

Palos Verdes Library District
Annual Financial Report
For the Fiscal Year Ended June 30, 2014



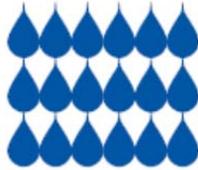
Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

**Palos Verdes Library District
Annual Financial Report
For the Fiscal Year Ended June 30, 2014**

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Financial Section



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Independent Auditor's Report

Board of Trustees
Palos Verdes Library District
Rolling Hills Estates, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Palos Verdes Library District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Palos Verdes Library District as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, the required supplementary information on page 24 and 25 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 a report dated September 30, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 26 and 27.



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2014

Palos Verdes Library District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

As management of the Palos Verdes Library District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the fiscal year ended June 30, 2014. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net position increased 0.30% or \$40,779, to \$13,640,771 in fiscal year 2014.
- The District's total revenues increased by 1.55% or \$130,355, to \$8,515,710 in fiscal year 2014 due primarily to an increase in property tax revenues.
- The District's total expenses increased 7.40% or \$581,516, in fiscal year 2014 due primarily to an increase in salaries and benefits of \$274,461.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating.

Palos Verdes Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2014

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary information and compliance.

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 6,828,217	7,172,454	(344,237)
Capital assets, net	<u>10,916,760</u>	<u>11,533,969</u>	<u>(617,209)</u>
Total assets	<u><u>17,744,977</u></u>	<u><u>18,706,423</u></u>	<u><u>(961,446)</u></u>
Liabilities:			
Current liabilities	1,684,206	1,576,431	107,775
Non-current liabilities	<u>2,420,000</u>	<u>3,530,000</u>	<u>(1,110,000)</u>
Total liabilities	<u><u>4,104,206</u></u>	<u><u>5,106,431</u></u>	<u><u>(1,002,225)</u></u>
Net position:			
Investment in capital assets, net of related debt	7,386,760	6,953,969	432,791
Restricted for debt service	1,187,465	1,198,829	(11,364)
Restricted for capital projects	192,136	209,540	(17,404)
Unrestricted	<u>4,874,410</u>	<u>5,237,654</u>	<u>(363,244)</u>
Total net position	<u><u>\$ 13,640,771</u></u>	<u><u>13,599,992</u></u>	<u><u>40,779</u></u>

Palos Verdes Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2014

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$13,640,771 as of June 30, 2014.

A portion of the District's net position 54.15% or \$7,386,760 reflects its investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to operate the District; consequently, these assets are *not* available for future spending. At the end of fiscal year 2014, the District shows a positive balance in its unrestricted net position of \$4,874,410 that may be utilized in future years.

Condensed Statement of Activities

<i>Governmental Activities:</i>	<u>2014</u>	<u>2013</u>	<u>Change</u>
Expenses:			
Library operations	\$ 8,474,931	7,893,415	581,516
Program revenues	816,476	737,747	78,729
General revenues	<u>7,699,234</u>	<u>7,647,608</u>	<u>51,626</u>
Total revenues	<u>8,515,710</u>	<u>8,385,355</u>	<u>130,355</u>
Change in net position	40,779	491,940	(451,161)
Net position – beginning of period	<u>13,599,992</u>	<u>13,108,052</u>	<u>491,940</u>
Net position – end of period	<u>\$ 13,640,771</u>	<u>13,599,992</u>	<u>40,779</u>

The statement of activities shows how the government's net position changes during the fiscal year. In the case of the District, net position increased by \$40,779 for the fiscal year ended June 30, 2014.

Governmental Funds Financial Analysis

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unassigned fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2014, the District's General Fund reported a fund balance of \$5,273,074. An amount of \$4,715,340 constitutes the District's *unassigned fund balance*, which is available for future library expenditures.

