



Palos Verdes Library District

Rolling Hills Estates, California

Annual Financial Report

For the Year Ended June 30, 2015

**Palos Verdes Library District
Annual Financial Report
For the Year Ended June 30, 2015**

Table of Contents

	<u>Page</u>
Table of Contents	i
FINANCIAL SECTION	
Independent Auditors’ Report on the Financial Statements	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Management’s Discussion and Analysis – Required Supplementary Information (Unaudited)	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position of Governmental Activities	13
Statement of Revenues, Expenditures and Change in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Governmental Funds to the Statement of Activities	15
Notes to the Basic Financial Statements	16
Required Supplementary Information (Unaudited):	
Schedule of Proportionate Share of the Net Pension Liability	34
Schedule of Contributions to Pension Plan	35
Budgetary Comparison Schedule – General Fund	36
Notes to the Required Supplementary Information	36

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palos Verdes Library District (District) as of and for the year ended June 30, 2015, 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.

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 Palos Verdes Library District as of June 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. The adoption of these statements requires retrospective application of previously reported net position at July 1, 2014 as described in note 10 to the basic financial statements. In addition, Net Pension Liability is reported in the Statement of Net Position in the amount of \$3,102,720 as of June 30, 2014, the measurement date as described in note 9 to the basic financial statements. This Net Pension Liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2013 which was then rolled-forward by the actuaries to June 30, 2014, the measurement date. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Contributions to Pension Plan and the Budgetary Comparison Schedule on pages 35 through 37, respectively 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 December 10, 2015, 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.



Santa Ana, California
December 10, 2015



**REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Board of Trustees
of the 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, 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 10, 2015.

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*.

To the Board of Trustees
of the Palos Verdes Library District
Rolling Hills Estates, California
Page 2

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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 10, 2015

Palos Verdes Library District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

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, 2015. 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 total revenues increased by 9.94% or \$846,631, to \$9,362,341 in fiscal year 2015 due primarily to an increase in property tax revenues.
- The District's total expenses decreased 0.08% or \$6,708, in fiscal year 2015 due primarily to decreases in library operational costs.
- The District's change in net position for the year ended June 30, 2015 was \$894,118.
- As a result of the implementation of the new pension standards, the net pension liability as of June 30, 2015 was \$3,102,720 and is recorded on the Statement of Net Position.

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.

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.

Palos Verdes Library District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2015

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 Statements of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Assets:			
Current assets	\$ 6,945,081	\$ 6,828,217	\$ 116,864
Capital assets, net	10,461,274	10,916,760	(455,486)
Total assets	<u>17,406,355</u>	<u>17,744,977</u>	<u>(338,622)</u>
Deferred outflows of resources	<u>439,452</u>	<u>-</u>	<u>439,452</u>
Liabilities:			
Current liabilities	1,746,723	1,684,206	62,517
Noncurrent liabilities	4,347,720	2,420,000	1,927,720
Total liabilities	<u>6,094,443</u>	<u>4,104,206</u>	<u>1,990,237</u>
Deferred inflows of resources	<u>1,115,107</u>	<u>-</u>	<u>1,115,107</u>
Net position:			
Net investment in capital assets	8,041,274	7,386,760	654,514
Restricted for debt service	1,265,663	1,187,465	78,198
Restricted for capital projects	18,561	192,136	(173,575)
Unrestricted	1,310,759	4,874,410	(3,563,651)
Total net position	<u>\$ 10,636,257</u>	<u>\$ 13,640,771</u>	<u>\$ (3,004,514)</u>

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 and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$10,636,256 as of June 30, 2015. Also, the District recorded a \$(3,898,633) prior period adjustment to net position to account for the implementation of GASB 68 and 71 to include a net pension liability of \$3,102,720 on the statement of net position as of June 30, 2015. See note 9 and 10 for further information.

A portion of the District's net position 75.60% or \$8,041,274 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 2015, the District shows a positive balance in its unrestricted net position of \$1,310,758 that may be utilized in future years.

