		(83,969)	83,969
Benefit payments, including refunds of employee contributions	(3,143,482)	(3,143,482)	
Net changes	<u>9,395,941</u>	<u>6,531,772</u>	<u>2,864,169</u>
Balance at June 30, 2017	<u>\$ 80,640,839</u>	<u>\$ 63,404,365</u>	<u>\$ 17,236,474</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the Authority for the Plan, calculated using the discount rate for the Plan, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 28,111,805
Current Discount Rate	7.15%
Net Pension Liability	\$ 17,236,474
1% Increase	8.15%
Net Pension Liability	\$ 8,237,736

Pension Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 10 - PENSION PLANS (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources:

For the year ended June 30, 2018, the Authority recognized pension expense of \$3,563,348. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,392,585	
Differences between actual and expected experience		\$ (601,279)
Changes in assumptions	3,251,185	(218,538)
Net differences between projected and actual earnings on plan investments	<u>805,309</u>	
Total	<u>\$ 6,449,079</u>	<u>\$ (819,817)</u>

The \$2,392,585 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2019	\$ 580,686
2020	1,864,498
2021	1,251,872
2022	<u>(460,379)</u>
	<u>\$ 3,236,677</u>

Payable to the Pension Plan: At June 30, 2018, the Authority reported a payable of \$61,439 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2018.

Defined Contribution Plan: The Authority has a Section 401(a) Money Purchase Plan that is a defined contribution pension plan available only to unrepresented management employees. The Plan is administered by a trustee under a trust agreement. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Authority's Board of Directors according to the Authority's Unrepresented Personnel Resolution. Employees may contribute up to 5% and the Authority will contribute up to 4% of the employees' annual covered salary to an individual employee account. Contributions made during the year ended June 30, 2018 by participants and the Authority totaled \$72,690 and \$53,130, respectively. Employees vest immediately in their own contributions and the contributions of the Authority.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLANS

The Authority provides two other postemployment benefits (OPEB) plans to employees that are available to employees based on their hire date.

First OPEB Plan – Retiree Health Insurance Contribution

Plan Description: The Authority offers a single employer OPEB plan (the Plan) that provides medical insurance benefits to retired employees and their eligible dependents for represented Library Unit employees hired prior to January 1, 2012, represented Supervisory Unit employees hired prior to July 1, 2012 and unrepresented employees hired prior to July 1, 2011. Employees hired after these dates are not eligible for the benefit. The Plan has a maximum monthly stipend of \$225 for retirees with 20 or more years of service and a partial stipend of 50% to 75% of the maximum stipend for retirees with 10 to 19 years of service. Eligibility rules include retirement from the Authority at age 55 or later, with 10 years of employment. There is no age limit if the employee has 30 or more years of service. The Plan is administered by the Authority. The Joint Exercise of Powers Agreement grants the authority to establish and amend the benefit terms to the Board of Directors. No assets are accumulated in a trust fund that meets the criteria in paragraph 4 of GASB Statement No. 75.

The Plan does not issue separate financial statements.

Employees Covered by Benefit Terms: At December 31, 2017, the following employees were covered by the Plan’s benefit terms:

Active employees	304
Inactive employees or beneficiaries currently receiving benefit payments	124
	<u>428</u>

The plan is closed to new entrants.

Contributions: The contribution requirements of Plan members and the Authority are established and may be amended by the Authority’s Board of Directors subject to the Authority’s Memorandums of Understanding with bargaining units. The required contribution is based on actual retiree health insurance premium stipend required under the Plan. For the year ended June 30, 2018, the Authority contributed \$195,611 to the Plan through pay-as-you-go health and dental insurance benefit payments on behalf of Plan members. Plan members did not make any contributions to the Plan and the Plan is unfunded. The Authority does not contribute to a trust fund on behalf of employees.

OPEB Liability: The Authority’s OPEB liability of \$8,006,437 was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017.

