

TO: North County Library Authority (NCLA) Commission

FROM: Russell J. Morreale, Staff Liaison

SUBJECT: Review the results of the June 30, 2013 Financial Audit

RECOMMENDATION:

- a. Presentation of the results of the June 30, 2013 Comprehensive Annual Financial Report (CAFR)

BACKGROUND:

On an annual basis the financial records of the NCLA are independently audited as part of the City of Los Altos general audit contract. The results of the audit are shared with the NCLA Commission on an annual basis.

DISCUSSION

The City of Los Altos engages the independent audit firm of Burr, Pilgar Mayer (BPM). As such, the report attached herein is presented as drafted by BPM. This audit year is noteworthy in that it represented the second year of review by this audit team.

I am happy to report that NCLA has again achieved an unqualified or “clean-opinion” with no findings, as did the City of Los Altos as well. The attached report includes an executive summary, known as a Management Discussion and Analysis (MDA) providing an overall overview of the favorable financial results achieved.

At tonight’s meeting I will review the highlights of the financial report for all Commission members.

Attachment:

Comprehensive Annual Financial Report for June 30, 2013

Attachment

Comprehensive Annual Financial Report for June 30, 2013

**NORTH COUNTY LIBRARY AUTHORITY
LOS ALTOS, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Fiscal Year Ended June 30, 2013

(This page intentionally left blank)

NORTH COUNTY LIBRARY AUTHORITY

BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

T A B L E O F C O N T E N T S

	<i>Page</i>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	10
Statement of Activities and Change in Net Position.....	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances.....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Change in Net Position.....	17
Notes to the Basic Financial Statements	18
Required Supplementary Information:	
General Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	26
Note to Required Supplementary Information	27

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the North County Library Authority
Los Altos, California

We have audited the accompanying financial statements of the governmental activities, each major fund of the North County Library Authority (the "Authority") as of and for the year ended June 30, 2013, and the related notes to the financial statements, as shown on pages on 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the Authority, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013, 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, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 29 through 30 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.

Burr Pilger Mayer, Inc.

San Jose, California
December 11, 2013

**North County Library Authority
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013**

The North County Library Authority (NCLA) prepares its financial statements using the financial reporting requirements prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The purpose of the Management's Discussion and Analysis (MD&A) is to provide users with a narrative introduction, overview, and analysis of the financial statements.

FINANCIAL HIGHLIGHTS:

- Net Position is positive and has increased to \$1,599,718 at year end, an increase of nearly \$500,000 projected as part of the long term plan.
- Total liabilities remained level coming in at \$213,000 at year end.
- The Authority bears no debt having paid off outstanding bonds in recent years.
- Interest earnings are above last year but continue to experience historic low levels of yield given persistent market conditions.
- Total salary and administration fell below last year levels by approximately \$35,000 and met budget projections. This includes the projected \$65,000 book contributions. This being considered, operational expenditures were down for the second year in a row. With this level of expenditure location service hours were maintained including annually updated County labor costs and the full standard books donation levels.
- On June 8, 2010, the voters of Los Altos and Los Altos Hills approved a renewal of the parcel tax at \$76 per parcel for a twenty year term. The measure received 77% support ensuring continued service levels at both Library branches. No issuance of debt was associated with this funding which is to be applied to library hours at both the Main Branch & Woodland, books, materials, programming and general purposes. This important measure allowed for the continued maintenance of augmented hours of operation and resulted in increased revenues of over \$300,000 per year. This places fund projections in good standing.
- In May 2005 Measure A was presented countywide to the voters and passed with 72% of the vote. The tax will continue the same level of funding as the prior tax with a slight increase through 2015 for those Santa Clara County cities participating in the Library Joint Powers Authority. This tax is provided approximately \$5.4 million for the countywide Joint Powers Authority in annual revenue enabling the library to maintain countywide service levels comparable to prior years. In August 2013, this Measure A parcel tax was renewed extending a \$33.66 per year parcel tax for single-family homes in Santa Clara County, making up 18 percent of the district's budget. This renewed tax will provide approximately \$6.2 million in annual revenue for the countywide Joint Powers Authority. Although this revenue stream is not a component to the NCLA financial statements, the passage of Measure A impacts the financial status of the overall district and service levels.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the NCLA's basic financial statements that include the Government-Wide Financial Statements and the Fund Financial Statements.

