San Mateo County Libraries

Agenda Item III. C.

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|---|---|
| To: | JPA Governing Board |
| From: | Anne-Marie Despain, Director of Library Services |
| | Lindsey Freeland, Financial Services Manager |
| Date: | February 3, 2021 |
| Meeting: | February 8, 2021 |
| Re: | Financial Audit Report for FY 2019-20 |

## Background

San Mateo County Libraries contract with a qualified independent Certified Public Accountant to annually audit the financial statements from the prior year. An audit of financial statements includes testing of internal controls as well as identification of matters relevant to the Library's responsibility in overseeing financial procedures and reporting.

## Discussion

JJACPA, Inc., has completed the audit for the Library's basic financial statements for the year ended June 30, 2020. Attached are their following reports: 1) Communication with those Charged with Governance and Communication of Internal Control Related Matters and 2) Basic Financial Statements for the Year Ended June 30, 2020.

Highlights of the Communication of Internal Control Related Matters are noted below:

- There were no matters uncovered which would require reporting under professional accounting standards about 1) the methods used to account for significant unusual transactions and 2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance.

- There were no identified deficiencies in internal controls considered to be material weaknesses. 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.

- As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, tests performed of its legal and regulatory compliance disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Highlights of the Basic Financial Statements for the Year Ended June 30, 2020, are noted below:

- The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 34, the Library has selected the single governmental fund (General Fund) presentation since this reflects the most concise and easily readable presentation for the Library's operations.
- At June 30, 2020, the Library's net position increased to $33,300,113 from $28,327,195 in 2019, as shown in the Governmental Funds Balance Sheet/Statement of Net Position on Page 11.
- Operating expenses decreased by $921,335 principally from cost savings associated with service reductions due to COVID-19, which led to reduced hours for extra help employees, delayed projects, and reduced purchases (Page 7).
- General revenues increased by $1,758,758 principally from increased secured and unsecured taxes and Excess ERAF. Program revenues decreased by $1,066,724 principally due to reductions in charges for services, which had one-time reimbursements for The Big Lift Inspiring Summer Program from the County in the prior year.
- Additionally, the year was marked with a number of significant accomplishments and system improvements reflecting the Library's values and priorities and highlighted on pages 3-4 of the report.

## Fiscal Impact

There is no fiscal impact associated with accepting this report.

## Recommendation

Recommend Library JPA Governing Board accept the Financial Audit Report for FY 2019-20. Operations Committee members present at the February 2, 2021, meeting concurred with this recommendation.

## Attachments

1. Communication with Those Charged with Governance and Communication of Internal Control Related Matters, June 30, 2020
2. Basic Financial Statements for the Year Ended June 30, 2020

# SAN MATEO COUNTY LIBRARY JPA

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AND COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

## JUNE 30, 2020

JJACPA, Inc.
A Professional Accounting Services Corp.

January 20, 2021

To the Governing Board
San Mateo County Library
San Mateo, California

We have audited the basic financial statements of the San Mateo County Library as of and for the year ended June 30, 2020, and have issued our report thereon dated January 20, 2021. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated September 24, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the San Mateo County Library solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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## Qualitative Aspects of the Entity's Significant Accounting Practices

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by San Mateo County Library is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2019-20. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are useful lives of capital assets ("useful lives").

Management's estimate of the useful lives is based on experience with and observation of capital assets, by category (e.g. infrastructure) as well as industry standards, when applicable (i.e. buildings). We evaluated the key factors and assumptions used to develop the useful lives and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the San Mateo County Library's financial statements relate to commitments and contingencies.

## Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the San Mateo County Library's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter January 20, 2021.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Findings or Issues**

In the normal course of our professional association with the San Mateo County Library, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the San Mateo County Library, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the entity's auditors.

**Communication of Internal Control Related Matters**

In planning and performing our audit of the financial statements of San Mateo County Library as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered San Mateo County Library 's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of San Mateo County Library 's internal control over financial reporting.

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.

These communications are intended solely for the information and use of the Governing Board and management of the San Mateo County Library and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Joseph J. Arch, CPA*

JOSEPH J. ARCH, CPA
President/CEO
JJACPA, INC.

# SAN MATEO COUNTY LIBRARY
# JOINT POWERS AUTHORITY
# BASIC FINANCIAL STATEMENTS
# FOR THE YEAR ENDED
# JUNE 30, 2020

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# San Mateo County Library Joint Powers Authority
**Basic Financial Statements**
**For the year ended June 30, 2020**

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JJACPA, Inc.
A Professional Accounting Services Corp.

# INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the
San Mateo County Library Joint Powers Authority
San Mateo, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the San Mateo County Library Joint Powers Authority (Library), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Library's June 30, 2019, financial statements in which an unqualified opinion was expressed on those financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Library, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3-10 and 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2021 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

*JJACPA, Inc.*

January 27, 2021

**JJACPA, Inc.**
**Dublin, CA**

## Management's Discussion and Analysis

This section of the San Mateo County Library Joint Powers Authority's (Library) basic financial statements presents management's discussion and analysis of the Library's financial performance during the fiscal year ended June 30, 2020. Since this management's discussion and analysis is designed to focus on current activities, resulting change, and current known facts, please read it in conjunction with the Library's basic financial statements (pages 11 and 12) and the footnotes (pages 13 - 22).

## Financial Highlights & Accomplishments

At June 30, 2020, the Library's net position increased to $33,300,113 from $28,327,195 in 2019, which includes additions of $687,750 and deletions of $1,266,569 in capital assets, all shown in the Governmental Funds Balance Sheet/Statement of Net Position on Page 11. Additionally, changes to net position resulted from the following items shown in the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities on Page 12:

- Operating expenses decreased $921,335 principally from cost savings associated with service reductions due to COVID-19, which led to reduced hours for extra help employees, delayed projects, and reduced purchases.

- Program revenues decreased by $1,066,724 principally due to reductions in charges for services, which had one-time reimbursements from the County in the prior year. General revenues increased by $1,758,758 principally from increased secured and unsecured property taxes and Excess ERAF.