Palos Verdes Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2014

Capital Asset Administration

At the end of fiscal year 2014, the District's investment in capital assets amounted to \$10,916,760 (net of accumulated depreciation). This investment in capital assets includes structures and improvements and equipment. (See Note 3 for further information)

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 1,034,700	139,003	(282,006)	891,697
Depreciable assets	30,178,377	370,431	-	30,548,808
Accumulated depreciation	<u>(19,679,108)</u>	<u>(844,637)</u>	<u>-</u>	<u>(20,523,745)</u>
Total depreciable assets, net	<u>10,499,269</u>	<u>(474,206)</u>	<u>-</u>	<u>10,025,063</u>
Total capital assets, net	<u>\$ 11,533,969</u>			<u>10,916,760</u>

Debt Service

Changes in debt service for the year was as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Debt service:				
Bonds payable	\$ 4,580,000	-	(1,050,000)	3,530,000

(See Note 4 for further debt service information)

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position or operating results in terms of past, present and future.

Requests for Information

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District's Finance Director, Julie Mattix, at the Palos Verdes Library District, 701 Silver Spur Road, Rolling Hills Estates, CA 90275.

Basic Financial Statements

Palos Verdes Library District
Statement of Net Position
June 30, 2014
With comparative amounts for June 30, 2013

	2014	2013
Assets:		
Cash and cash equivalents (note 2)	\$ 4,999,975	4,851,840
Restricted – cash and cash equivalents (note 2)	1,422,374	1,392,573
Accrued interest receivable	11,883	7,874
Restricted – accrued interest receivable	2,335	1,639
Property taxes receivable	275,637	729,293
Restricted – property taxes receivable	28,434	109,574
Accounts receivable – other	84,831	76,880
Prepaid expenses and deposits	2,748	2,781
Capital assets – not being depreciated (note 3)	891,697	1,034,700
Capital assets – being depreciated, net (note 3)	10,025,063	10,499,269
Total assets	17,744,977	18,706,423
Liabilities:		
Accounts payable and accrued expenses	71,454	53,264
Accrued wages and related payables	215,079	203,400
Deposits	7,603	6,322
Accrued interest payable	73,542	95,417
Due within one year:		
Bonds payable (note 4)	1,110,000	1,050,000
Compensated absences (note 5)	206,528	168,028
Due in more than one year:		
Bonds payable (note 4)	2,420,000	3,530,000
Total liabilities	4,104,206	5,106,431
Net position: (note 6)		
Investment in capital assets, net of related debt	7,386,760	6,953,969
Restricted for debt service	1,187,465	1,198,829
Restricted for capital projects	192,136	209,540
Unrestricted	4,874,410	5,237,654
Total net position	\$ 13,640,771	13,599,992

See accompanying notes to the basic financial statements

Palos Verdes Library District
Statement of Activities
For the Fiscal Year Ended June 30, 2014
With comparative amounts for the fiscal year ended June 30, 2013

<i>Governmental Activities:</i>	<u>2014</u>	<u>2013</u>
Expenses:		
Library operations:		
Salaries and benefits	\$ 5,278,026	5,003,565
Books and materials	546,626	556,819
Professional services	125,245	122,016
Facilities and maintenance	595,215	521,481
Information technology	284,155	242,798
Office and administration	421,335	375,263
Uncollectible property taxes from County	198,817	-
Depreciation	844,637	838,327
Interest	180,875	233,146
Total expenses	<u>8,474,931</u>	<u>7,893,415</u>
Program revenues:		
Charges for services	390,932	355,426
Operating grants and contributions	425,544	382,321
Total program revenues	<u>816,476</u>	<u>737,747</u>
Net program expense	<u>7,658,455</u>	<u>7,155,668</u>
General revenues:		
Property taxes	7,659,010	7,599,786
Interest earnings	28,407	28,817
Other	11,817	19,005
Total general revenues	<u>7,699,234</u>	<u>7,647,608</u>
Change in net position	40,779	491,940
Net position – beginning of period	<u>13,599,992</u>	<u>13,108,052</u>
Net position – end of period	<u>\$ 13,640,771</u>	<u>13,599,992</u>

See accompanying notes to the basic financial statements

Palos Verdes Library District
Reconciliation of the Balance Sheet of Governmental
Type Funds to the Statement of Net Position
June 30, 2014

