

**Santa Cruz Public Libraries
Joint Powers Authority**

Santa Cruz, California

**Financial Statements
and Independent Auditors' Report**

For the Year Ended June 30, 2023

Santa Cruz Public Libraries Joint Powers Authority
Financial Statements
For the Year Ended June 30, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Santa Cruz Public Libraries Joint Powers Authority
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Santa Cruz Public Libraries Joint Powers Authority (the "Authority"), a custodial fund of the City of Santa Cruz, California (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 Authority as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of a Matter

As described in Note 1 to the fund financial statements, these fund financial statements present only the financial position and results of operations of the Authority and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and Budgetary Comparison Schedule be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

To the Board of Directors
of the Santa Cruz Public Libraries Joint Powers Authority
Santa Cruz, California
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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Schedule of Balance Sheets by Program, the Combining Schedule of Revenues, Expenditures and Changes in Sub-Fund Balances by Program, and Authority's Financial Condition are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Combining Schedule of Balance Sheets by Program and the Combining Schedule of Revenues, Expenditures and Changes in Sub-Fund Balances by Program, and Authority's Financial Condition are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The PwC Group, LLP

Santa Ana, California
March 29, 2024

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Santa Cruz Public Libraries Joint Powers Authority
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023

Management of the Santa Cruz Public Libraries Joint Powers Authority (Authority) provides this Management Discussion and Analysis (MD&A) for readers of the Authority's basic financial statements. This narrative overview and analysis of the financial activities of the Authority is for the fiscal year ended June 30, 2023.

Financial Highlights

Government-wide highlights:

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$12,536,529 (Net Position). A component of this balance represents \$1,059,311 of investment in capital assets; however, the remainder of net position consists of unrestricted net position of \$11,477,218. Unrestricted net position represents the amount normally used to meet the Authority's ongoing obligations.

Changes in Net Position - The Authority's total net position increased by \$1,724,009 in fiscal year 2023 due to an increase in maintenance of effort contributions coupled with underspending in budgeted expenditures.

By the end of the fiscal year, the Authority's total assets increased by \$5,857,105. The top current asset increase was due to accounts receivable with a \$1,055,107 increase, and capital assets with a \$4,297,295 increase due to a recognition of lease assets.

The Authority's total liabilities sustained an increase of \$4,133,096 during the fiscal year primarily due to the recognition of noncurrent leases payable.

Fund highlights:

As of the close of the fiscal year, the Authority's general fund reported a fund balance of \$11,488,523 which is an increase of \$1,308,120 when compared with the prior year amount. The fund balance is a measure of whether the Authority will have sufficient resources to meet its near-term obligations.

The Authority's general fund total assets increased by \$1,559,810 and the total liabilities increased by \$251,690 during the fiscal year. The increases were primarily attributable to an increase in the Authority's accounts receivable and leases payable.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Santa Cruz Public Libraries Joint Powers Authority's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the Authority's assets and liabilities with the difference between the total assets and the total liabilities reported as net position.

Santa Cruz Public Libraries Joint Powers Authority
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2023

The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., interest on long-term debt due but unpaid at the end of the fiscal year).

The Authority's library services function is principally supported by taxes and intergovernmental revenues and is therefore considered a governmental activity. The government-wide financial statements can be found on pages 13-14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements can be found on pages 15-18 of this report.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, governmental fund statements focus on near-term inflows and outflows 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.

Since 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. Readers will then be able to 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority has one governmental fund, the general fund, which is used to account for all of its activities.

Notes to the 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 financial statements can be found on pages 21-31 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information providing a budgetary comparison schedule for the General Fund. Required supplementary information can be found on page 35-36 of this report.

**Santa Cruz Public Libraries Joint Powers Authority
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2023**

Government-Wide Financial Analysis

Analyses of Net Position

About 39% of the Authority's net position reflects its investment in capital assets, primarily machinery, furnishings, equipment and leasehold improvements. These assets are used to provide services to citizens; consequently, they are not available for future spending. The table below shows the components of the net position.