The year was marked with a number of significant accomplishments and system improvements reflecting the Library's values and priorities. Some of these include:

*Community Impact*

- Celebrated the one-year mark of going fine free. By eliminating fines, our libraries ensure that every member of our community has access to the resources they need and rely on.

- Launched new text, phone and email customer care contact tools, making real- time support more available.

- Participated in The Human Library, a worldwide movement for positive social change where "books" are real people with a unique lived experience to share. At these events, readers checked out human books for an open-ended conversation to deepen their understanding, challenge bias, and strengthen their human connections.

*Exploration and Growth*

- Continued our efforts to transform early learning and help reverse summer reading loss through The Big Lift Inspiring Summers program. In summer 2019, 1,193 children attended at least one day of the program with a retention rate of 91%.

- Engaged 45,490 youth, 78% of the children in our service area, in the Sumer Learning Challenge.

- Supported early literacy through a new 1,000 Books Before Kindergarten program, providing parents an additional resource that yields considerable benefits through the practice of shared reading.

**Financial Highlights & Accomplishments – continued**

- Created conceptual designs for our Makermobile and Playmobiles, bringing us one step closer to sharing the joys of technology, play and exploration throughout our county.

*Inspiring Spaces*

- The highly anticipated Brisbane Library is nearing completion. The design features a forward-thinking flexible space that will inspire and support lifelong learning. Interior spaces include dedicated areas for Children and Teens, a History Room, a Quiet Room, and a Makerspace.

- Exciting progress has been made on our beautiful new 11,000 square foot Atherton Library, which is on track for 2021 completion.

- Completed conceptual design plans for a new East Palo Alto Library. Through public engagement and work with stakeholders groups, the vision for the future reflects the wants, needs and desires of the community.

*Vital Support*

- In light of the COVID-19 shelter in place directive, implemented a number changes in an effort to stay connected and assist our library patrons when they needed us the most. We quickly pivoted to an online environment, increased digital collections, and redesigned our homepage to feature relevant online content.

- Utilized Library 3D Printers to create more than 300 ear savers and 600 face shields to protect front line medical staff.

- Acted immediately to address the digital divide and the vital need to access online learning by purchasing and distributing hundreds of additional Wi-Fi hotspots to support our community members and partners.

- Shifted our programs and experiences online where patrons are able to still see and hear their favorite staff hosting virtual storytimes, arts and crafts, science experiments, book clubs and more.

## Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Changes in Statement No. 34 require a comprehensive presentation for the entity as a whole and conversion of fund based information to this entity wide perspective. The major reconciling items necessary were capitalization and depreciation of capital assets and recording of long-term compensated absences. The Library has selected the single governmental fund (General Fund) presentation since this reflects the most concise and easily readable presentation for the Library's operations.

The annual financial statements include the Independent Auditor's Report, this management's discussion and analysis, the basic financial statements, and notes to basic financial statements and required supplementary information.

## Financial Analysis of the Library as a Whole

**Net Position**
**As of June 30, 2020 and 2019**

| | 2020 | 2019 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current assets | $ 45,342,237 | $ 44,140,786 | $ 1,201,451 | 2.7% |
| Non-current assets | 1,359,075 | 934,606 | 424,469 | 45.4% |
| Total assets | 46,701,312 | 45,075,392 | 1,625,920 | 3.6% |
| **Liabilities** | | | | |
| Current liabilities | 12,857,503 | 16,281,042 | (3,423,539) | -21.0% |
| Non-current liabilities | 543,696 | 467,155 | 76,541 | 16.4% |
| **Total liabilities** | 13,401,199 | 16,748,197 | (3,346,998) | -20.0% |
| **Net position:** | | | | |
| Net investment in capital assets | 1,359,075 | 934,606 | 424,469 | 45.4% |
| Unrestricted | 31,941,038 | 27,392,589 | 4,548,449 | 16.6% |
| **Total net position** | $ 33,300,113 | $ 28,327,195 | $ 4,972,918 | 17.6% |

This schedule is prepared from the Library's Statement of Net Position (page 12), which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

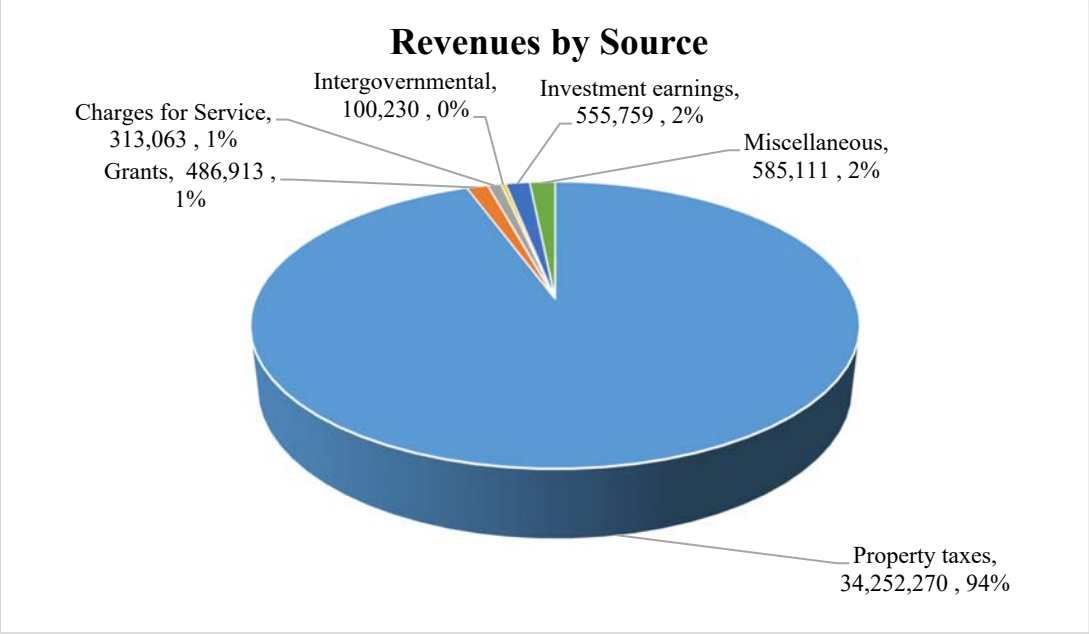
Net position at June 30, 2020, increased to $33,300,113 from $28,327,195 in 2019 primarily due to increases in property tax funds, including Excess ERAF, and reduced expenditures associated with service reductions due to COVID-19. The Library had compensated absences of $543,696 at year-end. Current liabilities consisted of accounts payable with the accompanying sales tax payable as well as accrued payroll for contracted salaries and benefits.