Actuarial Assumptions: The net OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLANS (Continued)

Discount rate	3.35%
Inflation	2.75%
Aggregate salary increase	3.00%
Healthcare cost trend rates	6.00% HMO/6.50% PPO decreasing to 5.00% HMO/5.00% PPO
Vision trend rate	4.00% per year
Dental trend rate	5.00% per year
Mortality rates	Derived using CalPERS membership data
Pre-Retirement	Derived using CalPERS membership data

Participation Rates: 95% of future employees are assumed to elect coverage. 80% are assumed to elect retiree health coverage at retirement. 20% are assumed to decline medical coverage and elect 2-party dental and vision coverage. For employees only eligible to continue benefits at retirement on a self-pay basis only, 10% are assumed to continue coverage. 50% of future retirees are assumed to elect to cover their spouse in their medical plan coverage.

Discount Rate: The discount rate used to measure the total OPEB liability was 3.35%. The discount rate is based on the average of three 20-year municipal bond rate indices: The S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index and Fidelity GO AA 20 Year Bond Index.

Changes in the OPEB Liability:

	<u>Total and Net OPEB Liability</u>
Balance at June 30, 2017	\$ 7,845,664
Changes for the year:	
Service cost	229,117
Interest on the total OPEB liability	264,923
Benefit payments	<u>(333,267)</u>
Net changes	<u>160,773</u>
Balance at June 30, 2018	<u>\$ 8,006,437</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate: The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease 2.35%</u>	<u>Discount Rate 3.35%</u>	<u>1% Increase 4.35%</u>
Total OPEB liability	\$ 8,947,826	\$ 8,006,437	\$ 7,207,488

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS PLANS (Continued)

Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using healthcare cost trend rates that is 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease (5.00% HMO/5.50% PPO decreasing to 4.00% HMO/4.00% PPO)	Current Healthcare Cost Trend Rates (6.00% HMO/6.50% PPO decreasing to 5.00% HMO/5.00% PPO)	1% Increase (7.00% HMO/7.50% PPO decreasing to 6.00% HMO/6.00% PPO)
Total OPEB liability	\$ 7,728,092	\$ 8,006,437	\$ 8,309,646

OPEB Plan Fiduciary Net Position: The Plan does not have fiduciary net position as the Authority does not contribute to a qualified trust fund on behalf of the participants.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the Authority recognized OPEB expense of \$343,503. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$ 159,293	
Total	\$ 159,293	\$ -

The \$159,294 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the following fiscal year.

Second OPEB Plan – Health Savings Accounts

The Authority suspended the first OPEB benefit described above for represented employees hired on or after July 1, 2012 and unrepresented employees hired on or after July 1, 2011 and replaced it with a plan where the Authority makes a deposit into a retirement health savings account in the name of each eligible employee on a monthly basis. This plan is a defined contribution OPEB plan. The contributions are held in trust for employees and are administered by an external trustee. Employees may not contribute to the Plan and are fully vested in employer contributions when they are made. For employees that are members of the International Union of Operating Engineers, Stationary Local 39, AFL-CIO bargaining unit (Local 39), the change was effective July 1, 2012. Effective July 1, 2014, a contribution of \$60 per month was approved for unrepresented employees. A contribution of \$60 per the first two pay periods each month beginning July 1, 2013 was approved for Local 39 employees. Benefit provisions and all other requirements are established and may be amended by resolution of the Authority’s Board of Directors according to the Authority’s labor agreements. The Authority contributed \$219,759 to the Plan during the year ended June 30, 2018.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 12 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases insurance coverage for commercial property, commercial general liability, automobile liability, boiler and machinery, public officials' errors and omissions, and workers' compensation. There have been no significant reductions in insurance coverage from the prior year by major categories of risk and there have been no settlements exceeding insurance coverage for the past three years.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

At June 30, 2018, the Authority had the following outstanding contract commitments:

Name	Contract Amount	Amount Remaining
Securitas	\$ 3,250,000	\$ 2,653,248
Califa Group	625,000	581,744
Envisionware, Inc. (AMHS)	450,000	313,502
Western Truck Leasing	350,000	295,875
Innovative Interfaces	316,704	295,797
AT&T	317,000	224,000
Ojo Technology	300,000	221,678
Marmot Library Network	233,383	201,383
E. Rozakis	200,000	194,335
S & K Construction	200,000	187,261
DFS Flooring	200,000	181,160
All Solutions Cleaning	330,000	179,728
Keystone Electric	200,000	156,227
Envisionware, Inc. (PC Software)	144,000	137,000
Brainfuse, Inc.	201,000	134,000
Sac-Val Janitorial Supply	180,000	113,879
Jensen Landscape Services	242,303	110,309
Richardson & Company, LLP	110,000	72,275
Enterprise	105,000	59,001
Unique Management	132,000	53,295
	<u>\$ 8,086,390</u>	<u>\$ 6,365,697</u>