Palos Verdes Library District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2015

Condensed Statements of Activities

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 424,329	\$ 390,932	\$ 33,397
Operating grants and contributions	438,920	425,544	13,376
General revenues:			
Property taxes	8,449,572	7,659,010	790,562
Interest earnings	28,915	28,407	508
Other	20,605	11,817	8,788
Total revenues	<u>9,362,341</u>	<u>8,515,710</u>	<u>846,631</u>
Expenses:			
Library operations:			
Salaries and benefits	5,673,283	5,278,026	395,257
Books and materials	484,929	546,626	(61,697)
Professional services	136,222	125,245	10,977
Facilities and maintenance	580,794	595,215	(14,421)
Information technology	242,215	284,155	(41,940)
Office and administration	369,733	421,335	(51,602)
Uncollectible property taxes from County	-	198,817	(198,817)
Depreciation	855,421	844,637	10,784
Interest	125,625	180,875	(55,250)
Total expenses	<u>8,468,222</u>	<u>8,474,931</u>	<u>(6,709)</u>
Change in net position	894,119	40,779	853,340
Beginning of year	13,640,771	13,599,992	40,779
Prior period adjustment	(3,898,633)	-	(3,898,633)
End of year	<u>\$ 10,636,257</u>	<u>\$ 13,640,771</u>	<u>\$ (3,004,514)</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 \$894,118 for the fiscal year ended June 30, 2015.

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, 2015, the District's General Fund reported a fund balance of \$5,308,126. An amount of \$984,732 constitutes the District's *unassigned fund balance*, which is available for future library expenditures.

Palos Verdes Library District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2015

Capital Asset Administration

At the end of fiscal year 2015, the District's investment in capital assets amounted to \$10,461,274 (net of accumulated depreciation). This investment in capital assets includes structures and improvements and equipment. (See Note 3 for further information)

Capital assets balances are as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Non-depreciable assets	\$ 1,100,442	\$ 891,697
Depreciable assets	30,739,998	30,548,808
Accumulated depreciation and amortization	(21,379,166)	(20,523,745)
Total capital assets, net	<u>\$ 10,461,274</u>	<u>\$ 10,916,760</u>

Debt Service

Debt service balances are as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Bonds payable	<u>\$ 2,420,000</u>	<u>\$ 3,530,000</u>

(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, 2015

Assets

Assets:

Cash and cash equivalents (note 2)	\$ 5,081,112
Restricted – cash and cash equivalents (note 2)	1,282,170
Accrued interest receivable	11,629
Restricted – accrued interest receivable	2,404
Property taxes receivable	379,082
Restricted – property taxes receivable	50,067
Accounts receivable – other	129,272
Prepaid items	9,345
Capital assets – not being depreciated (note 3)	1,100,442
Capital assets, net – being depreciated (note 3)	9,360,832
Total assets	17,406,355

Deferred Outflows of Resources

Deferred Outflows of Resources:

Employer contributions to pension plans made after measurement date (note 9)	420,029
Deferred adjustments due to differences in pension plan proportions (note 9)	19,423
Total deferred outflows of resources	439,452

Liabilities

Liabilities:

Accounts payable and accrued expenses	84,861
Accrued salaries and benefits	227,829
Accrued interest payable	50,417
Deposits	8,184
Due within one year:	
Bonds payable (note 4)	1,175,000
Compensated absences (note 5)	200,432
Due in more than one year:	
Bonds payable (note 4)	1,245,000
Net pension liability (note 9)	3,102,720
Total liabilities	6,094,443

Deferred Inflows of Resources

Deferred Inflows of Resources:

Differences between projected and actual earnings on pension plan investments (note 9)	1,046,067
Deferred adjustments due to differences in pension plan proportions (note 9)	69,040
Total deferred inflows of resources	1,115,107

Net Position

Net Position:

Net investment in capital assets (note 6)	8,041,274
Restricted for debt service (note 6)	1,265,663
Restricted for capital projects (note 6)	18,561
Unrestricted	1,310,759
Total net position	\$ 10,636,257

Palos Verdes Library District
Statement of Activities
For the Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Capital and</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Operating</u>	<u>Changes in</u>
			<u>Grants</u>	<u>Net Position</u>
Governmental activities:				
Library operations	\$ 8,468,222	\$ 424,329	\$ 438,920	\$ (7,604,973)
Total governmental activities	<u>\$ 8,468,222</u>	<u>\$ 424,329</u>	<u>\$ 438,920</u>	<u>(7,604,973)</u>
General revenues:				
Property taxes				8,449,572
Interest earnings				28,915
Other				20,605
Total general revenues				<u>8,499,092</u>
Change in net position				894,119
Net Position:				
Beginning of year				13,640,771
Prior period adjustment (note 10)				<u>(3,898,633)</u>
End of year				<u>\$ 10,636,257</u>

