

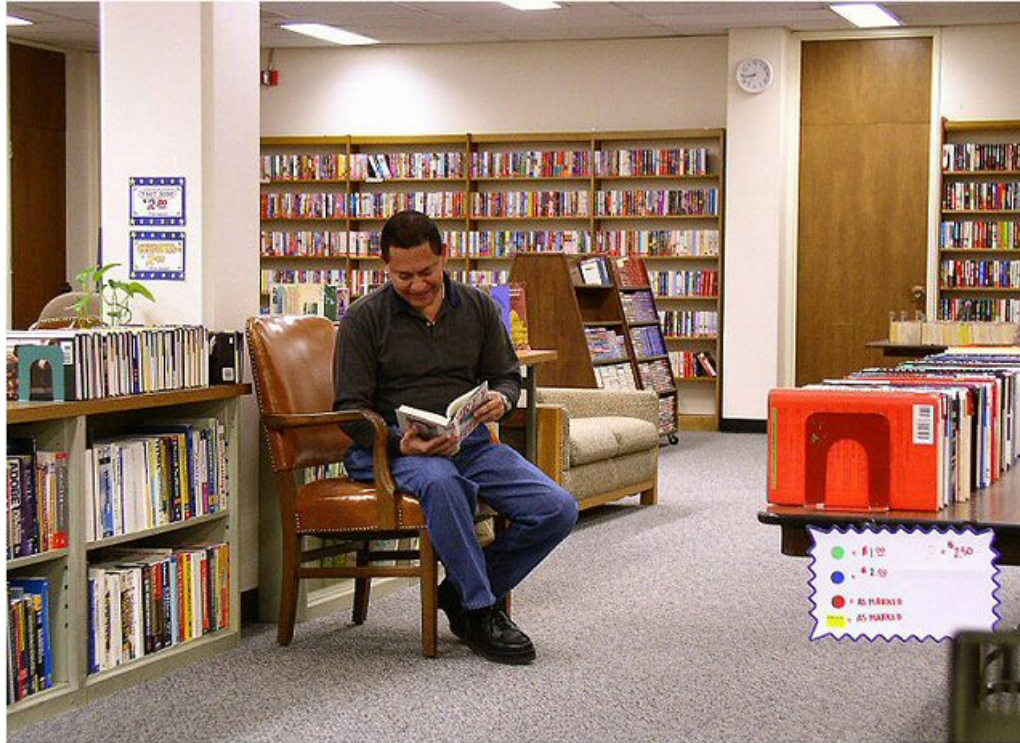


Buena Park Library District

Financial Statements

For the Fiscal Year Ended June 30, 2017





**Buena Park Library District
Board of Trustees as of June 30, 2017**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Patricia Ganer	President	Elected	12/16 - 12/20
Dennis Salts	President Pro Term	Elected	12/16 - 12/20
Irene Casteaneda	Secretary	Elected	12/16 - 12/20
Dr. Rajen Vurdien	Trustee	Elected	11/17 - 12/18
Al Salehi	Trustee	Elected	12/14 - 12/18

**Mary McCasland, Library Director
Buena Park Library District
7150 La Palma Avenue
Buena Park, California 90620
(714) 826-4100 www.buenapark.lib.ca.us**

**Buena Park Library District
Financial Statements
For the Fiscal Year Ended June 30, 2017**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statements of Net Position	7
Statements of Activities	8
Fund Financial Statements:	
Balance Sheet — Governmental Fund	9
Reconciliation of the Balance Sheet of Governmental Type Fund to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balance — Governmental Fund	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Type Fund to the Statement of Activities	12
Notes to the Basic Financial Statements	13-34
Required Supplementary Information Section	
Budgetary Comparison Schedule – General Fund	35
Notes to Required Supplementary Information	35
Schedule of the District’s Proportionate Share of the Net Pension Liability	36
Schedule of Pension Plan Contributions	37
Schedule of Funding Status	38
Report on Internal Controls and Compliance	
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 <i>Government Auditing</i>	39-40