**Financial Analysis of the Library as a Whole – continued**

| | 2020 | 2019 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **Operating expenses** | $ 31,320,428 | $ 32,241,763 | $ (921,335) | -2.9% |
| **Program revenue:** | | | | |
| Intergovernmental | 100,230 | 102,408 | (2,178) | -2.1% |
| Grants | 486,913 | 636,108 | (149,195) | -23.5% |
| Charges for services | 313,063 | 1,228,414 | (915,351) | -74.5% |
| **Total program revenue** | 900,206 | 1,966,930 | (1,066,724) | -54.2% |
| **Net operating expenses** | 30,420,222 | 30,274,833 | 145,389 | 0.5% |
| **General revenue:** | | | | |
| Property taxes | 34,252,270 | 32,399,484 | 1,852,786 | 5.7% |
| Investment earnings | 555,759 | 542,914 | 12,845 | 2.4% |
| Miscellaneous | 585,111 | 691,984 | (106,873) | -15.4% |
| **Total general revenue** | 35,393,140 | 33,634,382 | 1,758,758 | 5.2% |
| **Increase in net position** | 4,972,918 | 3,359,549 | 1,613,369 | 48.0% |
| **Net position:** | | | | |
| Beginning of the year | 28,327,195 | 24,967,646 | 3,359,549 | 13.5% |
| End of the year | $ 33,300,113 | $ 28,327,195 | $ 4,972,918 | 17.6% |

Program revenues decreased by $1,066,724, principally due to reductions in charges for services. In FY 2019, there were one-time general fund contributions from the County for The Big Lift Inspiring Summers program that were captured in charges for services. In FY 2020, all County reimbursements associated with this program were captured in property taxes through Measure K reimbursement. General revenues increased by $1,758,758 principally from increased secured and unsecured taxes and Excess ERAF.

The following is a graphic illustration of revenues by source for the year ended June 30, 2020:



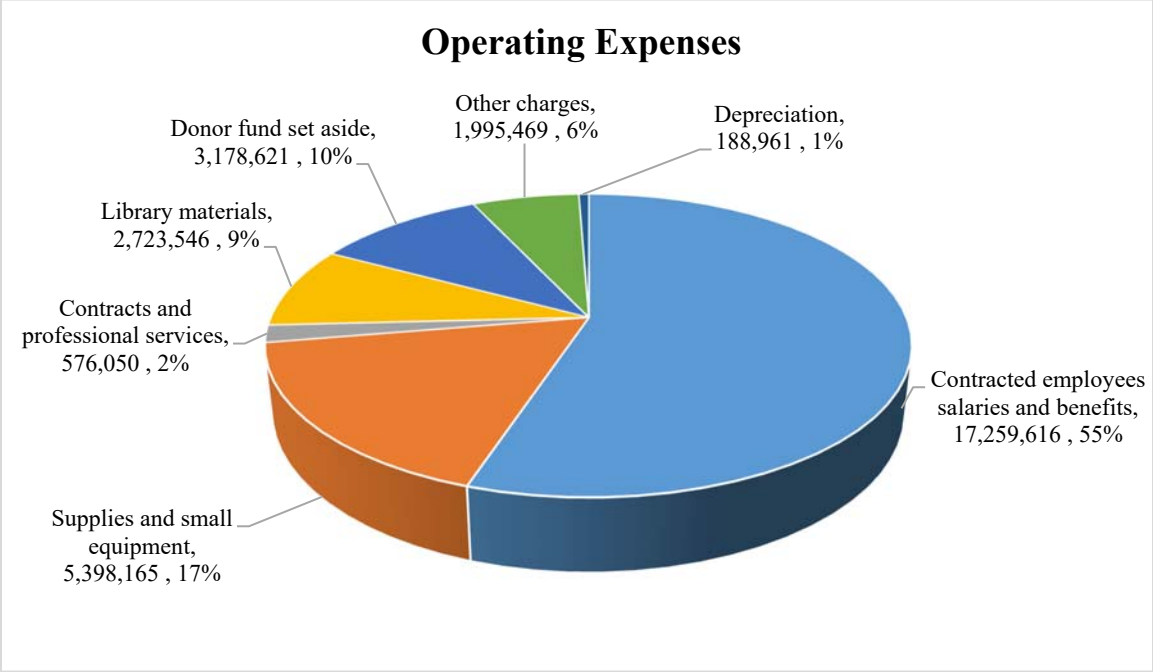
### Financial Analysis of the Library as a Whole – continued

**Operating Expenses**
**For the years ended June 30, 2020 and 2019**

| | 2020 | 2019 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **Operating expense:** | | | | |
| Contracted employees salaries and benefits | $ 17,259,616 | $ 17,452,195 | $ (192,579) | (1.1)% |
| Supplies and small equipment | 5,398,165 | 6,864,488 | (1,466,323) | -21.4% |
| Contracts and professional services | 576,050 | 602,115 | (26,065) | -4.3% |
| Library materials | 2,723,546 | 2,678,850 | 44,696 | 1.7% |
| Donor fund set aside | 3,178,621 | 2,415,142 | 763,479 | 31.6% |
| Other charges | 1,995,469 | 1,978,881 | 16,588 | 0.8% |
| Depreciation | 188,961 | 250,092 | (61,131) | -24.4% |
| **Total operating expenses** | $ 31,320,428 | $ 32,241,763 | $ (921,335) | -2.9% |
| **Net investment in capital assets** | $ 1,359,075 | $ 934,606 | $ 424,469 | 45.4% |

Operating expenses decreased $921,335 principally from cost savings associated with service reductions due to COVID-19, which led to reduced hours for extra help employees, delayed projects, and reduced purchases.