Palos Verdes Library District
Balance Sheet - Governmental Funds
June 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Assets:			
Cash and cash equivalents	\$ 5,099,673	1,263,609	6,363,282
Accrued interest receivable	11,629	2,404	14,033
Property taxes receivable	379,082	50,067	429,149
Accounts receivable — other	129,272	-	129,272
Prepaid items	9,345	-	9,345
Total assets	\$ 5,629,001	\$ 1,316,080	\$ 6,945,081
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable and accrued expenses	\$ 84,861	\$ -	\$ 84,861
Accrued salaries and benefits	227,829	-	227,829
Deposits	8,184	-	8,184
Total liabilities	320,874	-	320,874
Fund balance: (note 7)			
Nonspendable	9,345	-	9,345
Restricted	18,561	1,316,080	1,334,641
Committed	200,432	-	200,432
Assigned	4,095,056	-	4,095,056
Unassigned	984,733	-	984,733
Total fund balance	5,308,127	1,316,080	6,624,207
Total liabilities and fund balance	\$ 5,629,001	\$ 1,316,080	\$ 6,945,081

Palos Verdes Library District
Reconciliation of the Balance Sheet of Governmental Funds to the
Government-Wide Statement of Net Position of Governmental Activities
June 30, 2015

Fund balance of governmental funds	<u>\$ 6,624,207</u>
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. However, the statement of net position includes those assets as capital assets.	10,461,274
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. However, the statement of net position recognizes accrued interest on long-term debt based on the period of accrual.	(50,417)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Bonds payable	(2,420,000)
Compensated absences	(200,432)
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.	(3,102,720)
Pension contributions made during the year after the measurement date are reported as pension expense in governmental funds and as deferred outflows of resources in the government-wide financial statements.	439,452
Difference between projected and actual earnings on pension plan investments are reported in the government-wide financial statements:	
Projected earnings over actual earnings and differences in pension plan contribution proportions	<u>(1,115,107)</u>
Total adjustments	<u>4,012,050</u>
Net position of governmental activities	<u><u>\$ 10,636,257</u></u>

Palos Verdes Library District
Statement of Revenues, Expenditures and Change in Fund Balances
For the Year Ended June 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Revenues:			
Property taxes	\$ 7,136,457	\$ 1,313,115	\$ 8,449,572
Charges for services	424,329	-	424,329
Operating grants and contributions	438,920	-	438,920
Interest earnings	25,043	3,872	28,915
Other	20,605	-	20,605
Total revenues	<u>8,045,354</u>	<u>1,316,987</u>	<u>9,362,341</u>
Expenditures:			
Library operations:			
Salaries and benefits	5,799,637	-	5,799,637
Books and materials	484,929	-	484,929
Professional services	136,222	-	136,222
Facilities and maintenance	580,794	-	580,794
Information technology	242,215	-	242,215
Office and administration	366,569	3,164	369,733
Capital outlay	399,935	-	399,935
Debt service:			
Principal	-	1,110,000	1,110,000
Interest	-	148,750	148,750
Total expenditures	<u>8,010,301</u>	<u>1,261,914</u>	<u>9,272,215</u>
Change in fund balance	35,053	55,073	90,126
Fund Balance:			
Beginning of year	<u>5,273,074</u>	<u>1,261,007</u>	<u>6,534,081</u>
End of year	<u>\$ 5,308,127</u>	<u>\$ 1,316,080</u>	<u>\$ 6,624,207</u>

Palos Verdes Library District
Reconciliation of the Statement of Revenues, Expenditures,
and Change in Fund Balances of Governmental Funds
to the Government-Wide Statement of Activities
For the Year Ended June 30, 2015

Net changes in fund balance of governmental funds	<u>\$ 90,126</u>
Amount reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay	399,935
Depreciation expense	(855,421)
Governmental funds report principal repayment of long-term debt as an expenditure. However, principal repayments reduce liabilities in the statement of net position and do not result in expenses in the statement of activities.	
	1,110,000
Changes in net pension obligation reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	
	120,258
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	23,125
Net change in compensated absence	<u>6,096</u>
Total adjustments	<u>803,993</u>
Change in net position of governmental activities	<u><u>\$ 894,119</u></u>

Palos Verdes Library District
Notes to the Basic Financial Statements
June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

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.