	General Fund	Debt Service Fund	Total
Assets:			
Cash and cash equivalents	\$ 4,999,975	-	4,999,975
Restricted – cash and cash equivalents	192,136	1,230,238	1,422,374
Accrued interest receivable	11,883	-	11,883
Restricted – accrued interest receivable	-	2,335	2,335
Property taxes receivable	275,637	-	275,637
Restricted – property taxes receivable	-	28,434	28,434
Accounts receivable – other	84,831	-	84,831
Prepaid expenses and deposits	2,748	-	2,748
Total assets	5,567,210	1,261,007	6,828,217
Liabilities:			
Accounts payable and accrued expenses	71,454	-	71,454
Accrued wages and related payables	215,079	-	215,079
Deposits	7,603	-	7,603
Total liabilities	294,136	-	294,136
Fund balances: (note 7)			
Nonspendable	2,748	-	2,748
Restricted	192,136	1,261,007	1,453,143
Committed	362,850	-	362,850
Assigned	4,189,229	-	4,189,229
Unassigned	526,111	-	526,111
Total net position	\$ 5,273,074	1,261,007	6,534,081

Reconciliation:

Fund balance of governmental funds		\$ 6,534,081
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		10,916,760
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities' both current and long-term, are reported in the statement of net position.		
Interest payable		(73,542)
Bonds payable		(3,530,000)
Compensated absences		(206,528)
Net position of governmental activities		\$ 13,640,771

See accompanying notes to the basic financial statements

Palos Verdes Library District
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Type Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

	General Fund	Debt Service Fund	Total
Revenues:			
Property taxes	\$ 6,411,250	1,247,760	7,659,010
Charges for services	390,932	-	390,932
Operating grants and contributions	425,544	-	425,544
Interest earnings	24,697	3,710	28,407
Other	108,268	(29,271)	78,997
Total revenues	7,360,691	1,222,199	8,582,890
Expenditures:			
Library operations:			
Salaries and benefits	5,239,526	-	5,239,526
Books and materials	546,626	-	546,626
Professional services	125,245	-	125,245
Facilities and maintenance	595,215	-	595,215
Information technology	284,155	-	284,155
Office and administration	418,646	2,689	421,335
Capital outlay	208,481	-	208,481
Debt service:			
Principal	-	1,050,000	1,050,000
Interest	-	202,750	202,750
Total expenditures	7,417,894	1,255,439	8,673,333
Net change in fund balances	(57,203)	(33,240)	(90,443)
Fund balance:			
Fund balance – beginning of period	5,330,277	1,294,247	6,624,524
Fund balance – end of period	\$ 5,273,074	1,261,007	6,534,081
Reconciliation:			
Net changes in fund balance of governmental fund			\$ (90,443)
Amounts reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.			(636,156)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction reduces the long-term debt in the statement of net position in the government-wide statements.			1,050,000
Certain revenues in governmental funds are not collected within the prescribed time period after year-end. However, those revenues are recognized on the accrual basis used in the government-wide statements.			(265,997)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:			
Net change in interest payable			21,875
Net change in compensated absences			(38,500)
Change in net position of governmental activities			\$ 40,779

See accompanying notes to the basic financial statements

Palos Verdes Library District
Notes to the Basic Financial Statements
June 30, 2014

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Palos Verdes Library District was formed on April 14, 1928, in accordance with the provisions of the California Education Code, Section 27501, which provides for the establishment of library districts. The governing body is an elected board of five trustees.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, rental revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

The District reports the following major governmental funds:

General Fund – is a government’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

Debt Service Fund – is used to account for the accumulation of resources for the payment of the long-term debt principal, interest and related administration fees.

C. Assets, Liabilities, Net Position and Fund Equity

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

In order to maximize investment return, the District has contracted with the County of Los Angeles Treasurer’s Office to act as its fiscal agent (bank) and pool its available cash with that of the Los Angeles County Treasury Investment Pool (LACTIP).

3. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following areas:

- Los Angeles County Investment Pool
- Checking and savings accounts at local financial institutions

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Restricted Assets

Certain resources are set aside for the repayment of the District’s General Obligation Refunding Bonds and other items and are classified as restricted assets on the on the statement of net position because their use is limited by applicable bond covenants and donor restrictions.

5. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1 and are payable in two installments, on December 10 and April 10. The County of Los Angeles Assessor’s Office assesses all real and personal property within the County each year. The County of Los Angeles Tax Collector’s Office bills and collects the District’s share of property taxes. The County of Los Angeles Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and special assessments receivable at year-end are related to property taxes collected by the County of Los Angeles, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities, Net Position and Fund Equity, continued

6. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

7. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building, building improvements, equipment and furniture and fixtures. District policy has set the capitalization threshold for reporting capital assets at \$500. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Library buildings– 30 years
- Furniture and equipment – 3 to 7 years

8. Compensated Absences

The District's policy is to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. Budgetary Policies

Prior to June 30th each fiscal year, the District adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenses and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by a 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

10. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets Component of Net Position** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Component of Net Position** – This component of net position consists of constraints placed on assets reduced by liabilities and deferred inflows of resources use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Component Net Position** – This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Liabilities, Net Position and Fund Equity, continued

11. Fund Balance

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District’s special revenue funds.
- **Unassigned fund balance** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

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

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(2) Cash and Cash Equivalents

Cash is classified in the accompanying financial statements as follows:

	2014
Cash and cash equivalents	\$ 4,999,975
Restricted – cash and cash equivalents	1,422,374
	\$ 6,422,349

Cash and cash equivalents as of June 30, consist of the following:

	2014
Petty cash	\$ 1,441
Deposits held with financial institutions	671,115
Deposits held with LA County Treasury Investment Pool (LACPIF)	5,571,857
Total	\$ 6,244,413

As of June 30, the District's authorized deposits had the following maturities:

	2014
Deposits held with LA County Treasury Investment Pool (LACPIF)	741 days

Authorized Deposits and Investments

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Cash with County of Los Angeles Treasury Pool

The County of Los Angeles Pooled Investment Fund (Pool) is a pooled investment fund program governed by the County of Los Angeles Board of Supervisors, and administered by the County of Los Angeles Treasurer and Tax Collector. Investments in the Pool are highly liquid as deposits and withdrawals can be made at any time without penalty. The Pool does not impose a maximum investment limit. Information regarding derivative securities or similar products held by the Pool is not available. Also, the Pool's and the District's exposure to credit, market or legal risk is not available.

The County of Los Angeles' bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of Los Angeles' Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of Los Angeles Auditor-Controller's Office – 500 West Temple Street – Los Angeles, CA 90012.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(2) Cash and Cash Equivalents

Custodial Credit Risk, continued

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 Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LACTIP).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2014, the District's investment in the LACTIP was rated by Standard & Poor's as AA Af / S1+.

(3) Capital Assets

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 392,194	-	-	392,194
Artwork	360,500	-	-	360,500
Construction-in-process	282,006	139,003	(282,006)	139,003
Total non-depreciable assets	<u>1,034,700</u>	<u>139,003</u>	<u>(282,006)</u>	<u>891,697</u>
Depreciable assets:				
Library buildings	28,271,665	300,953	-	28,572,618
Furniture and equipment	1,906,712	69,478	-	1,976,190
Total depreciable assets	<u>30,178,377</u>	<u>370,431</u>	<u>-</u>	<u>30,548,808</u>
Accumulated depreciation:				
Library buildings	(17,990,431)	(774,974)	-	(18,765,405)
Furniture and equipment	(1,688,677)	(69,663)	-	(1,758,340)
Total accumulated depreciation	<u>(19,679,108)</u>	<u>(844,637)</u>	<u>-</u>	<u>(20,523,745)</u>
Total depreciable assets, net	<u>10,499,269</u>	<u>(474,206)</u>	<u>-</u>	<u>10,025,063</u>
Total capital assets, net	<u>\$ 11,533,969</u>			<u>10,916,760</u>

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(4) Bonds Payable

On May 1, 1998, the District issued General Obligation Refunding Bonds, Series 1998 (Refunding Bonds) in the amount of \$14,230,000 to advance refund the 1991 General Obligation Bonds (Original Bonds) maturing on and after August 1, 2002 in the amount of \$12,505,000. Interest rates on the Refunding Bonds vary from 3.70% to 5.00% per annum, payable semi-annually on August 1, 1998 to August 1, 2016. The advance refunding met the requirements of an in-substance defeasance of the Original Bonds maturing after 2002 in the amount of \$12,505,000. Therefore, the liability for those bonds was removed from the District's government-wide financial statements. The remaining debt service payments are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,110,000	148,750	1,258,750
2016	1,175,000	91,625	1,266,625
2017	<u>1,245,000</u>	<u>31,125</u>	<u>1,276,125</u>
Total	\$ 3,530,000	<u>271,500</u>	<u>3,801,500</u>
Less: current	<u>(1,110,000)</u>		
Long-term	\$ <u>2,420,000</u>		