**Santa Cruz Public Libraries
Net Position
At June 30, 2023 and 2022**

| | 2023 | 2022 |
|------------------------------|---------------|---------------|
| Total assets | \$ 16,952,364 | \$ 11,095,259 |
| Total liabilities | \$ 4,415,835 | \$ 282,739 |
| Net position: | | |
| Investment in capital assets | 1,059,311 | 632,117 |
| Unrestricted | 11,477,218 | 10,180,403 |
| Total net position | \$ 12,536,529 | \$ 10,812,520 |

Governmental Activities

All the activities of the Authority are governmental, so it has no business-type activities:

**Santa Cruz Public Libraries
Changes in Net Position
Fiscal years ended June 30, 2023 and 2022**

| | 2023 | 2022 |
|-----------------------------------|---------------|---------------|
| General revenues: | | |
| Sales taxes | \$ 10,572,557 | \$ 10,677,936 |
| Unrestricted investment earnings | 72,240 | (146,370) |
| Unrestricted donations | 538,270 | - |
| Miscellaneous | 40,736 | 22,247 |
| Gain/(loss) on disposal of assets | 13,550 | - |
| Total general revenues | 11,237,353 | 10,553,813 |
| Program revenues | 7,611,344 | 6,546,751 |
| Total revenues | 18,848,697 | 17,100,564 |
| Expenditures | 17,124,688 | 14,738,528 |
| Changes in net position | 1,724,009 | 2,362,036 |
| Beginning of year | 10,812,520 | 8,450,484 |
| End of year | \$ 12,536,529 | \$ 10,812,520 |

The Authority's net position increased \$1,724,009 during the fiscal year due to an increase in maintenance of effort contributions coupled with some underspending in budgeted expenditures.

**Santa Cruz Public Libraries Joint Powers Authority
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2023**

Financial Analysis of the General Fund

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the close of the fiscal year 2023, the Authority's general fund reported an ending fund balance of \$11,488,523, an increase of \$1,308,120 or 12.85% in comparison with the prior fiscal year, primarily due to underspending.

General Fund Budgetary Highlights

The final amended budget is more than the original budget for revenues and other financing sources by \$2,245,123 primarily due to an increase in intergovernmental revenues related to the Maintenance of Effort from the participating jurisdictions and donations from the Friends of the Library. The actual revenues and other financing sources were less than the final amended budget by \$487,060.

The final amended budget is more than the original budget for expenditures and other financing uses by \$2,776,575 primarily due to increases in supplies and other charges such as legal services and technological applications. The actual expenditures and other financing uses were less than the final amended budget by \$3.9 million.

Capital Assets and Debt Administration

As of June 30, 2023, the Authority's investment in capital assets was \$4,929,412 (net of accumulated depreciation and amortization), which is \$4,297,295 more than the prior year. The increase was attributed to inclusion of intangible leases per GASB 87. Information about capital assets can be found in Note 3.

As of June 30, 2023, the Authority had \$3,870,101 of long term-debt. As of June 30, 2022, the Authority had no long-term debt outstanding. Information on debt can be found in Note 6.

Economic Factors and Next Year's Budgets and Rates

Of the Authority's fiscal year 2022-23 revenues (excluding other financing sources), 56% came from a dedicated quarter cent sales tax approved by the voters in 1996 and was made permanent in 2008. The balance of the Authority's revenues come from local contributions, bequest income, donations, fees and fines. Sales tax revenues are driven by the general health of the local economy, this revenue decreased over the prior year by \$105,379 or 0.9% in fiscal year 2022-23.

The budget for fiscal year 2023-24 builds on the priorities established through the various plans that are now in place: Strategic Plan, Service Model/Staffing Plan, Facilities Master Plan, and Technology Plan. Over the last year, the Authority completed various projects, including reopening five branches, relocating the Collection Management and Information Technology teams to the administration building, finalizing the new Strategic Plan, and moving the Integrated Library System to a hosted solution. Measure S is entering the final phase with the completion of the new Aptos Library in the fall and the groundbreaking of the new Downtown Santa Cruz Library Affordable Housing project in late 2024.