Basis of Accounting and Measurement Focus

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, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Measurement Focus

The District' financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, will not be recognized as a revenue until that time.

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.

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.

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).

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.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

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.

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

Prepaid Items

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.

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 – 20 years
Furniture and equipment – 3 to 5 years

Compensated Absences

It’s the District policy to allow vacation time between 10 to 20 working days based on completed years of service. Vacation time may be accumulated each pay period beginning with the date of hire for salaried employees. Vacation time may not be used until after the employee successfully completes the first 6 months of their introductory period. It’s the District policy that vacation shall be used annually. The District’s maximum accrual is 200 hours, unless other approved by management.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net pension of the District's pension plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the plans (Note 9). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Measurement period	July 1, 2013 to June 30, 2014

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

Net Position

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

Net Investment in Capital Assets– 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– 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– 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.

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 – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

Restricted– 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– 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 Trustees) 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– 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– 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 Trustees 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.

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.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Accounting Changes

During fiscal year ended June 30, 2015, the District has implemented the following new GASB pronouncements:

Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts and equivalent arrangements. The requirements of No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. See notes 9 and 10 for further information on the implementation of these pronouncements.

Statement No. 69, *Government Combinations and Disposals of Government Operations*. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. See notes 9 and 10 for further information on the implementation of these pronouncements.

Note 2 – Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2015 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 5,081,112
Restricted – cash and cash equivalents	1,282,170
Total cash and cash equivalents	<u>\$ 6,363,282</u>

Cash and cash equivalents at June 30, 2015, consist of the following:

Cash on hand	\$ 1,481
Deposits held with financial institutions	779,796
Deposits held with LA County Treasury Investment Pool (LACPIF)	5,582,005
Total cash and cash equivalents	<u>\$ 6,363,282</u>

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.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 2 – Cash and Cash Equivalents (Continued)

Cash with County of Los Angeles Treasury Pool

The District is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53694. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool's Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are to be performed no less than semi-annually. In accordance with Government Code Section 27136, all request for withdrawal of funds for the purpose of investing or deposits the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. At June 30, 2015, the District had \$5,582,005 invested in the Los Angeles County Investment Pool.

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.

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. As of June 30, 2015, the average life-month end maturity of the investments contained in the Los Angeles County Treasury Pool is approximately 595 days.

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, 2015, the District's investment in the LACTIP was rated by Standard & Poor's as AA Af / S1+.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 3 – Capital Assets

At June 30, 2015, the capital assets balances for the District are as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2015</u>
Non-depreciable assets:				
Land	\$ 392,194	\$ -	\$ -	\$ 392,194
Artwork	360,500	-	-	360,500
Construction-in-process	139,003	347,748	(139,003)	347,748
Total non-depreciable assets	<u>891,697</u>	<u>347,748</u>	<u>(139,003)</u>	<u>1,100,442</u>
Depreciable assets:				
Library buildings	28,572,618	-	120,057	28,692,675
Furniture and equipment	1,976,190	52,187	18,946	2,047,323
Total depreciable assets	<u>30,548,808</u>	<u>52,187</u>	<u>139,003</u>	<u>30,739,998</u>
Accumulated depreciation:				
Library buildings	(18,765,405)	(779,607)	-	(19,545,012)
Furniture and equipment	(1,758,340)	(75,814)	-	(1,834,154)
Total accumulated depreciation	<u>(20,523,745)</u>	<u>(855,421)</u>	<u>-</u>	<u>(21,379,166)</u>
Total depreciable assets, net	<u>10,025,063</u>	<u>(803,234)</u>	<u>139,003</u>	<u>9,360,832</u>
Total capital assets, net	<u><u>\$ 10,916,760</u></u>	<u><u>\$ (455,486)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,461,274</u></u>

Note 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>
2016	\$ 1,175,000	\$ 91,625	\$ 1,266,625
2017	1,245,000	31,125	1,276,125
Total	2,420,000	\$ 122,750	\$ 2,542,750
Less: current	(1,175,000)		
Long-term	<u><u>\$ 1,245,000</u></u>		