The **Government-Wide Financial Statements** are designed to provide readers with a broad overview of NCLA’s finances, in a manner similar to a private-sector business. They are comprised of the *Statement of Net Positions* and the *Statement of Activities and Changes in Net Position*.

The *Statement of Net Position* provides information about NCLA’s assets and liabilities, including all long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NCLA is improving or deteriorating.

The *Statement of Activities and Changes in Net Position* provides information showing how NCLA’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.

The **Fund Financial Statements** is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. NCLA’s Fund Financial Statements contain only *Governmental Funds*.

Unlike the Government-Wide Financial Statements, the *Governmental Funds* focus on how money flows into and out of those funds and the balances remaining at year-end. These funds are reported using the modified accrual accounting, which measures cash and all other financial assets that are readily converted cash. The fund statements provide a detailed short-term view of NCLA’s general operations and the basic services it provides. These statements do not include long-term assets or liabilities.

GASB 54 Compliance: This report marks the second and timely year of compliance with the provisions of Government Accounting Standard Board Statement No.54 (GASB 54). Council adopted an updated financial policy earlier this year reflective of this change, a significant one for the readers and users of our financial statements. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

<i>NCLA Net Position</i>		
	Government-Wide Activities	
	06/30/13	06/30/12
Current Assets	1,812,118	1,276,109
Current Liabilities	212,400	233,542
Total Liabilities	212,400	233,542
Net Assets Restricted for Debt Service	0	0
Unrestricted Net Assets	1,599,718	1,042,567
Total Net Position	1,599,718	1,042,567

Total Net Position was \$1,599,718 at the end of this fiscal year, a significant gain over the prior year given expenses coming in under budget, the absence of debt service and the renewal of the 2010 \$76 parcel tax. This improvement in fiscal metrics is in line with long term projections constructed in the budgetary planning process. NCLA has the authority to continue to levy the special parcel tax annually in accordance with its mission to support library services in Los Altos and Los Altos Hills.

<i>NCLA Activities & Changes in Net Position</i>		
	Government Wide Activities	
	06/30/13	06/30/12
Revenues		
Program Revenues		
Charges for Services	1,070,186	1,029,885
General Revenues		
Interest Income	2,430	1,420
Total Revenues	1,072,616	1,031,305
Expenses		
Administration and Community Services	515,465	550,325
Interest on Long-Term Activities	0	1,441
Total Expenses	515,465	551,766
Change in Net Position	557,151	479,539
Beginning Net Position	1,042,567	563,028
Ending Net Position	1,599,718	1,042,567

Program revenue reflect the new parcel tax base while the total expenses have remained stable and in compliance with budgetary limits.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- With the expiration of the legacy per parcel tax and its renewal at a maximum level of \$76, NCLA's revenue is projected to sustain twenty years of continued expanded levels of service. Final bond debt service requirements have been funded in full and new assessments are adequate to fund future operations over the long term. In so far as NCLA labor costs are derived from County services, the implementation of cost control measures at the County level, as noted this year in the operating results, remains a key assumption. The FY 2013/14 is projecting a change in trend with an 8.2% increase in labor costs given updated benefit estimates.
- NCLA will continue to supplement funding to provide an additional 12 operational hours per week at the Central Library and, in the current year, has increased hours at the Woodland Library to 19 hours of additional service. In the FY 2013/14 budget, NCLA lowered its book budget contribution from \$65,000 to \$25,000 as a cost savings measure.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of NCLA's finances for all those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North County Library Authority, One North San Antonio Road, Los Altos, CA 94022.