The Authority is subject to lawsuits and claims, which arise out of the normal course of its activities. In the opinion of management, based upon the opinion of legal counsel, the disposition of any and all such actions of which it is aware will not have a material effect on the financial position of the Authority.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

The Authority was a member of the Mountain Valley Library System (the System) prior to the System being absorbed into NorthNet Library System. It has been determined by CalPERS that the System has deferred outflows of resources of \$52,214, an unfunded pension liability of \$303,867 and deferred inflows of resources of \$8,111 as of the latest measurement date of June 30, 2017. It is believed the Authority will be required to pay a portion of the System's pension obligations, which will be shared by the members based on their length of membership and other factors. The amount that will ultimately be owed by the Authority is unknown and was not accrued as of June 30, 2018.

NOTE 14 – ECONOMIC DEPENDENCY

The Authority receives the majority of its funding from Sacramento County and the City of Sacramento. Funding is largely dependent on City of Sacramento General Fund contributions and special parcel taxes related to property taxes. A reduction in funding from the County and City of Sacramento could significantly impact operations of the Authority.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Authority has various transactions with Members. In addition to members providing operating grants and contributions and the Authority investing in the City of Sacramento cash and investments pool as described in Notes 1 and 2, the Agency has contracted with the County of Sacramento to complete a number of branch refresh projects. The Authority paid the County \$182,888 for the Arcade and North Highlands branch refresh projects during the year ended June 30, 2018, which are reported as construction in progress and building improvements. Amounts reported as due to the City for various services provided and due to the County for the branch refresh projects and other services totaled \$78,073 and \$102,957, respectively.

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement required the Authority to recognize in its accrual basis financial statements the net OPEB liability, deferred outflows of resources and deferred inflows of resources for the Authority's OPEB plan. Due to the implementation of this Statement, total deferred outflows of resources increased by \$182,730, total liabilities increased by \$5,374,142 and total net position decreased by \$5,191,413 as of July 1, 2017 in the Authority's government-wide financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Fines, fees and penalties	\$ 50,000	\$ 50,000	\$ 79,491	\$ 29,491
Operating grants and contributions:				
Other agency contributions	120,000	120,000	127,171	7,171
Federal and State grants		159,670	169,670	10,000
First 5 grant	142,000	142,000	135,337	(6,663)
Total program revenues	<u>312,000</u>	<u>471,670</u>	<u>511,669</u>	<u>39,999</u>
General revenues:				
Gifts and donations		405,845	409,353	3,508
E-rate refund	330,000	330,000	469,918	139,918
Investment income (loss)	28,000	30,000	39,450	9,450
Other	105,000	105,000	163,925	58,925
Total general revenues	<u>463,000</u>	<u>870,845</u>	<u>1,082,646</u>	<u>211,801</u>
TOTAL REVENUES	<u>775,000</u>	<u>1,342,515</u>	<u>1,594,315</u>	<u>251,800</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	331,029	286,029	3,552	282,477
Services and supplies	1,192,696	2,165,718	949,556	1,216,162
Books and media subscriptions	2,308,300	2,423,088	2,402,948	20,140
First 5 grant	142,000	142,000	130,508	11,492
Capital outlay				
Books and media collection	2,733,508	2,834,174	2,921,224	(87,050)
Other capital outlay	465,376	560,376		560,376
TOTAL EXPENDITURES	<u>7,172,909</u>	<u>8,411,385</u>	<u>6,407,788</u>	<u>2,003,597</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,397,909)</u>	<u>(7,068,870)</u>	<u>(4,813,473)</u>	<u>2,255,397</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		5,078,000	5,246,046	168,046
Transfers (out)		(33,173,504)	(33,179,892)	(6,388)
TOTAL OTHER FINANCING SOURCES (USES)		<u>(28,095,504)</u>	<u>(27,933,846)</u>	<u>161,658</u>
NET CHANGE IN FUND BALANCE	<u>\$ (6,397,909)</u>	<u>\$ (35,164,374)</u>	<u>(32,747,319)</u>	<u>\$ 2,417,055</u>
Fund balance, beginning of year			<u>38,406,529</u>	
FUND BALANCE, END OF YEAR			<u>\$ 5,659,210</u>	