Note 5 – Compensated Absences

At June 30, 2015, the compensated absence balance is as follows:

	<u>Balance July 1, 2014</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance June 30, 2015</u>	<u>Current Portion</u>
Compensated absences	\$ 206,528	\$ 102,432	\$ (108,528)	\$ 200,432	\$ 200,432

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 6 – Net Position

Net position as of June 30, 2015 was as follows:

Net investment in capital assets:

Capital assets – not being depreciated	\$ 1,100,442
Capital assets, net – being depreciated	9,360,832
Bonds payable – current	(1,175,000)
Bonds payable – noncurrent	(1,245,000)
Total net investment in capital assets	\$ 8,041,274

Restricted net position:

Restricted – cash and cash equivalents	\$ 1,282,170
Restricted – accrued interest receivable	2,404
Restricted – property taxes receivable	50,067
Accrued interest payable	(50,417)
Total restricted net position	1,284,224

Restricted net position are categorized as follows:

Restricted for debt service	1,265,663
Restricted for capital projects	18,561
Total restricted net position	\$ 1,284,224

Note 7 – Fund Balance

Fund balances classifications as of June 30, 2015 are as follows:

Description	General Fund	Debt Service Fund	Total Governmental Funds
Nonspendable:			
Prepaid items	\$ 9,345	\$ -	\$ 9,345
Restricted:			
Debt service	-	1,316,080	1,316,080
Donor – Malaga Cove Library	9,916	-	9,916
Donor – Miraleste Library	8,645	-	8,645
Total restricted	18,561	1,316,080	1,334,641
Committed:			
Compensated absences	200,432	-	200,432
Assigned:			
Minimum balance requirement	3,800,800	-	3,800,800
Emergency reserve – 5% of operating	294,256	-	294,256
Total assigned	4,095,056	-	4,095,056
Unassigned:			
Total fund balance	\$ 5,308,127	\$ 1,316,080	\$ 6,624,207

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 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 \$806,801 and \$1,181,694, respectively at June 30, 2015.

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 presented in the accompanying financial statements.

Note 9 – Defined Benefit Pension Plan

Summary

Net Pension Liability

Net Pension Liability is reported in the accompanying statement of net position as follows:

	Miscellaneous Plan - Classic	Miscellaneous Plan - PEPRA	Total
Net Pension Liability	\$ 3,101,558	\$ 1,162	\$ 3,102,720

Deferred Outflows of Resources

Deferred Outflows of Resources are reported in the accompanying statement of net position as follows:

	Miscellaneous Plan - Classic	Miscellaneous Plan - PEPRA	Total
Employer contributions to pension plans made after measurement date	\$ 400,786	\$ 19,243	\$ 420,029
Deferred adjustments due to differences in pension plan proportions	9,227	10,196	19,423
Total deferred outflows of resources	\$ 410,013	\$ 29,439	\$ 439,452

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

Deferred Inflows of Resources

Deferred Inflows of Resources are reported in the accompanying statement of net position as follows:

	Miscellaneous Plan - Classic	Miscellaneous Plan - PEPRA	Total
Differences between projected and actual earnings on pension plan investments	\$ 1,045,677	\$ 390	\$ 1,046,067
Deferred adjustments due to differences in pension plan proportions	59,370	9,670	69,040
Total deferred inflows of resources	<u>\$ 1,105,047</u>	<u>\$ 10,060</u>	<u>\$ 1,115,107</u>

Plan Description

The District employees that are eligible to participate in District’s Miscellaneous and Miscellaneous PEPRA cost-sharing multiple-employer defined benefit pension plans administered by California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statues within the Public Employee’s Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA, 95814.

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the Board of Trustees.