(5) Compensated Absences

Changes in compensated absences for the year was as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>168,028</u>	<u>125,433</u>	<u>(86,933)</u>	<u>206,528</u>	<u>206,528</u>

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(6) Net Position

Calculation of net position as of June 30, were as follows:

	2014	2013
Investment in capital assets, net of related debt:		
Capital assets – not being depreciated	\$ 891,697	1,034,700
Capital assets – being depreciated, net	10,025,063	10,499,269
Bonds payable – current	(1,110,000)	(1,050,000)
Bonds payable – non-current	(2,420,000)	(3,530,000)
Total investment in capital assets, net of related debt	7,386,760	6,953,969
Restricted net position:		
Restricted – cash and cash equivalents	1,422,374	1,392,574
Restricted – accrued interest receivable	2,335	1,639
Restricted – property taxes receivable	28,434	109,574
Accrued interest payable	(73,542)	(95,417)
Total restricted net position	1,379,601	1,408,370
Restricted net position are categorized as follows:		
Restricted for debt service	1,187,465	1,198,829
Restricted for capital projects	192,136	209,541
	1,379,601	1,408,370
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and deposits	2,748	2,781
Total non-spendable net position	2,748	2,781
Spendable net position are assigned as follows:		
Assigned net position reserve	4,345,551	4,216,453
Unassigned net position reserve	526,111	1,018,419
Total spendable net position	4,871,662	5,234,872
Total unrestricted net position	4,874,410	5,237,653
Total net position	\$ 13,640,771	13,599,991

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(7) Fund Balance

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note 1.D.11 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2014 is as follows:

<u>Fund Balance Category</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Nonspendable:			
Prepaid expenses and deposits	\$ 2,748	-	2,748
Restricted:			
Debt service	-	1,261,007	1,261,007
Donor donation – Malaga Cove Library	183,548	-	183,548
Donor donation – Miraleste Library	8,588	-	8,588
Total restricted	192,136	1,261,007	1,453,143
Committed:			
Compensated absences	206,528	-	206,528
Electrical Upgrades/Lighting Malaga Cove	81,480	-	81,480
Renovate Restrooms at Miraleste	45,000	-	45,000
Community Room Furniture at PC	29,842	-	29,842
Total committed	362,850	-	362,850
Assigned:			
Minimum balance requirement	3,322,529	-	3,322,529
Emergency reserve – 5% of operating	361,595	-	361,595
Capital asset replacement	257,436	-	257,436
Additional emergency reserve	247,669	-	247,669
Total assigned	4,189,229	-	4,189,229
Unassigned	526,111	-	526,111
Total fund balance	\$ 5,273,074	1,261,007	6,534,081

(8) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of plan assets held in trusts by Nationwide Retirement Solutions and Mutual of America was \$705,747 and \$1,042,880, respectively at June 30, 2014.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(8) Deferred Compensation Savings Plan, continued

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(9) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy and Annual Pension Cost

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2014, 2013 and 2012 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. Unless specifically exempted by law, District employees in this tier contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer and member contribution rate is 6.25% for a combined rate of 12.50% which will be in effect until June 30, 2015.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(9) Defined Benefit Pension Plan, continued

For fiscal years 2014, 2013 and 2012 the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2011-2012	\$ 434,485	100%	-	14.030%
2012-2013	304,799	100%	-	10.150%
2013-2014	339,075	100%	-	10.341%

See page 25 for the Schedule of Funding Progress.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	19 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions and employment practices liability: Total risk financing limits of \$2.5 million, combined single limit at \$2.5 million per occurrence, subject to the following deductibles – \$500/\$1,000 per occurrence for third party general liability property damage – 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims. However, 100% of the obligation will be waived if certain criteria are met.
- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, deductible of \$500 per claim.

