



TO: North County Library Authority (NCLA) Commission
FROM: Marcie Scott, Liaison
DATE: March 7, 2018
SUBJECT: Transmittal of Revised Annual Audit for Fiscal Year 2016-2017

RECOMMENDATION:

Receive Audit and staff report with notes for file.

BACKGROUND:

On an annual basis the financial records of the North County Library Authority (NCLA) are independently audited as a part of the City of Los Altos general audit contract. The City of Los Altos engages the independent audit firm Maze & Associates; this is the fourth year of review by this audit team.

DISCUSSION:

The annual audit for the fiscal year ending June 30, 2017 has received an unqualified or “clean opinion” with no findings.

The annual audit was discussed briefly at the prior meeting of January 22, 2018. The Board asked the Liaison to review the sixth bullet point of the Financial Highlights section on page 4. A review of this section resulted in a modification to bullet 6 to reflect an “ ‘increase’ in salary and administration costs by the amount of \$54,224”. A revised copy of this section is attached.

The Board notes for the file the following corrections to be incorporated in the next audit report:

- A. On page 5, Government-Wide Financial Analysis, the Board would like an asterisk or note to reference any monies in the Escheatment Process to enable these monies to be tracked over time.
- B. On page 5, Economic Factors And Next Year’s Budget And Rates, second bullet, correct the number of operational hours supported by supplemental NCLA funding from 12 to 17. Effective January 3, 2017 the NCLA began funding an additional 5 hours.
- C. On page 17, NOTE 1 A – Summary of Significant Accounting Policies, remove the second sentence from the second paragraph on that page. (“The Santa Clara County Library District provides staff to the Authority under contract.”)

Attachment: Revised Audit

**Agenda Item #5
January 22, 2018**

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

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

**Prepared by
FINANCE DEPARTMENT**

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**NORTH COUNTY LIBRARY AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Ended June 30, 2017**

Table of Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	7
Government-Wide Financial Statements:	
Statement of Net Position.....	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Notes to the Basic Financial Statements	17
Required Supplementary Information:	
General Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	24
Notes to Required Supplementary Information	25

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the North County Library Authority (Authority), as of and for the year ended June 30, 2017, 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 the 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. 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

● *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of and for year then ended June 30, 2017, and the respective changes in financial position 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 Management's Discussion and Analysis and other required supplementary information as 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.

Maze & Associates

Pleasant Hill, California
November 11, 2017

North County Library Authority
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2017

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.

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 Position* and the *Statement of Activities*.

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* 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 third 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.

FINANCIAL HIGHLIGHTS:

- Net position is positive and has increased by \$466,692 at year end, above the 2016-17 budget projections.
- The total liabilities increased by \$16,441 at year-end as a result of slightly higher accrued accounts payable invoices.
- Interest revenue decreased by 33% from \$14,045 to \$9,480 as a result of higher cash investments as interest rates continue to experience historic low levels of yield given persistent market conditions.
- Due to the timing of accounts receivable there was no additional transactions that occurred.
- On June 8, 2010, the voters of Los Altos and Los Altos Hills approved a renewal of the prior 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.
- Total salary and administration decreased by \$24,460 or 4.2% in line with budget projections. The FY 2016-17 expenditures maintained book funding to \$25,000. With this level of expenditure location service hours were maintained including annually updated County labor costs and the full standard books donation levels.
- Measure A (May 2005) 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 2017 for those Santa Clara County cities participating in the Library Joint Powers Authority. This tax is expected to provide 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NCLA Net Position		
	Government-Wide Activities	
	6/30/2017	6/30/2016
Current Assets:		
Cash and investments	3,860,083	3,393,149
Accounts and Interest Receivable	1,343	5,144
Total Assets	3,861,426	3,398,293
Current Liabilities:		
Accounts and salaries payable	342,601	326,160
Total Liabilities	342,601	326,160
Unrestricted Net Position	3,518,825	3,072,133
Total Net Position	3,518,825	3,072,133

Total Net Position was \$3,518,825 at the end of this fiscal year, a gain of \$446,692 over the prior year. 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.

NCLA Net Position		
	Government-Wide Activities	
	6/30/2017	6/30/2016
Revenues		
Program Revenues		
Charges for Services	1,048,695	1,046,401
General Revenues		
Interest Income	9,480	14,045
Total Revenues	1,058,175	1,060,446
Expenses		
Administration and Community Services	611,483	580,943
Total Expenses	611,483	580,943
Change in Net Position	446,692	479,503
Net Position, Beginning of Year	3,072,133	2,592,630
Net Position, End of Year	3,518,825	3,072,133

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. Since NCLA labor costs are derived from County services, the implementation of cost control measures at the County level remains a key assumption.
- NCLA will continue to supplement funding to provide an additional 12 operational hours per week at the Central Library and an additional 19 hours at the Woodland Library.