Santa Cruz Public Libraries Joint Powers Authority
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2023

The Authority's proposed FY 24 operating budget is being presented as a balanced budget with the use of funds from unrestricted fund balance. To finance ongoing operations, key strategic initiatives and capital projects, the library system depends largely on Measure R, which is expected to see similar results in fiscal year 2024 but increase in 2025, and the Maintenance of Effort (MOE) contributions, which with the recent agreement, have increased 11.5% through fiscal year 2025.

Requests for Information

This financial statement is designed to provide a general overview of the fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Libraries, 117 Union Street, Santa Cruz, California, 95060.

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BASIC FINANCIAL STATEMENTS

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Santa Cruz Public Libraries Joint Powers Authority
Statement of Net Position
June 30, 2023

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 10,100,522 |
| Accounts receivable | 1,055,107 |
| Interest receivable | 22,746 |
| Taxes receivable | 801,417 |
| Due from other governments | 43,160 |
| Total current assets | 12,022,952 |
| Noncurrent assets: | |
| Capital assets - non-depreciable/amortizable | 71,353 |
| Capital assets - depreciable/amortizable, net | 4,858,059 |
| Total noncurrent assets | 4,929,412 |
| Total assets | 16,952,364 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and other current liabilities | 534,429 |
| Interest payable | 11,305 |
| Leases payable - due in one year | 221,194 |
| Total current liabilities | 766,928 |
| Noncurrent liabilities: | |
| Leases payable - due in more than one year | 3,648,907 |
| Total noncurrent liabilities | 3,648,907 |
| Total liabilities | 4,415,835 |
| NET POSITION | |
| Net investment in capital assets | 1,059,311 |
| Unrestricted | 11,477,218 |
| Total net position | \$ 12,536,529 |

Santa Cruz Public Libraries Joint Powers Authority
Statement of Activities
For the Year Ended June 30, 2023

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) |
|-----------------------------------|----------------------|-------------------------|----------------------|------------------------|
| | | Charges for | Operating | Revenue |
| | | Services | Grants and | and Changes |
| | | | Contributions | in Net Position |
| | | | | Governmental |
| | | | | Activities |
| Governmental activities: | | | | |
| Library services | \$ 17,034,090 | \$ - | \$ 7,611,344 | \$ (9,422,746) |
| Interest | 90,598 | - | - | (90,598) |
| Total governmental activities | <u>\$ 17,124,688</u> | <u>\$ -</u> | <u>\$ 7,611,344</u> | <u>\$ (9,513,344)</u> |
| | | | | |
| General revenues: | | | | |
| Sales taxes | | | | 10,572,557 |
| Unrestricted investment earnings | | | | 72,240 |
| Unrestricted donations | | | | 538,270 |
| Miscellaneous | | | | 40,736 |
| Gain/(loss) on disposal of assets | | | | 13,550 |
| Total general revenues | | | | <u>11,237,353</u> |
| Change in net position | | | | <u>1,724,009</u> |
| Net position - beginning of year | | | | <u>10,812,520</u> |
| Net position - end of year | | | | <u>\$ 12,536,529</u> |

Santa Cruz Public Libraries Joint Powers Authority
Governmental Fund Balance Sheet
June 30, 2023

| | General Fund |
|--|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 10,100,522 |
| Accounts receivable | 1,055,107 |
| Interest receivable | 22,746 |
| Taxes receivable | 801,417 |
| Due from other governments | 43,160 |
| Total assets | \$ 12,022,952 |
| LIABILITIES AND FUND BALANCES | |
| LIABILITIES | |
| Accounts payable and other current liabilities | \$ 534,429 |
| Total liabilities | 534,429 |
| FUND BALANCE: | |
| Unassigned | 11,488,523 |
| Total fund balance | 11,488,523 |
| Total liabilities and fund balance | \$ 12,022,952 |

Santa Cruz Public Libraries Joint Powers Authority
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2023

Total Fund Balance - Governmental Fund \$ 11,488,523

Amounts reported for Governmental Activities in the Statement of Net Position were different because:

Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported in the governmental fund. Except for the internal service funds reported below, the capital assets are adjusted as follows:

| | |
|--|--------------------|
| Construction in progress | 71,353 |
| Infrastructure | 579,683 |
| Lease improvements | 2,047,112 |
| Machinery and equipment | 2,621,723 |
| Intangible leases | 4,307,076 |
| Software | 3,983 |
| Less accumulated depreciation and amortization | <u>(4,701,518)</u> |
| Total capital assets | <u>4,929,412</u> |

Long-term debt used in governmental activities are not current financial resources. Therefore, they are not reported in the governmental fund. Long-term debt is adjusted as follows:

| | |
|----------------------|--------------------|
| Lease liabilities | <u>(3,870,101)</u> |
| Total long-term debt | <u>(3,870,101)</u> |

Interest payable did not use current financial resources. Therefore it is not included in the governmental fund.