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Financial Section



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Independent Auditor's Report

Board of Library Trustees
Buena Park Library District
Buena Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Buena Park Library District (District) as of and for the year ended June 30, 2017, 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 an opinion 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; and the State Controller's minimum Audit Requirements for California Special Districts. 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 Buena Park Library District as of June 30, 2017, 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 and the required supplementary information on pages 35 through 38 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 November 7, 2017, 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 pages 39 and 40.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 7, 2017

Buena Park Library District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

As management of the Buena Park 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, 2017. 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 12.2% or \$743,724 from \$6,102,617 to \$6,846,341, in 2017, due to an increase from continued operations.
- Total revenues from all sources increased by 1.0% or \$33,071 from the prior year primarily due to increases in charge for services of \$14,912, property tax revenue of \$12,770, and interest earnings of \$10,351.
- Total expenses increased 6.9% or \$172,753 from the prior year primarily due to an increase in salaries and benefits of \$179,323.

Using This Financial Report

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statements of Net Position include all of the District's investments in resources (assets) and deferred outflows of resources and the obligations to creditors (liabilities) and deferred inflows of resources. 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 Statements of Activities. These statements measure the success of the District's operations over the past years and can be used to determine the District's net reserves and credit worthiness.

Government-wide Financial Statements

Statements of Net Position and Statements 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 Statements of Net Position and the Statements of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 deferred outflows of resources, and liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall health* of the District.

Buena Park Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017

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. The notes to the basic financial statements can be found on pages 13 through 34.

Condensed Statements of Net Position

	2017	2016	Change
Assets:			
Assets	\$ 6,296,881	6,744,494	(447,613)
Capital assets, net	1,321,797	1,031,936	289,861
Total assets	7,618,678	7,776,430	(157,752)
Deferred outflows of resources	1,382,528	135,195	1,247,333
Total deferred outflows of resources	1,382,528	135,195	1,247,333
Liabilities:			
Liabilities	1,940,776	1,447,547	493,229
Total liabilities	1,940,776	1,447,547	493,229
Deferred inflows of resources	214,089	361,461	(147,372)
Total deferred inflows of resources	214,089	361,461	(147,372)
Net position:			
Net investment in capital assets	1,321,797	1,031,936	289,861
Unrestricted	5,524,544	5,070,681	453,863
Total net position	\$ 6,846,341	6,102,617	743,724

Buena Park Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017

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 \$6,846,341 as of June 30, 2017.

A portion of the District's net position (19.3%) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to operate the library; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2017, the District shows a positive balance in its unrestricted net position of \$5,524,544 that may be utilized in future years.

Condensed Statements of Activities

Governmental Activities:	<u>2017</u>	<u>2016</u>	<u>Change</u>
Expenses:			
Library operations	\$ 2,669,781	2,497,028	172,753
Program revenues	429,850	420,313	9,537
General revenues	2,983,655	2,960,121	23,534
Total revenues	3,413,505	3,380,434	33,071
Change in net position	743,724	883,406	(139,682)
Net position – beginning of period	6,102,617	5,219,211	883,406
Net position – end of period	\$ 6,846,341	6,102,617	743,724

The statements of activities show how the government's net position changes during the fiscal year. In the case of the District, net position increased by \$743,724 during the fiscal year ended June 30, 2017, due to an increase from continued operations.

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, *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, 2017, the District's General Fund reported a fund balance of \$6,201,868. An amount of \$6,074,549 constitutes the District's *unassigned fund balance*, which is available for spending or designation at the District's discretion. See note 8 for further discussion.

Buena Park Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017

General Fund Budgetary Highlights

The actual expenditures at year end were \$1,051,704 more than budgeted. The variance is primarily due to the net effect of actual salaries and benefits of \$819,152 more than budget; and capital outlay of \$370,244 more than budget; less materials and services of \$103,498 less than budget and facilities of \$34,194 less than budget. Actual revenues were more than the anticipated budget by \$617,405, primarily due to more than budgeted charges for services and property tax revenue. The General Fund budget to actual comparison schedule can be found on page 35.