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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments (Note 2)	\$3,860,083
Interest receivable	<u>1,343</u>
Total assets	<u>3,861,426</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>342,601</u>
Total liabilities	<u>342,601</u>
NET POSITION	
Unrestricted	<u>3,518,825</u>
Total net position	<u><u>\$3,518,825</u></u>

See accompanying notes to financial statements

NORTH COUNTY LIBRARY AUTHORITY
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Governmental Activities
Primary government:			
Administration and community services	\$611,483	\$1,048,695	\$437,212
Total governmental activities	611,483	1,048,695	437,212
General revenues:			
Interest income			9,480
Total general revenues			9,480
Change in net position			446,692
Net position, beginning of year			3,072,133
Net position, end of year			\$3,518,825

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2017

	<u>General Fund</u>
ASSETS	
Cash and investments (Note 2)	\$3,860,083
Interest receivable	<u>1,343</u>
Total Assets	<u><u>\$3,861,426</u></u>
LIABILITIES	
Accounts payable	<u>\$342,601</u>
Total Liabilities	<u>342,601</u>
FUND BALANCES	
Unassigned	<u>3,518,825</u>
Total Liabilities and Fund Balance	<u><u>\$3,861,426</u></u>

See accompanying notes to financial statements

NORTH COUNTY LIBRARY AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>
REVENUES:	
Taxes and special assessments	\$1,048,695
Interest income and other revenues	<u>9,480</u>
Total revenues	<u>1,058,175</u>
EXPENDITURES:	
Contractual services	600,704
Miscellaneous	<u>10,779</u>
Total expenditures	<u>611,483</u>
Net change	446,692
Fund balance, beginning of year	<u>3,072,133</u>
Fund balance, end of year	<u><u>\$3,518,825</u></u>

See accompanying notes to financial statements

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NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

NOTE 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.

The Authority has no regular full-time employees. The Santa Clara County Library District provides staff to the Authority under contract.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

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

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.

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:

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Type:

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.

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 balance of the Authority's 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, 2017 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.

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.

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

D. *Net Position and Fund Balances*

Government-Wide Financial Statements

In the government-wide financial statements, net position is classified in the following categories:

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

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

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).

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2 - CASH AND INVESTMENTS

A. Summary of Cash and Investments

The City is responsible as the fiduciary of the Authority and manages investments on behalf of the Authority, which are pooled with those of the City. The investments made by the City Treasurer are limited to those allowable under state statues 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, 2017 consist of the following:

Cash pooled with City of Los Altos	\$420,875
Investments - LAIF	307,208
Los Altos Treasurer's Investment	3,132,000
Total cash and investments	\$3,860,083

The Authority's cash is pooled with the Los Altos' Treasurer, who acts as disbursing agent for the Agency. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the Treasurer is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter.

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Authorized 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	Maximum 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	A	30%	3%
Corporate Medium Term Notes	4 years	A	30%	3%
Repurchase Agreements	180 days	None	20%	10%
Money Market Mutual Funds	None	None	20%	10%
Local Agency Investment Fund	None	None	None	\$65 million
Asset-backed Securities	5 years	A	20%	3%

C. Risk Disclosures

Fair Value Hierarchy

The City 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 fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Los Altos Treasurer's Investment is classified in Level 2 of the fair value hierarchy is valued using a quoted price in a non-active market for an identical asset. The California Local Agency Investment Fund (LAIF) is valued at amortized cost and therefore, exempt from being classified under GASB 72.

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 by purchasing a combination of shorter-term and longer-term investments. 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. The California Local Agency Investment Fund (LAIF), held by the Authority at June 30, 2017, had a maturity date of less than one year.

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2017.

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, 2017, the Authority's bank balance was either insured or collateralized, but the collateral was not held specifically in the Authority's name.

Custodial Credit Risk – Investments

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).

REQUIRED SUPPLEMENTARY INFORMATION

NORTH COUNTY LIBRARY AUTHORITY

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$1,057,312	\$1,057,312	\$1,048,695	(\$8,617)
Interest income and other revenues	12,569	12,569	9,480	(3,089)
Total revenues	1,069,881	1,069,881	1,058,175	(11,706)
Expenditures:				
Operations:				
Contractual services	567,366	567,366	600,704	(33,338)
Miscellaneous	42,700	42,700	10,779	31,921
Total expenditures	610,066	610,066	611,483	(1,417)
Excess of revenues over expenditures	\$459,815	\$459,815	446,692	(\$10,289)
Fund balance, beginning of year			3,072,133	
Fund balance, end of year			\$3,518,825	

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Fiscal year Ended June 30, 2017

NOTE 1 – BUDGETARY ACCOUNTING

The Authority annually adopts a budget on or before June 30 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 government 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.