(11,305)

Net Position of Governmental Activities \$ 12,536,529

Santa Cruz Public Libraries Joint Powers Authority
Statement of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2023

| | <u>General Fund</u> |
|---|-------------------------|
| REVENUES: | |
| Taxes | \$ 10,572,557 |
| Intergovernmental | 7,611,344 |
| Fines and forfeitures | 34,349 |
| Use of money and property | 72,240 |
| Donations | 538,270 |
| Other revenues | 6,387 |
| Total revenues | <u>18,835,147</u> |
| EXPENDITURES: | |
| Current: | |
| Contracted personnel services | 11,356,105 |
| Services, supplies, and other charges | 5,405,409 |
| Capital outlay | 4,569,871 |
| Debt service: | |
| Principal | 216,268 |
| Interest and fiscal charges | 79,293 |
| Total expenditures | <u>21,626,946</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>(2,791,799)</u> |
| OTHER FINANCING SOURCES: | |
| Proceeds from sale of capital assets | 13,550 |
| Inception of lease liability | 4,086,369 |
| Total other financing sources | <u>4,099,919</u> |
| NET CHANGE IN FUND BALANCE | 1,308,120 |
| FUND BALANCE: | |
| Beginning of year | <u>10,180,403</u> |
| End of year | <u>\$ 11,488,523</u> |

Santa Cruz Public Libraries Joint Powers Authority
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2023

| | |
|---|----------------------------|
| Net Change in Fund Balance - Governmental Fund | <u>\$ 1,308,120</u> |
| Amounts reported for Governmental Activities in the Statement of Activities were different because: | |
| The governmental fund reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation/amortization expense. This is the amount of capital outlay recorded as capital assets in the current period. | 4,569,871 |
| Depreciation/amortization expense on capital assets was reported in the Government-Wide Statement of Activities, but did not require the use of current financial resources. Therefore, depreciation/amortization expense was not reported as an expenditure. | (272,576) |
| Principal expenditures were an outflow of resources in the governmental funds, but reduced long-term liabilities on the Statement of Activities | 216,268 |
| Issuance of debt provided resources for the governmental funds, but the debt was reported as a liability on the Government-Wide Statement of Net Position. | (4,086,369) |
| Interest expense on long-term debt was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. This amount represented the change in accrued interest from prior year. | <u>(11,305)</u> |
| Change Net Position of Governmental Activities | <u><u>\$ 1,724,009</u></u> |

NOTES TO THE BASIC FINANCIAL STATEMENTS

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Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Santa Cruz Public Libraries Joint Powers Authority (“Authority”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

A. Reporting Entity

In May 1996 the County of Santa Cruz (“County”), City of Santa Cruz (“City”), City of Watsonville, City of Capitola, and the City of Scotts Valley entered into a joint exercise of powers agreement to provide library services to their respective jurisdictions representing the entire incorporated and unincorporated areas of Santa Cruz County. On November 5, 1996, the voters approved an additional one-quarter percent increase in the sales tax to fund the library system. This revenue is collected by the County Library Financing Authority and is subsequently passed through to the Authority. In addition to the sales tax funding, under the joint powers agreement, each entity has maintenance of effort requirements based on the respective entities’ previous funding levels.

The Authority is a separate entity with a nine-member board consisting of two members of the County Board of Supervisors, two members of the City of Santa Cruz City Council, one member each of the City Councils of Capitola and Scotts Valley, and three at-large citizens appointed by the Board. The City administers the library system.

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds. Each fund is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority uses only one fund, the General Fund, to record the results of its operations.