Capital Asset Administration

At the end of fiscal year 2017, the District's investment in capital assets amounted to \$1,321,797 (net of accumulated depreciation). This investment in capital assets includes land, building, building improvements, equipment and furniture. See Note 3 for further information.

	Balance			Balance
	2016	Additions	Deletions	2017
Capital assets:				
Non-depreciable assets	\$ 186,335	-	-	186,335
Depreciable assets	3,153,626	390,244	-	3,543,870
Accumulated depreciation	(2,308,025)	(100,383)	-	(2,408,408)
Total depreciable asset, net	<u>845,601</u>	<u>289,861</u>	<u>-</u>	<u>1,135,462</u>
Total capital assets, net	<u>\$ 1,031,936</u>			<u>1,321,797</u>

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 Library Director, Mary McCasland, at the Buena Park Library District, 7150 La Palma Avenue, Buena Park, California 90620, or by telephone at (714) 826-4100.

Basic Financial Statements

Buena Park Library District
Statements of Net Position
June 30, 2017
With comparative amounts for June 30, 2016

	2017	2016
Assets:		
Cash and cash equivalents (note 2)	\$ 6,158,698	6,638,557
Accounts receivable	2,944	-
Accrued interest receivable	3,640	2,691
Property taxes receivable	30,720	25,188
Prepaid expenses and deposits	69,090	45,498
Other post-employment benefits asset (note 5)	31,789	32,560
Capital assets, net (note 3)	1,321,797	1,031,936
Total assets	7,618,678	7,776,430
Deferred outflows of resources:		
Deferred pension outflows (note 6)	1,382,528	135,195
Total deferred outflows of resources	1,382,528	135,195
Liabilities:		
Accounts payable	31,828	40,405
Accrued payroll and related expenses	31,396	35,562
Compensated absences (note 4)	58,229	49,087
Net pension liability (note 6)	1,819,323	1,322,493
Total liabilities	1,940,776	1,447,547
Deferred inflows of resources:		
Deferred pension inflows (note 6)	214,089	361,461
Total deferred inflows of resources	214,089	361,461
Net position:		
Net investment in capital assets	1,321,797	1,031,936
Unrestricted (note 7)	5,524,544	5,070,681
Total net position	\$ 6,846,341	6,102,617

See accompanying notes to the basic financial statements

Buena Park Library District
Statements of Activities
For the Fiscal Year Ended June 30, 2017
With comparative amounts for the fiscal year ended June 30, 2016

<i>Governmental Activities:</i>	<u>2017</u>	<u>2016</u>
Expenses:		
Library operations		
Salaries and benefits	\$ 1,976,690	1,797,367
Materials and services	526,902	515,169
Facilities	65,806	67,691
Depreciation	<u>100,383</u>	<u>116,801</u>
Total expenses	<u>2,669,781</u>	<u>2,497,028</u>
Program revenues:		
Charges for services	403,968	389,056
Operating grants and contributions	<u>25,882</u>	<u>31,257</u>
Total program revenues	<u>429,850</u>	<u>420,313</u>
Net program expense	<u>2,239,931</u>	<u>2,076,715</u>
General revenues:		
Property taxes	2,940,231	2,927,461
Interest earnings	37,637	27,286
Other	<u>5,787</u>	<u>5,374</u>
Total general revenues	<u>2,983,655</u>	<u>2,960,121</u>
Change in net position	743,724	883,406
Net position – beginning of period	<u>6,102,617</u>	<u>5,219,211</u>
Net position – end of period	<u>\$ 6,846,341</u>	<u>6,102,617</u>