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**NORTH COUNTY LIBRARY AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED
JUNE 30, 2017**

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**NORTH COUNTY LIBRARY AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Other Matters.....	3
<i>Required Communications</i>	5
Significant Audit Findings	5
Accounting Policies	5
Unusual Transactions, Controversial or Emerging Areas	5
Accounting Estimates.....	6
Disclosures.....	6
Difficulties Encountered in Performing the Audit.....	6
Corrected and Uncorrected Misstatements.....	6
Disagreements with Management.....	6
Management Representations	6
Management Consultations with Other Independent Accountants	7
Other Audit Findings or Issues.....	7
Other Information Accompanying the Financial Statements.....	7

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MEMORANDUM ON INTERNAL CONTROL

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

In planning and performing our audit of the basic financial statements of the North County Library Authority (Authority), as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, Authority Board, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive script.

Pleasant Hill, California
November 11, 2017

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NORTH COUNTY LIBRARY AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next two years. We have cited them here to keep you abreast of developments:

Effective in fiscal year 2017-18:

GASB 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 81 – *Irrevocable Split-Interest Agreements*

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB 86 – *Certain Debt Extinguishment Issues*

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Effective in fiscal year 2018-19:

GASB 83 – *Certain Asset Retirement Obligations*

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

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REQUIRED COMMUNICATIONS

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

We have audited the basic financial statements of the North County Library Authority (Authority) for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

- GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB 74 – *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*
- GASB 77 – *Tax Abatement Disclosures*
- GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*
- GASB 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is estimated fair value of investments.

The Authority's cash and investments balances are measured by fair value as disclosed in Note 2 to the Basic Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated November 11, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

This information is intended solely for the use of Authority Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
November 11, 2017

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**North County Library Authority
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2017**

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.

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 Position* and the *Statement of Activities*.

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* 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 third 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.

FINANCIAL HIGHLIGHTS:

- Net position is positive and has increased by \$466,692 at year end, above the 2016-17 budget projections.
- The total liabilities increased by \$16,441 at year-end as a result of slightly higher accrued accounts payable invoices.
- Interest revenue decreased by 33% from \$14,045 to \$9,480 as a result of higher cash investments as interest rates continue to experience historic low levels of yield given persistent market conditions.
- Due to the timing of accounts receivable there was no additional transactions that occurred.
- On June 8, 2010, the voters of Los Altos and Los Altos Hills approved a renewal of the prior 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.
- Total salary and administration increased by \$54,224 or 10.5% in line with budget projections. The FY 2016-17 expenditures maintained book funding to \$25,000. With this level of expenditure location service hours were maintained including annually updated County labor costs and the full standard books donation levels.
- Measure A (May 2005) 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 2017 for those Santa Clara County cities participating in the Library Joint Powers Authority. This tax is expected to provide 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NCLA Net Position		
	Government-Wide Activities	
	6/30/2017	6/30/2016
Current Assets:		
Cash and investments	3,860,083	3,393,149
Accounts and Interest Receivable	1,343	5,144
Total Assets	3,861,426	3,398,293
Current Liabilities:		
Accounts and salaries payable	342,601	326,160
Total Liabilities	342,601	326,160
Unrestricted Net Position	3,518,825	3,072,133
Total Net Position	3,518,825	3,072,133

Total Net Position was \$3,518,825 at the end of this fiscal year, a gain of \$446,692 over the prior year. 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.

NCLA Net Position		
	Government-Wide Activities	
	6/30/2017	6/30/2016
Revenues		
Program Revenues		
Charges for Services	1,048,695	1,046,401
General Revenues		
Interest Income	9,480	14,045
Total Revenues	1,058,175	1,060,446
Expenses		
Administration and Community Services	611,483	580,943
Total Expenses	611,483	580,943
Change in Net Position	446,692	479,503
Net Position, Beginning of Year	3,072,133	2,592,630
Net Position, End of Year	3,518,825	3,072,133

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. Since NCLA labor costs are derived from County services, the implementation of cost control measures at the County level remains a key assumption.
- NCLA will continue to supplement funding to provide an additional 12 operational hours per week at the Central Library and an additional 19 hours at the Woodland Library.

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.