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
COUNTY OF SACRAMENTO SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Fines, fees and penalties	\$ 338,000	\$ 304,000	\$ 281,606	\$ (22,394)
Operating grants and contributions:				
County contributions	23,100,000	23,350,000	23,502,880	152,880
Federal and State grants		1,061	1,061	
Total program revenues	<u>23,438,000</u>	<u>23,655,061</u>	<u>23,785,547</u>	<u>130,486</u>
General revenues:				
Gifts and donations		563,468	564,469	1
Investment income (loss)	276,000	300,000	378,560	78,560
Other	32,000	32,000	27,800	(4)
Total general revenues	<u>308,000</u>	<u>895,468</u>	<u>970,829</u>	<u>75,361</u>
TOTAL REVENUES	<u>23,746,000</u>	<u>24,550,529</u>	<u>24,756,376</u>	<u>205,847</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	14,105,103	14,122,103	13,887,749	234,354
Services and supplies	5,290,623	5,784,373	5,039,604	744,769
Capital outlay				
Books and media collection		873,446	869,069	4,377
Other capital outlay	1,015,442	1,072,242	252,603	819,639
TOTAL EXPENDITURES	<u>20,411,168</u>	<u>21,852,164</u>	<u>20,049,025</u>	<u>1,803,139</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,334,832	2,698,365	4,707,351	2,008,986
OTHER FINANCING SOURCES (USES)				
Transfers in		25,272,419	25,272,419	
Transfers (out)		(2,945,000)	(3,042,707)	(97,707)
TOTAL OTHER FINANCING SOURCES (USES)		<u>22,327,419</u>	<u>22,229,712</u>	<u>(97,707)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 3,334,832</u>	<u>\$ 25,025,784</u>	26,937,063	<u>\$ 1,911,279</u>
Fund balance, beginning of year				
FUND BALANCE, END OF YEAR			<u>\$ 26,937,063</u>	

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CITY OF SACRAMENTO SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Assessment and taxes				
Fines, fees and penalties	\$ 214,000	\$ 193,000	\$ 179,894	\$ (13,106)
Facility rental income	275,600	275,600	331,156	55,556
Galleria catering and other	60,000	60,000	67,860	7,860
Operating grants and contributions:				
City contributions	8,885,600	8,885,600	8,885,600	
Total program revenues	<u>9,435,200</u>	<u>9,414,200</u>	<u>9,464,510</u>	<u>50,310</u>
General revenues:				
Gifts and donations		78,283	78,283	
Investment income (loss)	9,000	14,000	20,217	6,217
Other	89,400	89,400	96,622	7,222
Total general revenues	<u>98,400</u>	<u>181,683</u>	<u>195,122</u>	<u>13,439</u>
TOTAL REVENUES	<u>9,533,600</u>	<u>9,595,883</u>	<u>9,659,632</u>	<u>63,749</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	7,319,353	7,176,353	6,581,893	594,460
Services and supplies	1,690,361	1,793,554	1,564,917	228,637
Capital outlay				
Books and media collection		52,809	29,231	23,578
Other capital outlay	16,390	24,390	26,049	(1,659)
TOTAL EXPENDITURES	<u>9,026,104</u>	<u>9,047,106</u>	<u>8,202,090</u>	<u>845,016</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>507,496</u>	<u>548,777</u>	<u>1,457,542</u>	<u>908,765</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		1,260,748	1,260,748	
Transfers (out)		(269,000)	(269,000)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>991,748</u>	<u>991,748</u>	
NET CHANGE IN FUND BALANCE	<u>\$ 507,496</u>	<u>\$ 1,540,525</u>	<u>2,449,290</u>	<u>\$ 908,765</u>
Fund balance, beginning of year			<u>2,449,290</u>	
FUND BALANCE, END OF YEAR			<u>\$ 2,449,290</u>	

