

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

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

**Prepared by
FINANCE DEPARTMENT**

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**NORTH COUNTY LIBRARY AUTHORITY
BASIC FINANCIAL STATEMENTS
For the Ended June 30, 2016**

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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, 2016, 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, 2016, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1F to the financial statements, the Authority adjusted the balances of beginning fund balance of General Fund and the net position of Governmental-Activities.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information for the General Fund 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
December 16, 2016

North County Library Authority
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

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 assets 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.

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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, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments (Note 2)	\$3,393,149
Interest receivable	<u>5,144</u>
Total assets	<u><u>\$3,398,293</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>\$326,160</u>
Total liabilities	<u>326,160</u>
NET POSITION	
Unrestricted	<u>3,072,133</u>
Total net position	<u><u>\$3,072,133</u></u>

See accompanying notes to financial statements

**NORTH COUNTY LIBRARY AUTHORITY
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues	Charges for Services	Net (Expense) Revenue and Changes in Net Position
Primary government:				
Administration and community services	\$580,943	\$1,046,401		\$465,458
Total governmental activities	580,943	1,046,401		465,458
General revenues:				
Interest income				14,045
Total general revenues				14,045
Change in net position				479,503
Net position, beginning of year, as adjusted (Note 1F)				2,592,630
Net position, end of year				\$3,072,133

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

NORTH COUNTY LIBRARY AUTHORITY

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	<u>General Fund</u>
ASSETS	
Cash and investments (Note 2)	\$3,393,149
Interest receivable	<u>5,144</u>
Total Assets	<u><u>\$3,398,293</u></u>
LIABILITIES	
Accounts payable	<u>\$326,160</u>
Total Liabilities	<u>326,160</u>
FUND BALANCES	
Unassigned	<u>3,072,133</u>
Total Liabilities and Fund Balance	<u><u>\$3,398,293</u></u>

See accompanying notes to financial statements

NORTH COUNTY LIBRARY AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FISCAL YEAR ENDED JUNE 30, 2016

	General Fund
REVENUES:	
Taxes and special assessments	\$1,046,401
Interest income and other revenues	14,045
Total revenues	1,060,446
EXPENDITURES:	
Contractual services	545,159
Miscellaneous	35,784
Total expenditures	580,943
Net change	479,503
Fund balance, beginning of year, as adjusted (Note 1F)	2,592,630
Fund balance, end of year	\$3,072,133

See accompanying notes to financial statements

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NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2015

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, 2015

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, 2015 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, 2015

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.

**NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Prior Year Adjustment

During fiscal year 2015-16, the Authority determined that \$55,000 of checks that were written off in prior years should be reissued. As a result, the Authority increased accounts payable by \$55,000 as of July 1, 2015. Accordingly, the balances of beginning fund balance in General Fund and beginning net position in Governmental Activities were reduced by \$55,000.

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, 2016 consist of the following:

Cash pooled with City of Los Altos	\$260,667
Investments - LAIF	3,132,482

Total cash and investments	\$3,393,149

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Summary of Cash and 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	AA	50%	10%
Corporate Medium Term Notes	3 years	AA	15%	5%
Repurchase Agreements	180 days	None	20%	10%
Money Market Mutual Funds	None	AAAm	20%	10%
Local Agency Investment Fund	None	None	None	\$50 million

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 following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2016:

Local Agency Investment Fund	Level 2
	\$3,132,482

The California Local Agency Investment Fund (LAIF) classified in Level 2 is valued based on the fair value factor provided by the Treasurer of the State of California, which is calculated as fair value divided by the amortized cost of the investment pool.

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (Continued)

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. 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.

Investment Type	Fair Value	Maturity In One Year or Less
Local Agency Investment Fund	\$3,132,482	\$3,132,482

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, 2016.

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, 2016, 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, 2015

NOTE 2 – CASH AND INVESTMENTS (Continued)

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).

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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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and special assessments	\$1,070,186	\$1,070,186	\$1,046,401	(\$23,785)
Interest	2,000	2,000	14,045	12,045
Total revenues	1,072,186	1,072,186	1,060,446	(11,740)
Expenditures:				
Operations:				
Contractual services	513,142	513,142	545,159	(32,017)
Miscellaneous	40,450	40,450	35,784	4,666
Total expenditures	553,592	553,592	580,943	(27,351)
Excess of revenues over expenditures	\$518,594	\$518,594	479,503	\$15,611
Fund balance, beginning of year, as adjusted (Note 1F)			2,592,630	
Fund balance, end of year			\$3,072,133	

NORTH COUNTY LIBRARY AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Fiscal year Ended June 30, 2015

NOTE 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 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.