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

GOVERNMENTS-WIDE FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

STATEMENT OF NET POSITION

June 30, 2013

	ASSETS	<u>Governmental Activities</u>
Current assets:		
Cash and investments		\$ 1,811,700
Interest receivable		<u>418</u>
Total assets		<u>1,812,118</u>
	LIABILITIES	
Current liabilities:		
Accounts payable		<u>212,400</u>
Total liabilities		<u>212,400</u>
	NET POSITION	
Unrestricted		<u>1,599,718</u>
Total net position		<u><u>\$ 1,599,718</u></u>

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

NORTH COUNTY LIBRARY AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION

Fiscal year ended June 30, 2013

	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Change in Net position Governmental Activities
Primary government:			
Governmental activities:			
Administration and community services	\$ 515,465	\$ 1,070,186	\$ 554,721
Interest on debt	-	-	-
	\$ 515,465	\$ 1,070,186	554,721
Total governmental activities	\$ 515,465	\$ 1,070,186	554,721
General revenues:			
Interest income			2,430
Total general revenues			2,430
Change in net position			557,151
Net position, beginning of year			1,042,567
Net position, end of year			\$ 1,599,718

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

(This page intentionally left blank)

FUND FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS			
Assets:			
Cash and investments	\$ 1,811,700	\$ -	\$ 1,811,700
Interest receivable	418	-	418
	<u>1,812,118</u>	<u>-</u>	<u>1,812,118</u>
Total assets	<u>\$ 1,812,118</u>	<u>\$ -</u>	<u>\$ 1,812,118</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 212,400	\$ -	\$ 212,400
	<u>212,400</u>	<u>-</u>	<u>212,400</u>
Total liabilities	<u>212,400</u>	<u>-</u>	<u>212,400</u>
Fund balances:			
Unassigned	<u>1,599,718</u>	<u>-</u>	<u>1,599,718</u>
Total fund balances	<u>1,599,718</u>	<u>-</u>	<u>1,599,718</u>
Total liabilities and fund balances	<u>\$ 1,812,118</u>	<u>\$ -</u>	<u>\$ 1,812,118</u>

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

NORTH COUNTY LIBRARY AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2013

Fund balances of governmental funds	\$ 1,599,718
No reconciling items	<u>-</u>
Net position of governmental activities	<u><u>\$ 1,599,718</u></u>

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

NORTH COUNTY LIBRARY AUTHORITY

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Fiscal year ended June 30, 2013

	General	Debt Service	Total
Revenues:			
Taxes and special assessments	\$ 1,070,186	\$ -	\$ 1,070,186
Interest	2,430	-	2,430
	<hr/>	<hr/>	<hr/>
Total revenues	1,072,616	-	1,072,616
	<hr/>	<hr/>	<hr/>
Expenditures:			
Operations:			
Salaries and wages	443,640	-	443,640
Miscellaneous	71,825	-	71,825
	<hr/>	<hr/>	<hr/>
Total expenditures	515,465	-	515,465
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	557,151	-	557,151
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	1,042,567	-	1,042,567
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 1,599,718	\$ -	\$ 1,599,718
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

NORTH COUNTY LIBRARY AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION**

Fiscal year ended June 30, 2013

	<u>Governmental Activities</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 557,151
No reconciling items	<u>-</u>
Change in net position	<u><u>\$ 557,151</u></u>

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

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

1. Summary of Significant Accounting Policies

(a) Reporting Entity

The North County Library Authority (Authority), formed in 1985 by a joint exercise of powers agreement between the City of Los Altos (City) and the Town of Los Altos Hills, provides library services for member residents. The Authority was created to provide financing for capital improvements and additional services by the public libraries serving the area. Although the City owns the libraries and their sites, the County of Santa Clara (County) is responsible for all library operations. However, since 1991, the Authority has levied a voter approved special parcel tax to compensate for service reductions due to cutbacks by the County. The special tax has been collected by the County, transferred to the City, on behalf of the Authority, and then transferred back to the County for the specifically requested services provided by the libraries within the Authority's service area. The City performs administrative and accounting services for the Authority.