See accompanying notes to the basic financial statements

Buena Park Library District
Balance Sheet — Governmental Fund
June 30, 2017

	General Fund	Reclassifications & Eliminations	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 6,158,698	-	6,158,698
Accounts receivable	2,944	-	2,944
Accrued interest receivable	3,640	-	3,640
Property taxes receivable	30,720	-	30,720
Prepaid expenses and deposits	69,090	-	69,090
Other post-employment benefits asset	-	31,789	31,789
Capital assets, net	-	1,321,797	1,321,797
Total assets	6,265,092	1,353,586	7,618,678
Deferred outflows of resources:			
Deferred pension outflows	-	1,382,528	1,382,528
Total deferred outflows of resources	-	1,382,528	1,382,528
Total assets	\$ 6,265,092	2,736,114	9,001,206
Liabilities:			
Accounts payable	\$ 31,828	-	31,828
Accrued payroll and related expenses	31,396	-	31,396
Compensated absences	-	58,229	58,229
Net pension liability	-	1,819,323	1,819,323
Total liabilities	63,224	1,877,552	1,940,776
Deferred inflows of resources:			
Deferred pension inflows	-	214,089	214,089
Total deferred inflows of resources	-	214,089	214,089
Fund balance: (note 8)			
Nonspendable	69,090	(69,090)	-
Assigned	58,229	(58,229)	-
Unassigned	6,074,549	(6,074,549)	-
Total fund balance	6,201,868	(6,201,868)	-
Total liabilities and fund balance	\$ 6,265,092		
Net position:			
Net investment in capital assets		\$ 1,321,797	1,321,797
Unrestricted		5,524,544	5,524,544
Total net position		\$ 6,846,341	6,846,341

See accompanying notes to the basic financial statements

Buena Park Library District
Reconciliation of the Balance Sheet of Governmental
Type Fund to the Statement of Net Position
June 30, 2017

Reconciliation:

Fund balance of governmental funds	\$	6,201,868
<p>Amounts reported for governmental activities in the statement of net position is different because:</p>		
<p>Non-current assets and deferred outflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.</p>		
Capital assets, net		1,321,797
Deferred pension outflows		1,382,528
Other post employment benefits obligation		31,789
<p>Long-term liabilities and deferred inflows of resources applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities and deferred inflows of resources, both current and long-term, are reported in the statement of net position.</p>		
Compensated absences		(58,229)
Net pension liability		(1,819,323)
Deferred pension inflows		(214,089)
Net position of governmental activities	\$	<u>6,846,341</u>

See accompanying notes to the basic financial statements

Buena Park Library District
Statement of Revenues, Expenditures and Changes in
Fund Balance — Governmental Fund
For the Fiscal Year Ended June 30, 2017

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Library operations			
Salaries and benefits	\$ 2,864,652	(887,962)	1,976,690
Materials and services	526,902	-	526,902
Facilities	65,806	-	65,806
Capital outlay	390,244	(390,244)	-
Depreciation	-	100,383	100,383
Total expenditures/expenses	<u>3,847,604</u>	<u>(1,177,823)</u>	<u>2,669,781</u>
Program revenues:			
Charges for services	403,968	-	403,968
Operating grants and contributions	25,882	-	25,882
Total program revenues	<u>429,850</u>	<u>-</u>	<u>429,850</u>
Net program expense			<u>2,239,931</u>
General revenues:			
Property taxes	2,940,231	-	2,940,231
Interest earnings	37,637	-	37,637
Other	5,787	-	5,787
Total general revenues	<u>2,983,655</u>	<u>-</u>	<u>2,983,655</u>
Total revenues	<u>3,413,505</u>	<u>-</u>	
Net change in fund balance	(434,099)	434,099	-
Change in net position	-	743,724	743,724
Fund balance/Net position – beginning of period	<u>6,635,967</u>	<u>-</u>	<u>6,102,617</u>
Fund balance/Net position – end of period	<u>\$ 6,201,868</u>	<u>-</u>	<u>6,846,341</u>

See accompanying notes to the basic financial statements

Buena Park Library District
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Type Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Reconciliation:

Net changes in fund balance of governmental fund \$ (434,099)

Amounts reported for governmental activities in the statement of activities is different because:

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 salaries and benefit 887,962

Governmental funds report capital outlay as expenditures.