The following is a graphic illustration of operating expenses for June 30, 2020:



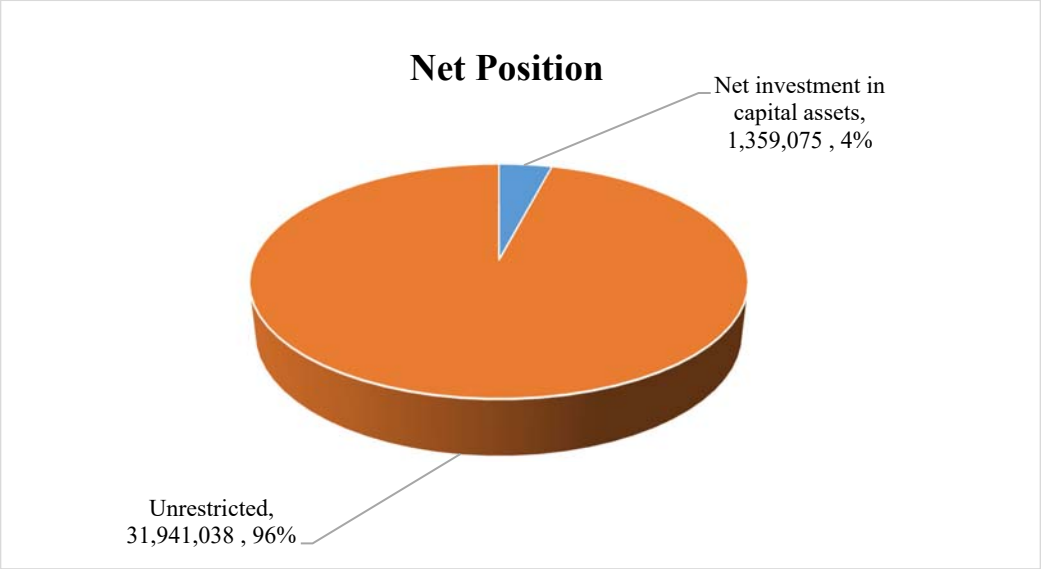
**Financial Analysis of the Library as a Whole – continued**

**Analysis of Net Position**
**As of June 30, 2020 and 2019**

| | 2020 | 2019 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **Net Position:** | | | | |
| Net investment in capital assets | $ 1,359,075 | $ 934,606 | $ 424,469 | 45.4% |
| Unrestricted | 31,941,038 | 27,392,589 | 4,548,449 | 16.6% |
| **Total** | $ 33,300,113 | $ 28,327,195 | $ 4,972,918 | 17.6% |

The $4,972,918 increase in net position is primarily due to increases in property taxes, including Excess ERAF, and reduced salary and benefits and expenditures due to COVID-19.

The following is a graphic illustration of net position as of June 30, 2020:




## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the Library budget for fiscal year 2020-2021, the Governing Board and management used the following criteria:

The key assumptions in the revenue forecast were:

1. Secured property tax revenues are expected to increase at a rate of 2% based on actual receipts in the current year and growth in prices and appraised property values. Library revenue from secured property taxes (taxes assessed against real property) is estimated at $23.8 million, and unsecured taxes (taxes on aircraft and commercial equipment largely generated from businesses at San Francisco International Airport) are estimated at $1.1 million.

   Continued State transfer of excess Educational Revenue Augmentation Fund (ERAF) revenue is estimated at $3,600,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - continued

The adopted budget for the new fiscal year 2020-21 was $66,419,925, including reserves of $22,163,385, and is summarized as follows:

| | FY 2020-21 | FY 2019-20 | Increase (Decrease) | Percentage change |
|---|---|---|---|---|
| Contracted employees salaries and benefits | $ 19,790,444 | $ 19,448,488 | $ 341,956 | 1.8% |
| Services and Supplies | 20,554,885 | 15,611,913 | 4,942,972 | 31.7% |
| Other charges | 2,162,685 | 2,270,733 | (108,048) | -4.8% |
| Fixed Assets | 1,733,396 | 500,000 | 1,233,396 | 246.7% |
| Other Financing Uses | 15,130 | 14,069 | 1,061 | 7.5% |
| **Total budget** | $ 44,256,540 | $ 37,845,203 | $ 6,411,337 | 16.9% |

1. Contracted employee's salaries and benefits – Shows an increase of 1.8% primarily due to negotiated salary and benefit increases offset by a decrease to the allocation for extra help in anticipation of continued service reductions due to COVID-19.

2. Services and Supplies – Shows an increase of 31.7% primarily due to a one-time advancement of $3,791,725 in future excess funds to the Town of Atherton to help finance the construction of their new library and the allocation of Measure K rollover for the planning and eventual construction of a new library in East Palo Alto.

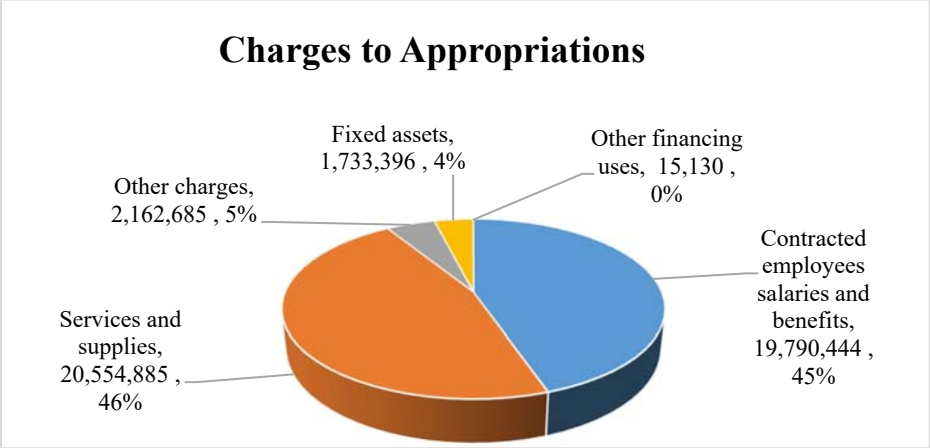
3. Other charges – Shows a decrease of 4.8% primarily due to decreases in charges from the County.