Government-Wide Financial Statements

Government-Wide Financial Statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Authority’s assets and liabilities, including capital assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City. These transactions include:

- Charges for services and
- Operating grants and contributions

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all governmental funds aggregated. The Authority has presented one major fund which is the General Fund. The General Fund is used to account for sources and uses of financial resources traditionally associated with governments, and which are not required to be accounted for in another fund.

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 current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Generally, revenues are considered available if they are collected within 60 days after fiscal year end. If revenues are not subject to accrual, they are recorded when received in cash. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unavailable revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, these amounts are removed from the balance sheet and the revenues are recognized.

An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in the Fund Financial Statements to the net position presented in the Government-Wide Financial Statements.

C. Use of Restricted Fund Balance

Net Position Flow Assumptions

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first. Unassigned fund balance is applied last.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Cash, Cash Equivalents, and Investments

For purposes of the Balance Sheet, cash and cash equivalents include currency on hand and deposits in the City’s cash and investment pool. These deposits have the same characteristics for the participating funds as demand deposit accounts, in that the funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. The City’s cash and investments are stated at fair value, which is based on a quoted market price. This includes all investments except the City’s investment in the California Local Agency Investment Fund (“LAIF”). The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The City valued its investments in LAIF at June 30, 2023, by multiplying its balance by a fair value factor determined by LAIF. The fair value factor was calculated by dividing the total fair value for all participants by the total amortized cost.

E. Capital Assets

Government-Wide Financial Statements

Capital assets are defined by the Authority as assets having an estimated useful life in excess of one year, and an initial, individual cost in excess of the capitalization thresholds described below:

| | | |
|---------------------------------|----|--------|
| Infrastructure | \$ | 25,000 |
| Buildings and Lease Improvement | | 10,000 |
| Machinery and Equipment | | 5,000 |
| Software (if qualified) | | 5,000 |

All capital assets are valued at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated. Assets acquired under capital leases are capitalized in accordance with GAAP. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s useful life are not capitalized. Depreciation/amortization is recorded on a straight-line basis over the useful lives of the assets as follows:

| | |
|----------------------------------|-------------|
| Infrastructure | 20 years |
| Buildings and Lease Improvements | 15–50 years |
| Machinery and Equipment | 5–20 years |
| Software (if qualified) | 5 years |

Assets are grouped by asset type into one of the following accounts: land, land improvements, buildings (and improvements), machinery and equipment, lease improvements, and software.

Fund Financial Statements

Capital assets are not presented in the governmental fund financial statements; consequently, capital assets are shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

F. Leases

As Lessee

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

G. Interest Payable

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for both, governmental and business-type activities. In the Fund Financial Statements, only proprietary fund types recognize the interest payable when the liability is incurred. Governmental funds recognize interest payable when due.

H. Long-Term Debt

Government-Wide Financial Statements - Long-term debt and other long-term obligations are reported as liabilities in the governmental activities.

Fund Financial Statements - The governmental fund financial statements do not present long-term liabilities. Consequently, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

I. Program Revenues

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided or fines imposed by a given function or segment, and (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

J. Property Taxes

Assessed property values are determined annually by the County Assessor as of March 1, and become a lien on real property at January 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1, and are delinquent if not paid by December 10 and April 10, respectively.

The County bills and collects property taxes and remits them to the Authority under the State-authorized method of apportioning taxes whereby all local agencies, including cities, receive from the county their respective shares of the amount of ad valorem taxes collected. Property tax revenues are recognized when levied, provided the measurement and availability criteria have been met.

K. Net Position

In the Government-Wide Financial Statements, net position is classified in the following categories:

Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and amortization and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets, as applicable.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is the portion that does not meet the definition of “net investment in capital assets” or “restricted net position.”

L. Fund Balances

Nonspendable – This category consists of amounts that are either not in spendable form or are legally or contractually required to maintain intact.

Restricted – This category consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – This category consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council through approval of Resolutions. Formal action is taken with the passage of a simple majority vote at or prior to the last meeting for the applicable fiscal year. It also includes contractual obligations for which existing resources have been committed. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed previously to commit those amounts.