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CITY OF SACRAMENTO PARCEL TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Program revenues:				
Charges for services:				
Assessment and taxes	\$ 7,540,000	\$ 7,540,000	\$ 7,547,113	\$ 7,113
Fines, fees and penalties	88,000	78,000	66,851	(11,149)
Total program revenues	<u>7,628,000</u>	<u>7,618,000</u>	<u>7,613,964</u>	<u>(4,036)</u>
General revenues:				
Gifts and donations		35,543	35,543	
Investment income (loss)	75,000	94,000	95,160	1,160
Other	51,000	51,000	38,858	(12,142)
Total general revenues	<u>126,000</u>	<u>180,543</u>	<u>169,561</u>	<u>(10,982)</u>
TOTAL REVENUES	<u>7,754,000</u>	<u>7,798,543</u>	<u>7,783,525</u>	<u>(15,018)</u>
EXPENDITURES				
Education:				
Current:				
Salaries and benefits	4,579,515	4,558,515	4,570,368	(11,853)
Services and supplies	2,011,021	2,107,037	2,268,090	(161,053)
Capital outlay				
Books and media collection		29,104	17,455	11,649
Other capital outlay	4,792	4,792	11,762	(6,970)
TOTAL EXPENDITURES	<u>6,595,328</u>	<u>6,699,448</u>	<u>6,867,675</u>	<u>(168,227)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,158,672</u>	<u>1,099,095</u>	<u>915,850</u>	<u>(183,245)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		6,646,725	6,646,725	
Transfers (out)		(1,864,000)	(1,934,339)	(70,339)
TOTAL OTHER FINANCING SOURCES (USES)		<u>4,782,725</u>	<u>4,712,386</u>	<u>(70,339)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,158,672</u>	<u>\$ 5,881,820</u>	<u>5,628,236</u>	<u>\$ (253,584)</u>
Fund balance, beginning of year			<u>5,628,236</u>	
FUND BALANCE, END OF YEAR			<u>\$ 5,628,236</u>	

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
 Last 10 Years

As of June 30, 2018

	2018	2017	2016	2015
Total pension liability				
Service cost	\$ 2,798,720	\$ 2,491,319	\$ 2,478,040	\$ 2,429,839
Interest on total pension liability	5,392,576	5,082,077	4,818,933	4,490,108
Differences between expected and actual experience	(64,196)	(1,085,478)		
Changes in assumptions	4,412,323		(1,155,132)	
Changes in benefits			(292,003)	
Benefit payments, including refunds of employee contributions	(3,143,482)	(3,030,414)	(2,526,284)	(2,218,568)
Net change in total pension liability	9,395,941	3,457,504	3,323,554	4,701,379
Total pension liability - beginning	71,244,898	67,787,394	64,463,840	59,762,461
Total pension liability - ending (a)	<u>\$ 80,640,839</u>	<u>\$ 71,244,898</u>	<u>\$ 67,787,394</u>	<u>\$ 64,463,840</u>
Plan fiduciary net position				
Contributions - employer	\$ 2,298,424	\$ 2,302,250	\$ 2,030,568	\$ 1,951,143
Contributions - employee	1,087,976	1,036,690	966,013	986,310
Net investment income	6,372,823	329,318	1,246,200	8,072,125
Benefit payments	(3,143,482)	(3,030,414)	(2,526,284)	(2,218,568)
Administrative expenses	(83,969)	(34,293)	(63,323)	
Net change in plan fiduciary net position	6,531,772	603,551	1,653,174	8,791,010
Plan fiduciary net position - beginning	56,872,593	56,269,042	54,615,868	45,824,858
Plan fiduciary net position - ending (b)	<u>\$ 63,404,365</u>	<u>\$ 56,872,593</u>	<u>\$ 56,269,042</u>	<u>\$ 54,615,868</u>
Net pension liability - ending (a)-(b)	<u>\$ 17,236,474</u>	<u>\$ 14,372,305</u>	<u>\$ 11,518,352</u>	<u>\$ 9,847,972</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>78.63%</u>	<u>79.83%</u>	<u>83.01%</u>	<u>84.72%</u>
Covered payroll - measurement period	<u>\$ 15,852,282</u>	<u>\$ 15,465,385</u>	<u>\$ 15,006,598</u>	<u>\$ 13,654,614</u>
Net pension liability as percentage of covered payroll	<u>108.73%</u>	<u>92.93%</u>	<u>76.76%</u>	<u>72.12%</u>