4. Fixed Assets – Shows an increase of 246.7% due to allocations for one-time projects including the purchase of a Makermobile, which was rolled over from FY 2019-20, and the planned acquisition of four library lending vending machines.

5. Other Financing Uses – Shows an increase of 7.5% and is due to adjustments to accurately capture public works facility charges.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - continued**

The following is a graphic illustration of appropriations for fiscal year 2020-21:




**Contacting the Library**

This financial report is designed to provide customers and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives and is allocated to it. For questions about this report, contact Lindsey Freeland, Financial Services Manager with San Mateo County Libraries, freeland@smcl.org, (650) 312-5236. Inquiries by mail can be sent to the San Mateo County Library Joint Powers Authority, Attention Finance, 125 Lessingia Court, San Mateo, CA 94402.

# San Mateo County Library Joint Powers Authority

## Governmental Funds Balance Sheet/Statement of Net Position

## June 30, 2020

**(With comparative totals for June 30, 2019)**

| | General Fund | Adjustments (Note 5) | Statement of Net Position | 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and investments | $ 37,660,089 | $ - | $ 37,660,089 | $ 31,463,566 |
| Cash and investments - restricted | 7,573,476 | - | 7,573,476 | 12,498,538 |
| Interest receivable | 108,672 | - | 108,672 | 178,682 |
| Capital assets, net of accumulated depreciation | - | 1,359,075 | 1,359,075 | 934,606 |
| **Total assets** | $ 45,342,237 | $ 1,359,075 | $ 46,701,312 | $ 45,075,392 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **Liabilities:** | | | | |
| Accounts and sales tax payable | $ 1,481,499 | $ - | $ 1,481,499 | $ 607,447 |
| Other current liabilities | 3,064,121 | - | 3,064,121 | 2,415,142 |
| Eligible donor fund set aside | 7,573,476 | - | 7,573,476 | 12,498,538 |
| Accrued payroll | 738,407 | - | 738,407 | 759,915 |
| Compensated absences | - | 543,696 | 543,696 | 467,155 |
| **Total liabilities** | 12,857,503 | 543,696 | 13,401,199 | 16,748,197 |
| **Fund balances/Net position:** | | | | |
| Nonspendable | 2,070 | (2,070) | - | - |
| Committed | 32,482,664 | (32,482,664) | - | - |
| **Total fund balances** | 32,484,734 | (32,484,734) | - | - |
| **Total liabilities and fund balances** | $ 45,342,237 | | | |
| **NET POSITION** | | | | |
| Net investment in capital assets | | 1,359,075 | 1,359,075 | 934,606 |
| Unrestricted | | 31,941,038 | 31,941,038 | 27,392,589 |
| **Total net position** | | $ 33,300,113 | 33,300,113 | 28,327,195 |
| **Total liabilities and net position** | | | $ 46,701,312 | $ 45,075,392 |

The accompanying notes are an integral part of these financial statements

# San Mateo County Library Joint Powers Authority

## Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

## For the year ended June 30, 2020

**(With comparative totals for the year ended June 30, 2019)**

| | General Fund | Adjustments (Note 6) | Statement of Activities | 2019 |
|---|---|---|---|---|
| **EXPENDITURES/EXPENSES:** | | | | |
| Contracted employees salaries and benefits | $ 17,183,075 | $ 76,541 | $ 17,259,616 | 17,452,195 |
| Supplies and small equipment | 5,323,845 | 74,320 | 5,398,165 | 6,864,488 |
| Contracts and professional services | 576,050 | - | 576,050 | 602,115 |
| Library materials | 2,723,546 | - | 2,723,546 | 2,678,850 |
| Donor fund set aside | 3,178,621 | - | 3,178,621 | 2,415,142 |
| Other charges | 1,995,469 | - | 1,995,469 | 1,978,881 |
| Capital outlay | 687,750 | (687,750) | - | - |
| Depreciation | - | 188,961 | 188,961 | 250,092 |
| **Total expenditures/expenses** | 31,668,356 | (347,928) | 31,320,428 | 32,241,763 |
| **REVENUES:** | | | | |
| Program revenues: | | | | |
| Intergovernmental | 100,230 | - | 100,230 | 102,408 |
| Grants | 486,913 | - | 486,913 | 636,108 |
| Charges for services | 313,063 | - | 313,063 | 1,228,414 |
| **Total program revenues** | 900,206 | - | 900,206 | 1,966,930 |
| **Net program expenses** | 30,768,150 | (347,928) | 30,420,222 | 30,274,833 |
| General revenues: | | | | |
| Property taxes | 34,252,270 | - | 34,252,270 | 32,399,484 |
| Investment earnings | 555,759 | - | 555,759 | 542,914 |
| Miscellaneous | 585,111 | - | 585,111 | 691,984 |
| **Total general revenues** | 35,393,140 | - | 35,393,140 | 33,634,382 |
| **REVENUES OVER (UNDER) EXPENDITURES** | 4,624,990 | | | |
| **CHANGE IN NET POSITION** | | 347,928 | 4,972,918 | 3,359,549 |
| **FUND BALANCES/NET POSITION:** | | | | |
| Beginning of the year | 27,859,744 | 467,451 | 28,327,195 | 24,967,646 |
| End of the year | $ 32,484,734 | $ 815,379 | $ 33,300,113 | $ 28,327,195 |

The accompanying notes are an integral part of these financial statements

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The San Mateo County Library Joint Powers Authority (Library) is a Joint Exercise of Powers Agency, which is a library service organization comprised of the cities of Atherton, Belmont, Brisbane, East Palo Alto, Foster City, Half Moon Bay, Millbrae, Pacifica, Portola Valley, San Carlos, and Woodside and the County of San Mateo. The Library was formed on January 11, 1999, under Government Code Section 6500 et. seq. A restated Joint Powers Agreement was approved by the Governing Board and its member agencies and took effect as of May 31, 2004, to clarify various administrative, property, and service issues, which were not included in the original agreement.

The Library is governed by a Board consisting of representatives from each member entity. Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, sign contracts, and otherwise influence operations and account for fiscal matters is exercised by the Library's Governing Board. The Library is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, fund balances/net position, revenues, and expenditures/expenses of the Library only.