Assigned – This category consists of amounts that are intended to be used by the Authority for specific purposes, but do not meet the criteria to be classified as committed.

Unassigned – This category represents amounts that have not been restricted, committed, or assigned to specific purposes. At June 30, 2023, the entire fund balance of the Authority is unassigned.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

M. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported and the disclosure of contingent assets, liabilities, and deferred inflows and outflows. In addition, estimates affect the reported amount of revenues, expenditures/expenses, and disclosures. Actual results could differ from these estimates and assumptions.

N. Implementation of New GASB Pronouncements

GASB Statement No. 91 - In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Implementation of this Statement did not have a significant effect on the Authority's financial statements for the fiscal year ended June 30, 2023.

GASB Statement No. 94 - In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Implementation of this statement did not have a significant effect on the Authority's financial statements for the fiscal year ended June 30, 2023.

GASB Statement No. 96 - In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Implementation of this Statement did not have a significant effect on the Authority's financial statements for the fiscal year ended June 30, 2023.

GASB Statement No. 99 - In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Implementation of this Statement did not have a significant effect on the Authority's financial statements for the fiscal year ended June 30, 2023.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash Deposits and Investments

Cash and investments held by the Authority at June 30, 2023, consisted of \$10,100,522 in cash pooled with the City's cash and investments.

Investments authorized by the California Government Code and the City of Santa Cruz's investment policy:

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase. The City's pool is not rated and is not registered with the SEC. The City's average maturity of its investments is less than one year.

California Local Agency Investment Fund – The City is a participant in the Local Agency Investment Fund ("LAIF"), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in the LAIF pool is reported in the statements provided at amounts based on the City's pro-rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdraw is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the City's position in the LAIF pool. The fund is subject to regulatory oversight by the State of California and is not registered with the SEC.

Fair Value Hierarchy – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. Investments in LAIF are uncategorized as deposits and withdrawals are made on the basis of \$1 and not fair value.

Risk Disclosures

Interest Rate Risk - In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to two-and-one-half (2½) years or less. The City is in compliance with this provision of the investment policy with a weighted average maturity of 81 days at June 30, 2023.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City manages credit risk by evaluating and pre-qualifying banks and primary dealers and by investing in securities with top ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk – The City's investment policy states that not more than 25% of the portfolio shall be invested in any one entity or any one instrument to protect the City from concentration of credit risk, with the following exceptions: U.S. Treasury Obligations and the external investment pool (LAIF). In addition, purchases of mutual funds must not exceed 20% of the value of the portfolio. Purchases in a single mutual fund may not exceed 10% of the value of the portfolio. The City is in compliance with these provisions of the investment policy. The City did not maintain investments in any one issuer (other than U.S. Treasury securities and external investment pools) that represent 5% or more of total investments at June 30, 2023.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 3 – Capital Assets

At June 30, 2023, the Authority’s capital assets consisted of the following:

| | Balance June 30, 2022 | Additions | Deletions | Adjustments | Balance June 30, 2023 |
|--|--------------------------|---------------------|-----------------|-------------|--------------------------|
| Non-depreciable assets: | | | | | |
| Construction in progress | \$ 71,353 | \$ - | \$ - | \$ - | \$ 71,353 |
| Total non-depreciable assets | 71,353 | - | - | - | 71,353 |
| Depreciable/amortizable assets: | | | | | |
| Infrastructure | 579,683 | - | - | - | 579,683 |
| Lease improvements | 2,103,369 | 9,413 | - | (65,670) | 2,047,112 |
| Machinery and equipment | 2,361,777 | 253,382 | (59,106) | 65,670 | 2,621,723 |
| Intangible leases | - | 4,307,076 | - | - | 4,307,076 |
| Software | 3,983 | - | - | - | 3,983 |
| Total depreciable/amortizable assets, at cost | 5,048,812 | 4,569,871 | (59,106) | - | 9,559,577 |
| Less accumulated depreciation/amortization: | | | | | |
| Infrastructure | (387,276) | (11,591) | - | - | (398,867) |
| Lease improvements | (2,005,051) | (4,191) | - | - | (2,009,242) |
| Machinery and equipment | (2,091,738) | (128,225) | 59,106 | - | (2,160,857) |
| Intangible leases | - | (128,569) | - | - | (128,569) |
| Software | (3,983) | - | - | - | (3,983) |
| Total accumulated depreciation/amortization | (4,488,048) | (272,576) | 59,106 | - | (4,701,518) |
| Total depreciable/amortizable assets, net | 560,764 | 4,297,295 | - | - | 4,858,059 |
| Total capital assets, net | \$ 632,117 | \$ 4,297,295 | \$ - | \$ - | \$ 4,929,412 |