Notes to schedule:

Valuation date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement period - fiscal year ended	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Benefit changes. None

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date. Information will be added prospectively as it becomes available.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN
 Last 10 Years

As of June 30, 2018

	2018	2017	2016	2015
Actuarially determined contribution - employer fiscal year	\$ 2,392,585	\$ 2,282,064	\$ 2,311,886	\$ 2,058,541
Contributions in relation to the actuarially determined contributions	(2,392,585)	(2,282,064)	(2,311,886)	(2,058,541)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll - employer fiscal year	\$ 16,559,477	\$ 15,852,282	\$ 15,465,385	\$ 15,006,598
Contributions as a percentage of covered payroll	14.45%	14.40%	14.95%	13.72%

Notes to Schedule:

Valuation date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement period - fiscal year ended	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.15% in the 2017 valuation, 7.65% in the 2016 valuation and 7.5% in the 2015, net of pension plan investment expense, including inflation
Retirement age	50-67 years. Probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.
Mortality	Based on 2014 CalPERS Experience Study for the period from 1997 to 2011.

The contributions and covered payroll above were revised during the year ended June 30, 2017 to be reported as of the employer's fiscal year-end according to paragraph 46d of GASB 68..

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date. Information will be added prospectively as it becomes available.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF CHANGES IN THE
 NET OPEB LIABILITY AND RELATED RATIOS
 Last 10 Years

As of June 30, 2018

	<u>2018</u>
Total OPEB liability:	
Service cost	\$ 229,117
Interest	264,923
Changes of benefit terms	
Differences between expected and actual experience	
Changes of assumptions or other inputs	
Benefit payments	<u>(333,267)</u>
Net change in total OPEB liability	160,773
Total OPEB liability - beginning	<u>7,845,664</u>
Total OPEB liability - ending (a)	<u><u>\$ 8,006,437</u></u>
Plan fiduciary net position (b)	<u><u>\$ -</u></u>
Net OPEB Liability (a) - (b)	<u><u>\$ 8,006,437</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	N/A
Covered-employee payroll - measurement period	\$ 16,452,000
Total OPEB liability as a percentage of covered-employee payroll	48.67%
Notes to Schedule:	
Valuation date:	December 31, 2017
Measurement period - fiscal year ended	June 30, 2018

Benefit changes. None

Omitted years: GASB Statement No. 75 was implemented during the year ended June 30, 2018. No information was available prior to this date. Information will be added prospectively as it becomes available.

SACRAMENTO PUBLIC LIBRARY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF CONTRIBUTIONS TO THE OPEB PLAN
 Last 10 Years

As of June 30, 2018

	<u>2018</u>
Contractually determined contribution - employer fiscal year	\$ 297,314
Contributions in relation to the contractually determined contributions	<u>(297,314)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll - employer fiscal year	\$ 16,452,000
Contributions as a percentage of covered payroll	1.81%

Notes to Schedule:

Valuation date	December 31, 2017
Measurement period - fiscal year ended	June 30, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-Age Normal Cost Method
Amortization method	Level percentage of payroll
Asset valuation method	There are no plan assets
Inflation	2.75%
Salary increases	3.00%
Healthcare cost trend rates	PPO: 6.5% to 5.0% from 2019 to 2022 and later. HMO 6.0% to 5.0% from 2019 to 2022 and later.
Vision costs trend rates	4% per year
Dental costs trend rates	5% per year
Retirement rates	Based on 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Based on 2014 CalPERS Experience Study for the period from 1997 to 2011.
Participation rates	95% of future employees are assumed to elect coverage. 80% are assumed to elect retiree health coverage at retirement. 20% are assumed to decline medical coverage and elect 2-party dental and vision coverage. 50% of future retirees are assumed to elect to cover spouse with medical coverage.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date. Information will be added prospectively as it becomes available.

COMPLIANCE REPORT

INDEPENDENT AUDITOR'S 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

To the Board of Directors
Sacramento Public Library Authority
Sacramento, California

We have audited, in accordance with the 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 Sacramento Public Library Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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. 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.

To the Board of Directors
Sacramento Public Library Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

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 result of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

November 9, 2018