(b) Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

The Authority's government-wide financial statements include a statement of net position and a statement of activities and changes in net position. These statements present summaries of governmental activities for the Authority.

These basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including long-term liabilities, are included in the accompanying statement of net position. The statement of activities and changes in net position presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Authority in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in regard to interfund activities, payables and receivables. All internal balances in the statement of net position are eliminated when applicable.

Governmental Fund Financial Statements

Description of Funds

The accounts of the Authority are organized and operated on the basis of funds, each of which is defined as separate fiscal and accounting entity with a self-balancing set of accounts. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

1. Summary of Significant Accounting Policies, continued

(b) Measurement Focus, Basis of Accounting and Basis of Presentation, continued

Governmental Fund Financial Statements, continued

In accordance with Authority's adopted policies and budget, different types of funds are used to record the Authority's financial transactions. For financial reporting purposes, the Authority's funds are presented as follows:

Governmental Fund Types:

General Fund - The purpose of this fund is to account for all financial resources except those required to be accounted for in another fund. The general fund is required to be presented as a major fund.

Debt Service Fund - The purpose of this fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Due to its significance, the fund is presented as a major fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for on a "current financial resource" measurement focus. Accordingly, only current assets and current liabilities are generally included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All governmental fund types are accounted for using the modified accrual basis of accounting, wherein revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Measurable means the amount of the transaction can be determined and available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Revenues considered susceptible to accrual include property taxes (generally due within 60 days), charges for services, federal and state grants and interest. Expenditures, are recognized in the accounting period in which the fund liability is incurred, if measurable, except for principle and interest on general long-term debt which is recognized when due.

(c) Assets, Liabilities and Equity

Cash and Investments

The Authority pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements may be invested in various interest-bearing accounts and other investments for varying terms. The cash balance at June 30, 2012 is maintained in the City Treasury and the Local Agency Investment Fund (LAIF) of the State of California.

The Authority participates in an investment pool managed by the State of California, titled LAIF, which has invested a portion of the pool funds in structured notes and assets-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and assets-backed securities are subject to market risk as to change in interest risk.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

1. Summary of Significant Accounting Policies, continued

(c) *Assets, Liabilities and Equity, continued*

Investment Valuation

Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

(d) *Net Position and Fund Balances*

Government-Wide Financial Statements

In the government-wide financial statements, net assets are classified in the following categories:

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributions, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

The Authority reclassifies fund balances into the following five categories to comply with the GASB No. 54, *Fund Balance and Governmental Fund Types*. Fund balance is defined as the difference between assets and liabilities.

Nonspendable fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances include inventory and prepaid items.

Restricted fund balances will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law. In general, most reserve funds will fall into this category. The Authority reported no fund balances as restricted on the balance sheet of the governmental funds.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority (Governing Board or Council).

Assigned fund balances will be amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the governing body itself or a body or official to which the governing body has delegated the authority to (purchasing agent and business official). Appropriated fund balance and the majority of encumbrances will be reclassified into the assigned category. The Authority reported no fund balances as assigned on the balance sheet of the governmental funds.

Unassigned fund balances will represent those funds that have not been assigned, committed, restricted or considered nonspendable. The general fund will be the only fund that will report an unassigned fund balance, unless a deficit fund balance resulting from overspending in other funds exist. Fund balance in other funds will either be assigned, committed, restricted or nonspendable unless the fund reports a deficit.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

1. Summary of Significant Accounting Policies, continued

(e) Use of Estimates

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

(f) New Accounting Pronouncements

During fiscal year 2012-13, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows and Resources, and Net Position* (GASB 63). The most notable impact of GASB 63 was the renaming of “net assets” to “net position” to reflect the difference between assets and liabilities and provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

2. Cash and Investments

(a) Summary of Cash and Investments

The City is responsible as the fiduciary of the Authority to manage investments on behalf of the Authority. The investments made by the City Treasurer are limited to those allowable under state statutes as incorporated into the City's Investments Policy that is even more conservative than that allowed by State statute. The City's Investment Policy and the California Government Code allow for a variety of investments, which can be purchased and held.