However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay	390,244	
Depreciation expense	(100,383)	
	390,244	
	(100,383)	289,861

Changes in net position of governmental activities \$ 743,724

See accompanying notes to the basic financial statements

Buena Park Library District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Buena Park Library District (District) was organized in 1919 under the Education Code of California, Section 19600-19734. The District is a public library providing free services to the community and is governed by an elected, independent Board of Trustees. The District makes every effort to maximize services provided to the community as taxpayers of the District. Basic library services are always provided free of charge and costs of selected peripheral programs are held to a minimum. Materials and services are prioritized based on the needs of the Buena Park community. Competently trained library professionals are employed to bring people and the resources of the library together.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements Board No. 14 and 39 (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Volunteer Guild of the Buena Park Library (Guild) was incorporated on January 22, 2001. The Guild is a California nonprofit public benefit corporation formed to maintain an association of persons committed to the enrichment of the community by raising funds to assist the Buena Park Library in acquiring material and equipment, completing projects or presenting public programs. The Guild operates the District's used book store and solicits donations and grants for the District. Although the Guild is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed 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, deferred outflows of resources, liabilities, and deferred inflows of resources including capital assets, are included in the accompanying Statements of Net Position. The Statements of Activities present changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statements of Activities demonstrate 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. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items properly not included among program revenues are reported instead as general revenues.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

B. Basis of Accounting and Measurement Focus, continued

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 in the statements of 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 Balance presents 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, a voter approved parcel tax, interest earnings, investment 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

The District reports the following major governmental fund:

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.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50 – *Pension Disclosures*.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

C. Financial Reporting, continued

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

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, deferred outflows of resources, liabilities, deferred inflows or resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred outflows of resources 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

Substantially all of the District’s cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months to be cash equivalents.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

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:

- Orange 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. Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets.

Level 2 – Valuation based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Valuation based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Prepaid Expenses

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

6. Property Taxes

Property taxes attach 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 Orange Assessor's Office assesses all real and personal property within the County each year. The County of Orange Tax Collector's Office bills and collects the District's share of property taxes. The County of Orange 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 Orange, 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 February 1
Collection dates	December 10 and April 10

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

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 \$5,000. 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:

- Building – 50 years
- Building improvements – 20 years
- Equipment – 5 years
- Furniture and fixtures – 7 years

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

9. Compensated Absences

It is the District's policy to allow vacation pay of between ten (10) and twenty (20) working days per year of employment. Vacation time may be accumulated from year to year. Employees are allowed to accumulate and carry forward a maximum of two hundred (200) hours at the end of each year. Sick leave is granted at a rate of 12 days per calendar year and may be used for sickness, injury or disability. Sick leave may be accumulated beyond the year in which it is earned.

10. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

11. 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 position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

12. 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 debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on assets reduced by liabilities used 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 Net Position** – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of restricted or net investment in capital assets.

13. 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 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 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.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

13. Fund Balance, continued

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.

(2) Cash and Cash Equivalents

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

		<u>2017</u>
Petty cash	\$	100
Deposits held with financial institutions		1,871,940
Deposits held with Orange County Investment Pool (OCIP)		<u>4,286,658</u>
Total	\$	<u>6,158,698</u>

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

		<u>2017</u>
Deposits held with Orange County Investment Pool		367 days

Authorized Deposits and Investments

Under provisions of the District’s investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1(D)(3) to the financial statements.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of 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.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(2) Cash and Cash Equivalents, continued

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 contain 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 OCIP).

Cash with Orange County Investment Pool

The District is a participant of the Orange County Investment Pool (OCIP). The OCIP is an external investment pooled that is not rated and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee oversees the activities of the OCIP. Cash on deposit in the OCIP at June 30, 2017, is stated at fair value. The OCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. The OCIP detail is included on the County of Orange's website at <http://tc.ocgov.com>.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 9:30 a.m.
- Next day transaction processing occurs for orders received after 9:30 a.m.
- Withdrawals of \$5 million or more require 24 hours advance notice.
- Transactions may be requested 10 calendar days in advance of the effective date of the transaction.