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The following is a summary of the more significant policies:

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* the Library has selected the single governmental fund (General Fund) presentation since this reflects the most concise and easily readable presentation for the Library's operations.

### A. Reporting Entity

As defined by GASB Statement No. 39, *The Financial Reporting Entity*, the Library is not financially accountable for any other entity other than itself, nor are there any other entities for which the nature and significance of their relationship with the Library are such that exclusion would cause the Library's financial statements to be misleading or incomplete. In addition, based upon the above criteria, the Library is not aware of any entity which would be financially accountable for the Library which would result in the Library being considered a component of the entity.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### B. Basis of Accounting

The fund-based financial statement columns (General Fund column) on Pages 12 and 13 are accounted for using the modified accrual basis of accounting. These fund revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter (generally sixty days) to be used to pay liabilities of the current period. Amounts, which could not be measured or were not available, were not accrued as revenue in the current fiscal year. The Statements of Net Position and Activities columns on Pages 12 and 13 have been prepared on the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### C. Budgets

Budgets are prepared on the modified accrual basis of accounting in which capital assets acquired are recorded as expenditures and depreciation is not recorded.

The legal budget is the same as the operating budget in total. Total expenditures may not exceed the budgeted expenditures without approval of the Library's Governing Board. The budget lapses at the end of each fiscal year.

Estimated revenues and recommended appropriations are shown and supported by detailed documentation at each administrative level within the Library. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- By June 30, the Operations Committee reviews and recommends to the Governing Board a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

- The budget is legally enacted through passage of a motion during a Governing Board meeting prior to year-end.

- The Operations Committee reviews all budget transfers and revisions, which are then approved by the Governing Board.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### C. Budgets – continued

- Formal budgeting is employed as a management control device during the year for the Library's single fund the General Fund.

- Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Budgeted amounts are as originally adopted or as amended by the Governing Board. Individual amendments were not material in relation to the original appropriations.

### D. Property Taxes

The State of California (State) Constitution Article XIIIA provides that the combined maximum property tax rate on any given property may not exceed one percent (1%) of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIIIA and may be adjusted by no more than two percent (2%) per year unless the property is sold, transferred, or improved. The State Legislature has determined the method of distribution of receipts from a one percent (1%) tax levy among the counties, cities, school districts, and other districts.

San Mateo County assesses, bills for, and collects property taxes as follows:

| | Secured | Unsecured |
|---|---|---|
| Lien dates | January 1 | January 1 |
| Levy dates | July 1 | July 1 |
| Due dates | 50% on November 1 and 50% on March 1 | July 1 |
| Delinquent as of | December 10 (for November) and April 10 (for March) | August 31 |

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue when received in the fiscal year of levy because of the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the Library and the County of San Mateo (County). The Teeter Plan authorizes the Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid. The County remits tax monies to the Library in three installments, as follows:

| | |
|---|---|
| 50% | remitted on December 14 |
| 40% | remitted on April 16 |
| 10% | remitted on June 28 |

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### E. Cash and Investments

The Library pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

The Library participates directly in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to changes in interest rates.

### F. Net Investment in Capital Assets

Capital assets are carried at cost or estimated cost if actual cost was not available. Donated assets are valued at their estimated fair value on the date donated.

Depreciation is calculated on a straight line basis using the following useful life schedule:

Furniture and equipment – 5 to 10 years

## 2. CASH AND INVESTMENTS

The Library had the following cash and investments at June 30, 2020:

| | Not rated | Fair Value |
|---|---|---|
| San Mateo County Treasury | $ 35,483,534 | $ 35,483,534 |
| San Mateo County Treasury- restricted | 7,573,476 | 7,573,476 |
| California Local Agency Investment Fund (LAIF) | 2,174,485 | 2,174,485 |
| Petty Cash/Change funds | 2,070 | 2,070 |
| Total | $ 45,233,565 | $ 45,233,565 |

| | |
|---|---|
| Presentation in Statement of Net Position: | |
| Cash and investments | $ 37,660,089 |
| Cash and investments- restricted | 7,573,476 |
| | $ 45,233,565 |

## 2. CASH AND INVESTMENTS - continued

### A. Cash Deposits

The Library pools cash from all sources. The Library invests excess cash in the San Mateo County Treasury and LAIF investment pools, which at June 30, 2020, approximated fair value of $37,660,089. The Libraries maintain change funds at all of the branches in a range of $50 to $200 per branch and a total of $2,070 overall. The restricted cash and investments balance represents the amount held under the donor city provision.

The California Government Code requires California banks and savings and loan associations to secure government cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral is considered to be held in the government's name.

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the government's cash deposits. California law also allows institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the government's total cash deposits. The government can waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The County has waived these collateralization requirements.

The County Treasurer maintains a cash and investment pool, on behalf of the Library, as their custodian, which includes cash balances and authorized investments for all Library funds, which is invested to enhance interest earnings. The pooled interest earned is allocated quarterly to the Library based on average daily cash and investment balance.

### B. Investments

The Library is authorized by State statutes and Governing Board action to invest in the following:

- United States Treasury notes, bonds, bills or certificates of indebtedness.
- Registered state warrants or treasury notes or bonds of the State of California.
- Bonds, notes, warrants or other evidences of indebtedness of any local agency within the State of California.
- Obligations issued by banks and guaranteed by federal agency or United States government-sponsored enterprise.
- Negotiable certificates of deposit or time deposits placed with commercial banks and/or savings and loan companies.
- Banker's acceptances.
- Commercial paper.

## 2. CASH AND INVESTMENTS - continued

### B. Investments – continued

- California Local Agency Investment Fund (LAIF).
- San Mateo County Treasury

The Library's practice has been to limit investments to LAIF and the San Mateo County Treasury, an unrated investment pool, which limits the exposure of Library funds to interest rate and credit risk by treating all balances as current.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method, which includes any adjustments recorded in interest/investment income.