Cash and investments as of June 30, 2013 consists of the following:

Cash pooled with City of Los Altos	\$ 215,645
Investments - LAIF	1,596,055
	\$ 1,811,700
	\$ 1,811,700

(b) Investments

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's Investment Policy where more restrictive. The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	20%
Bankers' Acceptances	180 days	None	20%	10%
Commercial Paper	180 days	A1/P1	15%	5%
Negotiable Certificates of Deposit	3 years	AA	50%	10%
Corporate Medium Term Notes	3 years	AA	15%	5%
Repurchase Agreements	180 days	None	20%	10%
Money Market Mutual Funds	N/A	AAAm	20%	10%

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

2. Cash and Investments, continued

(c) Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. Typically, the Authority manages its exposure to interest rate risk by investing in LAIF and Money Market Mutual funds. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority has no specific limitations with respect to this metric.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years 1 year or less</u>
State Investment Pool	<u>\$ 1,596,055</u>	<u>\$ 1,596,055</u>

Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF was unrated at June 30, 2013.

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 by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments that are required to be disclosed.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk for deposits. However, 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 public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2013, the Authority's bank balance was either insured or collateralized, but the collateral was not held specifically in the Authority's name.

NORTH COUNTY LIBRARY AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

Fiscal year ended June 30, 2013

2. Cash and Investments, continued

(c) Risk Disclosures, continued

Custodial Credit Risk - Investments

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 City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Investment in State Investment Pool

The Authority is a voluntary participant in the LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements and amounts are based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

As of June 30, 2013, the Authority held \$1,596,055 in LAIF, which had invested 1.88% of the pool investment funds in structured notes and medium-term asset-backed securities as compared to 2.75% in the previous year. The LAIF fair value factor of 1.0002732070 was used to calculate the fair value of the investments in LAIF.

3. Subsequent Events

The Authority evaluated subsequent events for recognition and disclosure through December 11, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

NORTH COUNTY LIBRARY AUTHORITY

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES –
BUDGET AND ACTUAL**

Fiscal year ended June 30, 2013

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$ 1,040,000	\$ 1,040,000	\$ 1,070,186	\$ 30,186
Interest	6,200	6,200	2,430	(3,770)
Total revenues	<u>1,046,200</u>	<u>1,046,200</u>	<u>1,072,616</u>	<u>26,416</u>
Expenditures:				
Operations:				
Salaries and wages	443,640	443,640	443,640	-
Miscellaneous	80,000	80,000	71,825	8,175
Total expenditures	<u>523,640</u>	<u>523,640</u>	<u>515,465</u>	<u>8,175</u>
Excess of revenues over expenditures	<u>522,560</u>	<u>522,560</u>	<u>557,151</u>	<u>34,591</u>
Fund balances, beginning of year	<u>1,042,567</u>	<u>1,042,567</u>	<u>1,042,567</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,565,127</u>	<u>\$ 1,565,127</u>	<u>\$ 1,599,718</u>	<u>\$ 34,591</u>

NORTH COUNTY LIBRARY AUTHORITY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

1. Budgetary Accounting

The Authority annually adopts a budget on or before June 30th for the ensuing fiscal year. From the effective date of the budget, the amounts become the "annual appropriated budget."

Appropriations lapse at the end of the fiscal year. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

Budget information is presented for governmental fund types on a consistent basis with accounting principles generally accepted in the United States of America. Budgeted revenue and expenditure amounts represent the original budget modified for adjustments during the year.

(This page intentionally left blank)