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, 2017, the District's investment in the OCIP is not rated and is not registered with the Securities Exchange Commission (SEC).

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(3) Capital Assets

Changes in capital assets for the year were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 186,335	-	-	186,335
Total non-depreciable assets	<u>186,335</u>	<u>-</u>	<u>-</u>	<u>186,335</u>
Depreciable assets:				
Building	891,592	-	-	891,592
Building improvements	1,767,605	223,878	-	1,991,483
Equipment	415,319	3,406	-	418,725
Furniture and fixtures	79,110	162,960	-	242,070
Total depreciable assets	<u>3,153,626</u>	<u>390,244</u>	<u>-</u>	<u>3,543,870</u>
Accumulated depreciation:				
Building	(882,677)	(8,916)	-	(891,593)
Building improvements	(1,050,781)	(55,313)	-	(1,106,094)
Equipment	(336,245)	(22,554)	-	(358,799)
Furniture and fixtures	(38,322)	(13,600)	-	(51,922)
Total accumulated depreciation	<u>(2,308,025)</u>	<u>(100,383)</u>	<u>-</u>	<u>(2,408,408)</u>
Total depreciable assets, net	<u>845,601</u>	<u>289,861</u>	<u>-</u>	<u>1,135,462</u>
Total capital assets, net	<u>\$ 1,031,936</u>			<u>1,321,797</u>

(4) Compensated Absences

Compensated absences comprise unpaid vacation leave which is accrued as earned. The District's liability for compensated absences is determined annually. The changes to compensated absences balances were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2017</u>
\$	<u>49,087</u>	<u>63,030</u>	<u>(53,888)</u>	<u>58,229</u>

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Other Post-Employment Benefits Plan

Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees under a group plan offered by CalPERS, subject to certain restrictions as determined by the District. Membership in the OPEB plan consisted of the following members as of June 30:

	2017
Active plan members	16
Retirees and beneficiaries receiving benefits	15
Separated plan members entitled to but not yet receiving benefits	-
Total plan membership	31

Plan Description – Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District’s CalPERS medical. The contribution requirements of Plan members and the District are established and may be amended by the District’s Board of Trustees.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The current ARC rate is 19.74% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a prefunding basis and contributes an amount greater than or equal to the ARC each year.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Other Post-Employment Benefits Plan, continued

Annual OPEB Cost and Net OPEB Asset

For the fiscal year ended June 30, 2017, the District's ARC cost is \$189,176. The District's net OPEB asset amounted to \$31,789 as of June 30, 2017. The District contributed \$100,093 to the irrevocable trust and \$89,083 on behalf of retirees for the fiscal year ended June 30, 2017. The balance at June 30, consists of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 189,176	189,231	150,918
Interest on net OPEB obligation	(2,370)	(2,334)	(646)
Adjustment to annual required contribution	<u>3,141</u>	<u>3,123</u>	<u>871</u>
Total annual OPEB expense	189,947	190,020	151,143
Contributions to trust:			
Payments on behalf of retirees	(89,083)	(77,793)	(75,260)
Contributions made to irrevocable trust	<u>(100,093)</u>	<u>(111,438)</u>	<u>(100,000)</u>
Total change in net OPEB payable(asset) obligation	771	789	(24,117)
OPEB liability(asset) - beginning of year	<u>(32,560)</u>	<u>(33,349)</u>	<u>(9,232)</u>
OPEB liability(asset) - end of year	<u><u>\$ (31,789)</u></u>	<u><u>(32,560)</u></u>	<u><u>(33,349)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation(asset) for fiscal year 2017, and the two preceding fiscal years were as follows:

<i>Three-Year History of Net OPEB (Asset) Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset) Payable</u>
2017	\$ 189,947	189,176	99.59%	\$ (31,789)
2016	190,020	189,231	99.58%	(32,560)
2015	146,561	176,187	120.20%	(9,232)

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,145,392. Plan assets of \$864,749 were held in an irrevocable trust. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year ended June 30, 2017, was \$958,620. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 119.5%.