### C. Investments in External Investment Pools

The Library's investments with the County at June 30, 2020, included a portion of the pool funds invested in structured notes and asset backed securities and similar transactions. These investments may include the following:

> Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depends on one or more indices and/or that have embedded forwards or options.
>
> Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables

As of June 30, 2020, the Library had $2,174,485 invested directly in LAIF. The LAIF investment pool consisted of derivative products in the form of asset-backed securities in the amount of $1,675.408 million and $1,725.000 million in floating rate securities, each of these investment types representing 2.21% and 1.16% of the total LAIF investment pool, respectively. The current average life of the LAIF portfolio as of June 30, 2020 was 191 days.

As of June 30, 2020, the Library also had $35,483,534 invested directly in the County investment pool. The County investment pool currently holds $122,600,000 in commercial paper, and $59,946,000 in floating rate securities, each of these investment types representing 2.02%, and 2.4%, of the total County investment pool, respectively. The current average maturity of the portfolio is 1.75 years with an average duration of 1.70 years.

## 3. CAPITAL ASSETS

Changes in capital assets were as follows:

| | July 1, 2019 | Additions | Retirements | June 30, 2020 |
|---|---|---|---|---|
| Furniture and equipment | $ 2,603,839 | $ 687,750 | $ (1,266,569) | $ 2,025,020 |
| Accumulated depreciation | (1,669,233) | (188,961) | 1,192,249 | (665,945) |
| Total fixed assets | $ 934,606 | $ 498,789 | $ (74,320) | $ 1,359,075 |

During the fiscal year, the Library added $687,750 of automated material handling equipment and deleted $74,320 in sorting equipment.

## 4. FUND BALANCES/NET POSITION

Fund Balances consist of the following: Nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance consists of investments that will not convert to cash soon enough to affect the current period. Restricted fund balance consists of resources that are subject to externally enforceable legal restrictions imposed by parties altogether outside the government. Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action of the Library's highest level of decision-making authority. Assigned fund balance consists of amounts where intent is expressed by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned amounts represent deficits in fund balance as reflected by the necessity to show nonspendable and restricted balances in an amount greater than total fund balance. Currently, the Library uses only the nonspendable and committed categories.

| | | |
|---|---|---|
| Nonspendable | | $ 2,070 |
| Committed for: | | |
| Capital Projects | 27,482,664 | |
| Contingencies - Stabilization | 5,000,000 | 32,482,664 |
| | | $ 32,484,734 |

- *Nonspendable:* Represents amounts set aside for petty cash and change funds.
- *Capital Projects:* Represents amounts set aside for future capital purchases.
- *Contingencies – Stabilization*: Represents remaining amounts set aside by the Library's Governing Board to be used in the event of sudden, unanticipated revenue loss or expenditure requirements.

Net position consists of restricted and unrestricted amounts. Restricted amounts reflect balances which cannot be influenced by Library Governing Board action, such as the net investment in capital assets. Unrestricted amounts reflect balances available for current operations.

## 4. FUND BALANCES/NET POSITION - continued

| | Net Position |
|---|---|
| Net investment in capital assets | $ 1,359,075 |
| Unrestricted | 31,941,038 |
| **Total** | $ 33,300,113 |

## 5. EXPLANATION OF DIFFERENCES BETWEEN THE GENERAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION

"Total fund balances" of the Library's General fund ($32,482,664) differs from "net position" of governmental activities ($33,300,113) reported in the Statement of Net Position on page 12. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the General fund balance sheet. The effect of the difference is illustrated below:

**Balance Sheet/Statement of Net Position**

| | General Fund | Reclassifications and Eliminations [1] | Statement of Net Position |
|---|---|---|---|
| **Assets:** | | | |
| Cash and investments | $ 37,660,089 | $ - | $ 37,660,089 |
| Cash and investments- restricted | 7,573,476 | - | 7,573,476 |
| Interest receivable | 108,672 | - | 108,672 |
| Capital assets | - | 1,359,075 | 1,359,075 |
| **Total assets** | $ 45,342,237 | $ 1,359,075 | $ 46,701,312 |
| **Liabilities:** | | | |
| Accounts payable | $ 1,481,499 | $ - | $ 1,481,499 |
| Other current liabilities | 3,064,121 | - | 3,064,121 |
| Eligible donor fund set aside | 7,573,476 | - | 7,573,476 |
| Accrued payroll | 738,407 | - | 738,407 |
| Compensated absences | - | 543,696 | 543,696 |
| **Total liabilities** | 12,857,503 | 543,696 | 13,401,199 |
| **Fund Balances/Net Position:** | | | |
| Total fund balances/net position | 32,484,734 | 815,379 | 33,300,113 |
| **Total liabilities and fund balances/net position** | $ 45,342,237 | $ 1,359,075 | $ 46,701,312 |

[1] When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported in expenditures in governmental funds. However, the statement of net position includes these capital assets among the assets of the Library as a whole. Long-term liabilities such as compensated absences are not due and payable in the current period and therefore they are not reported in the government's fund balance sheets.

## 6. EXPLANATION OF DIFFERENCES BETWEEN GENERAL FUND OPERATING STATEMENTS AND THE STATEMENT OF ACTIVITIES

The "net change in fund balances" for the General fund $4,624,990 differs from the "change in net position" for governmental activities $4,624,990 reported in the Statement of Activities on page 13. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the General fund. The effect of the difference is illustrated below:

**Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities**

| | General Fund | Reclassifications and Eliminations [1] | Statement of Activities |
|---|---|---|---|
| **EXPENDITURES/EXPENSES:** | | | |
| Contracted employees salaries and benefits | $ 17,183,075 | $ 76,541 | $ 17,259,616 |
| Supplies and small equipment | 5,323,845 | 74,320 | 5,398,165 |
| Contracts and professional services | 576,050 | - | 576,050 |
| Library materials | 2,723,546 | - | 2,723,546 |
| Donor fund set aside | 3,178,621 | - | 3,178,621 |
| Other charges | 1,995,469 | - | 1,995,469 |
| Capital outlay | 687,750 | (687,750) | - |
| Depreciation | - | 188,961 | 188,961 |
| **Total expenditures/expenses** | 31,668,356 | (347,928) | 31,320,428 |
| **REVENUES:** | | | |
| Program revenues: | | | |
| Intergovernmental | 100,230 | - | 100,230 |
| Grants | 486,913 | - | 486,913 |
| Charges for services | 313,063 | - | 313,063 |
| **Total program revenues** | 900,206 | - | 900,206 |
| **Net program expense** | 30,768,150 | (347,928) | 30,420,222 |
| General revenues: | | | |
| Property taxes | 34,252,270 | - | 34,252,270 |
| Investment earnings | 555,759 | - | 555,759 |
| Miscellaneous | 585,111 | - | 585,111 |
| **Total general revenues** | 35,393,140 | - | 35,393,140 |
| **REVENUES OVER (UNDER) EXPENDITURES** | 4,624,990 | | |
| **CHANGE IN NET POSITION** | | 347,928 | 4,972,918 |
| **FUND BALANCES/NET POSITION:** | | | |
| Beginning of the year | 27,859,744 | 467,451 | 28,327,195 |
| End of the year | $ 32,484,734 | $ 815,379 | $ 33,300,113 |

[1] Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The changes to capital outlay reflect the capitalization of these assets. Additionally, governmental funds report compensated absences as expenditures while governmental activities recognize the long-term nature as a liability, the change to contracted salaries and benefits reflects the change in the long-term compensated absences liability from the prior year.

## 7. RELATED PARTY TRANSACTIONS

The Library contracts with the County of San Mateo (County) to provide some administrative, accounting, personnel, and facilities maintenance services. Under these arrangements, the Library pays the County the cost of services performed. During the year ended June 30, 2020, the Library paid the County $1,173,352 in services charges. $200,991 for administrative and support services, $172,914for insurance and $154,207 for facilities maintenance services.

Section VI. D. of the San Mateo County Library JPA Agreement states the following, "In the event that the allocated library service revenue exceeds the amount required to maintain the minimum library service for each city as described in this Agreement, such excess funds shall be spent on library related activities within that city (hereinafter, "Donor City") including, but not limited to, facility maintenance, facility remodeling or expansion, increased service hours, or increased book purchases, as mutually agreed by the Library JPA and the city council of the affected Donor City." In accordance with the donor city provision, and as approved by the Library JPA Governing Board, at the end of each fiscal year, funds in excess of the amount required to operate a branch are distributed and held by the Library in separate library accounts or Trust Funds. The funds are segregated from the Library's general operating budget where they accrue interest. As of June 30, 2020, these amounts are as follows: Atherton Library $2,003,683, Woodside Library $819,065, and Portola Valley Library $241,373 representing a combined total of $3,064,121 as shown as a charge to Donor Fund set aside on the statement of revenues, expenditures and changes in fund balance/statement of activities. As of June 30, 2020, the total held by the Library for FY19/20 was $7,573,477. The amounts by City were Atherton Library $3,915,948, Woodside Library $2,721,349, and Portola Valley Library $936,179.

As of June 30, 2020, excess County Free Library property taxes with a combined balance of $5,108,660 remain in accounts currently held by each donor city and depleted first before accessing any funds held in the Library's Donor City Trust Funds. These amounts are as follows: Atherton Library $4,896,812, Woodside Library $14,343, and Portola Valley Library $197,405.

In order to secure agreement by the Library JPA, member cities that qualify as a Donor City and are interested in utilizing excess County Free Library property taxes to support public library related activities, provide information to the JPA Governing Board in order to obtain approval for the proposed uses of this revenue for the upcoming fiscal year.

## 8. PANDEMIC EFFECTS

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Library JPA is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Library JPA's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Library JPA's employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Library JPA's financial position and changes in net position, fund balance and cash flows is uncertain, and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedule**
**General Fund**
**For the year ended June 30, 2020**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| **Budgetary fund balance, July 1, 2019** | $ 23,619,389 | $ 27,859,744 | $ 27,859,744 | $ - |
| **Resources (inflows):** | | | | |
| Intergovernmental revenue Interfund | 160,372 | 160,372 | 100,230 | (60,142) |
| revenue | 316,988 | 316,988 | 486,913 | 169,925 |
| Charges for services | 24,000 | 24,000 | 313,063 | 289,063 |
| Taxes | 31,909,647 | 31,909,647 | 34,252,270 | 2,342,623 |
| Use of money and property | 155,042 | 155,042 | 555,759 | 400,717 |
| Miscellaneous revenue | 620,000 | 620,000 | 585,111 | (34,889) |
| **Total revenues** | 33,186,049 | 33,186,049 | 36,293,346 | 3,107,297 |
| **Amounts available for appropriation** | 56,805,438 | 61,045,793 | 64,153,090 | 3,107,297 |
| **Charges to appropriations (outflows):** | | | | |
| Salaries and benefits | 19,448,488 | 19,448,488 | 17,183,075 | 2,265,413 |
| Supplies and small equipment | 8,374,359 | 8,374,359 | 5,323,845 | 3,050,514 |
| Contracts and professional services Library | 894,631 | 894,631 | 576,050 | 318,581 |
| materials | 4,492,923 | 4,492,923 | 2,723,546 | 1,769,377 |
| Donor fund set aside | 1,850,000 | 1,850,000 | 3,178,621 | (1,328,621) |
| Other charges | 2,284,802 | 2,284,802 | 1,995,469 | 289,333 |
| Capital outlay | 500,000 | 500,000 | 687,750 | (187,750) |
| **Total charges to appropriations** | 37,845,203 | 37,845,203 | 31,668,356 | 6,176,847 |
| **Budgetary fund balance, June 30, 2020** | $ 18,960,235 | $ 23,200,590 | $ 32,484,734 | $ 9,284,144 |

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JJACPA, Inc.
A Professional Accounting Services Corp.

# 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*

## Independent Auditor's Report

To the Governing Board of the
San Mateo County Library Joint Powers Authority
San Mateo, California

We have audited, in accordance with the auditing standard 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 San Mateo County Library Joint Powers Authority (Library) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated January 27, 2021.

### Internal Control over Financial Reporting

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library'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*.

**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 result 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.

*JJACPA, Inc.*

January 27, 2021

**JJACPA, Inc.**
**Dublin, CA**