The Plan’s provisions and benefits in effect as of June 30, 2015, are summarized as follows:

Miscellaneous Plan
CLOSED TO NEW MEMBERS

Hire date	Prior to December 24, 2012
Benefit formula	2.0% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	12 months
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	2.00%
Required employee contribution rates	7.00%
Required employer contribution rates	10.452%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

PEPRA Miscellaneous Plan

Hire date	On or after January 1, 2013
Benefit formula	2.0% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	36 months
Retirement age	52-67
Monthly benefits, as a % of eligible compensation	1.0-2.5%
Required employee contribution rates	6.50%
Required employer contribution rates	6.50%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

Employees covered

As of June 30, 2013, from the actuarial report, the following employees were covered by the benefit terms for the Plan:

	<u>Misc. Plan - Classic</u>	<u>Misc. Plan - PEPRA</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	62	0	62
Inactive employees entitled to but not yet receiving benefits	38	0	38
Active employees	42	4	46
Total	<u>142</u>	<u>4</u>	<u>146</u>

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For period ended June 30, 2014 (the measurement date), the active employee contribution rate is 6.891% of annual pay, and the average employer's contribution rate is 10.452% of annual payroll for the Miscellaneous Plan, 6.308% and 6.250% for the PEPRA Plan.

For the year ended June 30, 2015, the contributions made for the Plan were as follows:

	<u>Misc. Plan - Classic</u>	<u>Misc. Plan - PEPRA</u>	<u>Total</u>
Contributions - employer	\$ 331,093	\$ 13,992	\$ 345,085
Contributions - employee	212,584	14,794	227,378
Total	<u>\$ 543,677</u>	<u>\$ 28,786</u>	<u>\$ 572,463</u>

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Misc. Plan - Classic	Misc. Plan - PEPRA	Total
Proportionate Share of Net Pension Liability	\$ 3,101,558	\$ 1,162	\$ 3,102,720

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	Misc. Plan Classic	Misc. Plan PEPRA
Proportion June 30, 2013	0.004984%	0.00002%
Proportion June 30, 2014	0.004984%	0.00002%
Change - Increase (Decrease)	0.000000%	0.000000%

For the year ended June 30, 2015, the District recognized pension expense of \$299,771.

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to pension plans made after measurement date	\$ 420,029	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Deferred adjustments due to differences in pension plan proportions	19,423	(69,040)
Net differences between projected and actual earnings on plan investments	-	(1,046,067)
Total	\$ 439,452	\$ (1,115,107)

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

The \$420,029 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended June 30, 2016. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 6,938	\$ (286,520)
2017	6,938	(286,520)
2018	5,547	(280,994)
2019		(261,073)
2020	-	-
Thereafter	-	-
Total	\$ 19,423	\$ (1,115,107)

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Misc. Plan - Classic	Misc. Plan - PEPR
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	varies by entry age and service (1)	varies by entry age and service (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality	Derived using CalPERS' Membership Data for all funds (3)	Derived using CalPERS' Membership Data for all funds (3)

(1) Depending on age, service, and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvement using Society of actuaries Scale BB.

There were no changes in assumptions, benefit terms, or other inputs that affected the measurement of the net pension liability. There were no changes between the measurement date of the net pension liability and the reporting date. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

(a) an expected inflation of 2.5% for this period

(b) an expected inflation of 3.0% for this period

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Misc. Plan - Classic		Misc. Plan - PEPRA
1% Decrease	6.50%		6.50%
Net Pension Liability	\$ 5,532,602	\$	2,070
Current Discount Rate	7.50%		7.50%
Net Pension Liability	\$ 3,101,558	\$	1,162
1% Increase	8.50%		8.50%
Net Pension Liability	\$ 1,084,022	\$	408

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Note 10 – Prior Period Adjustment

As a result of the implementation of GASB Statements No. 68 and 71, net position as of July 1, 2014 was restated as follows:

Net position at July 1, 2014, as previously reported	\$	13,640,771
Net pension liability		(4,243,718)
Employer contributions to pension plan made after the measurement date		411,821
Changes in employer contributions and differences between proportionate share of pension expense		(66,736)
Total restatements		(3,898,633)
Net position at July 1, 2014, as restated	\$	9,742,138

Note 11 – 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, 2015, the District participated in the liability and property programs of the SDRMA as follows:

Palos Verdes Library District
Notes to the Basic Financial Statements (Continued)
June 30, 2015

Note 11 – Risk Management (Continued)

- 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, 2015, 2014 and 2013. 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, 2015, 2014 and 2013.

Note 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.