See page 38 for the Schedule of Funding Status.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(5) Other Post-Employment Benefits Plan, continued

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	July 1, 2015
Actuarial funding method	Entry age normal cost, level percent of pay
Asset valuation method	Market value of assets
Actuarial assumptions:	
Discount rate	7.28%
Mortality	CalPERS post-retirement rates for healthy male and female
Health cost trend rate	8.00% at 2016 decreasing 0.5% per year until 2023 4.50% at 2023 - 2024 4.64% at 2025 and later

(6) Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(6) Defined Benefit Pension Plan, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at June 30, 2017, are summarized as follows:

	<u>Classic</u>	<u>New Classic</u>	<u>PEPRA</u>
		On or after	
	Prior to	Jan 1, 2011	After
Hire date	<u>Jan 1, 2011</u>	<u>Dec 31, 2012</u>	<u>Jan 1, 2013</u>
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule		5 years service	
Benefit payments		monthly for life	
Retirement age	55 - 60	50 - 55	52 - 57
Monthly benefits, as a percentage of eligible compensation	1.4% to 2.4%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.00%	6.25%
Required employer contribution rates	8.38%	7.16%	6.55%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan was as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$ <u>130,514</u>

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(6) Defined Benefit Pension Plan, continued

Net Pension Liability

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Miscellaneous
Proportionate share of net pension liability	\$ 1,819,323

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 (the valuation date), rolled forward to June 30, 2016, 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 plan relative to the projected contributions of all participating employers, actuarially determined. The District's change in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2016, was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.019267%
Proportion - June 30, 2016	0.021025%
Increase in proportionate share	0.001758%

Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the District recognized pension expense of \$251,295. As June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,149,170	-
Differences between actual and expected experience	3,597	-
Changes in assumptions	-	(44,145)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(169,944)
Net difference between projected and actual earnings on plan investments	229,761	-
Total	\$ 1,382,528	(214,089)

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(6) Defined Benefit Pension Plan, continued

Deferred Outflows/Inflows of Resources Related to Pensions, continued

As of June 30, 2017, the District reported \$1,149,170 as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2018.

As of June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	Net Deferred
June 30,	Outflow(Inflow)
2017	\$ (83,230)
2018	(66,563)
2019	109,552
2020	59,510

Actuarial Assumptions

The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.65%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post-retirement benefit increase	Contract COLA up to 2.75% until PPPA floor on purchasing power applies; 2.75% thereafter.

* The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(6) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan, selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 tables below reflect the 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.

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

<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	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(6) 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 the Plan, calculated using the discount rate for the 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.

As of June 30, 2017, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

Description	Discount Rate -1% @ 6.65%	Current Discount Rate @ 7.65%	Discount Rate +1% @ 8.65%
Net Pension Liability	\$ <u>2,834,457</u>	<u>1,819,323</u>	<u>980,365</u>

Pension Plan Fiduciary Net Position

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

(7) Unrestricted Net Position

Unrestricted net position is categorized as follows:

	2017
Non-spendable net position:	
Prepaid expenses and deposits	\$ 69,090
Other post-employment benefits	<u>31,789</u>
Total non-spendable net position	100,879
Spendable net position are designated as follows:	
Unrestricted	<u>5,455,454</u>
Total unrestricted net position	\$ <u>5,524,544</u>

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(8) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.13 for a description of these categories). A detailed schedule of fund balances and their funding composition at June 30, 2017, is as follows:

Description	Amount
Nonspendable:	
Prepaid expenses and deposits	\$ 69,090
Assigned:	
Compensated absences	58,229
Unassigned:	
Operations	6,074,549
Total fund balance	\$ 6,201,868

(9) 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, 2017, 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, employee benefits 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.
- Uninsured / Underinsured Motorists coverage up to \$1,000,000 per accident.
- Employee dishonesty coverage up to \$1,000,000 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.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

(9) Risk Management, continued

- Workers compensation insurance up to the California statutory limits for all work related injuries/illnesses covered by California Law. Employer's liability per occurrence for workers compensation coverage is \$5 million, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage.