The District maintains workers' compensation coverage and employer's liability coverage in accordance with the statutory requirements of the State of California. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2014, 2013 and 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2014, 2013 and 2012.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
June 30, 2014

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

(12) Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(13) Subsequent Events

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Palos Verdes Library District
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2014

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Property taxes	\$ 6,269,400	160,900	6,430,300	6,411,250	(19,050)
Charges for services	378,600	(12,200)	366,400	390,932	24,532
Operating grants and contributions	328,600	84,600	413,200	425,544	12,344
Interest earnings	20,000	-	20,000	24,697	4,697
Other	2,000	-	2,000	108,268	106,268
Total revenues	<u>6,998,600</u>	<u>233,300</u>	<u>7,231,900</u>	<u>7,360,691</u>	<u>128,791</u>
Expenditures:					
Library operations:					
Salaries and benefits	5,131,600	122,300	5,253,900	5,239,526	14,374
Books and materials	601,700	-	601,700	546,626	55,074
Professional services	105,900	3,000	108,900	125,245	(16,345)
Facilities and maintenance	536,200	26,900	563,100	595,215	(32,115)
Information technology	197,400	6,100	203,500	284,155	(80,655)
Office and administration	383,800	97,000	480,800	418,646	62,154
Capital outlay	509,000	-	509,000	208,481	300,519
Total expenditures	<u>7,465,600</u>	<u>255,300</u>	<u>7,720,900</u>	<u>7,417,894</u>	<u>303,006</u>
Net change in fund balances	<u>(467,000)</u>	<u>(22,000)</u>	<u>(489,000)</u>	<u>(57,203)</u>	<u>(174,215)</u>
Fund balance:					
Fund balance – beginning of period	<u>5,330,277</u>		<u>5,330,277</u>	<u>5,330,277</u>	
Fund balance – end of period	<u>\$ 4,863,277</u>		<u>4,841,277</u>	<u>5,273,074</u>	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District's Manager and Finance Manager prepares and submits an operating budget to the Board of Directors for the General Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts. The District's annual budget is presented as a balanced budget (inflows and reserves equal outflows and reserves) adopted for the General Fund at the detailed expenditure-type level.

The District presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes.

Palos Verdes Library District
Schedule of Funding Status
For the Fiscal Year Ended June 30, 2014

1. Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool				
The District is part of the CalPERS Miscellaneous 2.0% at 55 yrs. Risk Pool	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013*</u>	
1. Plan's accrued liability	\$ 14,809,962	15,400,383	-	
2. Plan's side fund	(771,918)	8,908	-	
3. Pool's accrued liability	3,619,835,876	4,175,139,166	-	
4. Pool's side fund	(115,840,552)	(132,335,224)	-	
5. Pool's actuarial value of assets including receivables	3,203,214,899	3,686,598,343	-	
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	12,833,028	14,051,601	-	
7. Pool's market value of assets (MVA) including receivables	2,867,303,802	3,120,110,130	-	
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	11,487,269	11,892,411	-	

Funding History

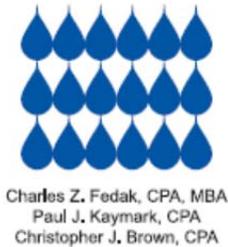
The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

<u>Actuarial Valuation Date</u>	<u>Accrued Liability (a)</u>	<u>Share of Pool's Market Value of Assets (MVA) (b)</u>	<u>Plan's Share of Pool's Unfunded Liability (a-b)</u>	<u>Funded Ratio (b/a)</u>	<u>Annual Covered Payroll</u>
June 30, 2011	\$ 14,809,962	11,487,269	3,322,693	77.6%	\$ 2,761,433
June 30, 2012	15,400,383	11,892,411	3,507,972	77.2%	2,925,129
June 30, 2013	*	-	-	0.00%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

CalPERS has not provided the funding status information by individual entity for the 2.0% at 62 years-old Retirement Plan under PEPR .

Report on Compliance and Internal Controls



Charles Z. Fedak & Company

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Palos Verdes Library District
Rolling Hills Estates, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palos Verdes Library District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

Compliance and Other Matters

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

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Purpose of this Report

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



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2014