REQUIRED SUPPLEMENTARY INFORMATION

**Palos Verdes Library District
Required Supplementary Information
For the Fiscal Year Ended June 30, 2015**

**Schedule of Proportionate Share of the Net Pension Liability
District's Plans
(Last Ten Years*)**

	FY 2013-14
<u>Miscellaneous Plan</u>	
Proportion of the net pension liability	0.04984%
Proportionate share of the net pension liability	\$ 3,101,558
Covered - employee payroll	\$ 2,960,993
Proportionate share of the net pension liability as percentage of covered-employee payroll	104.75%
Plan's fiduciary net position as percentage of the total pension liability	83.07%
Proportionate share of aggregate employer contributions	\$ 411,667
<u>PEPRA Miscellaneous Plan</u>	
Proportion of the net pension liability	0.00002%
Proportionate share of the net pension liability	\$ 1,162
Covered - employee payroll	\$ 210,520
Proportionate share of the net pension liability as percentage of covered-employee payroll	0.55%
Plan's fiduciary net position as percentage of the total pension liability	83.03%
Proportionate share of aggregate employer contributions	\$ 154

* Historical information is required only for measurement periods for which GASB No. 68 is applicable.

Palos Verdes Library District
Required Supplementary Information (Continued)
For the Fiscal Year Ended June 30, 2015

Schedule of Contributions
District's Plans
(Last Ten Years*)

	FY 2014-15	FY 2013-14
<u>Miscellaneous Plan</u>		
Actuarially determined contribution	\$ 400,786	\$ 331,093
Contributions in relation to the actuarially determined contribution	(400,786)	(331,093)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 3,049,823	\$ 2,960,993
Contributions as a percentage of covered-employee payroll	13.14%	11.18%
<u>PEPRA Miscellaneous Plan</u>		
Actuarially determined contribution	\$ 19,243	\$ 13,992
Contributions in relation to the actuarially determined contribution	(19,243)	(13,992)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 216,836	\$ 210,520
Contributions as a percentage of covered-employee payroll	8.87%	6.65%

Notes to Schedule:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

Changes of Assumption - There were no changes in assumptions.

Valuation Date:	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Average Remaining Period	20 years as of the valuation date
Assets Valuation Method	15 years smoothed market
Inflation	2.75%
Salary increases	3.30% - 14.20% depending on age, service and type of employment
Payroll growth	3.00%
Investment rate of return	7.50% net of administrative expenses

* Historical information is required only for measurement periods for which GASB No. 68 is applicable.

Palos Verdes Library District
Required Supplementary Information (Continued)
For the Fiscal Year Ended June 30, 2015

Budgetary Comparison Schedule – General Fund

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual	Variance Positive (Negative)
Revenues:					
Property taxes	\$ 6,728,400	\$ 40,700	\$ 6,769,100	\$ 7,136,457	\$ 367,357
Charges for services	397,200	3,000	400,200	424,329	24,129
Operating grants and contributions	299,500	103,500	403,000	438,920	35,920
Interest earnings	20,000	-	20,000	25,043	5,043
Other	-	12,000	12,000	20,605	8,605
Total revenues	<u>7,445,100</u>	<u>159,200</u>	<u>7,604,300</u>	<u>8,045,354</u>	<u>441,054</u>
Expenditures:					
Library operations:					
Salaries and benefits	5,606,600	260,700	5,867,300	5,799,637	67,663
Books and materials	533,800	(24,500)	509,300	484,929	24,371
Professional services	111,300	(2,500)	108,800	136,222	(27,422)
Facilities and maintenance	578,400	(26,100)	552,300	580,794	(28,494)
Information technology	205,200	(15,000)	190,200	242,215	(52,015)
Office and administration	372,700	1,000	373,700	366,569	7,131
Capital outlay	448,300	32,550	480,850	399,935	80,915
Total expenditures	<u>7,856,300</u>	<u>226,150</u>	<u>8,082,450</u>	<u>8,010,301</u>	<u>72,149</u>
Excess(Deficiency) of revenues over(under) expenditures	(411,200)	<u>\$ (66,950)</u>	(478,150)	35,053	<u>\$ 368,905</u>
Fund balance - beginning of year	5,273,074		5,273,074	5,273,074	
Fund balance - end of year	<u>\$ 4,861,874</u>		<u>\$ 4,794,924</u>	<u>\$ 5,308,127</u>	

Notes to Budget 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 Trustees 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 Trustees 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.