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, 2017, 2016 and 2015. 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 was no IBNR claims payable as of June 30, 2017.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Buena Park Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2017

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

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

(11) Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

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.

(12) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of November 7, 2017, 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.

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Required Supplementary Information

Buena Park Library District
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2017

Budgets and Budgetary Data

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures/Expenses:					
Library operations					
Salaries and benefits	\$ 2,045,500	-	2,045,500	2,864,652	(819,152)
Materials and services	630,400	-	630,400	526,902	103,498
Facilities	100,000	-	100,000	65,806	34,194
Capital outlay	20,000	-	20,000	390,244	(370,244)
Total expenditures/expenses	2,795,900	-	2,795,900	3,847,604	(1,051,704)
Program revenues:					
Charges for services	360,000	-	360,000	403,968	43,968
Operating grants and contributions	30,000	-	30,000	25,882	(4,118)
Total program revenues	390,000	-	390,000	429,850	39,850
General revenues:					
Property Taxes	2,379,780	-	2,379,780	2,940,231	560,451
Interest earnings	19,320	-	19,320	37,637	18,317
Other	7,000	-	7,000	5,787	(1,213)
Total general revenues	2,406,100	-	2,406,100	2,983,655	577,555
Total revenues	2,796,100	-	2,796,100	3,413,505	617,405
Net change in fund balance	200	-	200	(434,099)	(434,299)
Fund balance – beginning of period	6,635,967		6,635,967	6,635,967	
Fund balance – end of period	\$ 6,636,167		6,636,167	6,201,868	

Notes to Required Supplementary Information

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District's Library Director 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 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. The budgeted expenditure amounts represent the adopted budget.

Buena Park Library District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

Defined Benefit Pension Plan

Description	2017	2016	2015
District's proportion of the net pension liability	0.02103%	0.01927%	0.01968%
District's proportionate share of the net pension liability \$	1,819,323	1,322,493	1,224,525
District's covered - employee payroll	1,034,050	974,691	692,201
District's proportionate Share of the net pension liability as percentage of covered-employee payroll	175.94%	135.68%	176.90%
Plan's fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	83.46%

Notes to the Schedule of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms – There were no changes to benefit terms for the measurement period ended June 30, 2016.

Changes of Assumptions – There were no changes of assumption for the measurement period ended June 30, 2016.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Buena Park Library District
Schedules of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Defined Benefit Pension Plan

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarial determined)	\$ 136,933	117,949	55,070
Contributions in relation to the actuarially determined contributions	<u>(136,933)</u>	<u>(76,651)</u>	<u>(55,070)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>41,298</u>	<u>-</u>
Covered-employee payroll	<u>\$ 1,034,050</u>	<u>974,691</u>	<u>692,201</u>
Contributions as a percentage of covered - employee payroll	13.24%	7.86%	7.96%

Notes to the Schedule of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

**Buena Park Library District
Schedule of Funding Status
For the Year Ended June 30, 2017**

Other Post-Employment Benefits Asset

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2015	\$ 864,749	2,010,141	1,145,392	43.02%	\$ 958,620	119.5%
July 1, 2013	558,429	1,611,491	1,053,062	34.65%	583,743	180.4%
July 1, 2011	-	1,448,625	1,448,625	0.00%	617,896	234.4%

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefit plan and funding status is performed every three years, or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefit plan and funding status will be performed in fiscal year 2018 based on the year ending June 30, 2017.

Report on Internal Controls and Compliance



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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 Library Trustees
Buena Park Library District
Buena Park, 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 Buena Park Library District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 7, 2017.

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 opinion 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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
November 7, 2017