Depreciation/amortization expense of the governmental activities for the year ended June 30, 2023 was \$272,576 and is included in the Library Services expense line item on the Statement of Activities.

Note 4 – Related Party Transactions

The cities of Santa Cruz and Watsonville and the County are required to provide funding to the Santa Cruz County Library Financing Authority (“Financing Authority”) in accordance with the maintenance of effort agreement. The net revenues received by the County Library Financing Authority are then passed through to the Authority and the City of Watsonville based on a prescribed formula. For fiscal year 2023, the Authority’s share of the revenues was \$7,381,827 or 77.88%.

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 4 – Related Party Transactions (Continued)

Distribution of the member contributions are as follows:

| Contributing Member Agencies | County Library Financing Authority Contributions | Less: Miscellaneous Costs | Net Contributions | Library Joint Powers Authority Share (77.88%) | City of Watsonville Library Share (22.12%) |
|---------------------------------|--|---------------------------------|----------------------|--|---|
| City of Santa Cruz | \$ 2,128,082 | \$ (23,916) | \$ 2,104,166 | \$ 1,733,340 | \$ 370,826 |
| City of Watsonville | 541,684 | (6,793) | 534,891 | 440,625 | 94,266 |
| County of Santa Cruz | 6,322,019 | - | 6,322,019 | 5,207,862 | 1,114,157 |
| Total | <u>\$ 8,991,785</u> | <u>\$ (30,709)</u> | <u>\$ 8,961,076</u> | <u>\$ 7,381,827</u> | <u>\$ 1,579,249</u> |

Note 5 – Due From Other Governments

Due from other governments includes funding for Library operations from the Financing Authority in the amount of \$43,160 at June 30, 2023.

Note 6 – Long-Term Debt

The following table summarizes long-term debt activity for the year ended June 30, 2023:

| | Balance June 30, 2022 | Additions | Deletions | Balance June 30, 2023 | Due in One Year |
|--------------------------------|--------------------------|---------------------|---------------------|--------------------------|--------------------|
| Direct borrowings: | | | | | |
| Leases payable | \$ - | \$ 4,086,369 | \$ (216,268) | \$ 3,870,101 | \$ 221,194 |
| Total direct borrowings | <u>-</u> | <u>4,086,369</u> | <u>(216,268)</u> | <u>3,870,101</u> | <u>221,194</u> |
| Total long-term debt | <u>\$ -</u> | <u>\$ 4,086,369</u> | <u>\$ (216,268)</u> | <u>\$ 3,870,101</u> | <u>\$ 221,194</u> |

Leases Payable

The Authority leases vehicles and space in the governmental activities. The leases have interest rates between 4.75% and 8.75%. The value of the right-to-use leased assets as of the end of the current fiscal year was \$4,178,507. Leases payable outstanding at June 30, 2023 were \$3,870,101.

Upcoming debt service requirements for leases payable are as follows:

| | Principal | Interest | Total |
|-----------|---------------------|-------------------|---------------------|
| 2024 | \$ 221,194 | \$ 64,262 | \$ 285,456 |
| 2025 | 225,755 | 60,455 | 286,210 |
| 2026 | 226,758 | 56,598 | 283,356 |
| 2027 | 230,999 | 52,699 | 283,698 |
| 2028 | 234,834 | 48,730 | 283,564 |
| 2029-2033 | 1,240,549 | 181,538 | 1,422,087 |
| 2034-2038 | 1,490,012 | 65,566 | 1,555,578 |
| | <u>\$ 3,870,101</u> | <u>\$ 529,848</u> | <u>\$ 4,399,949</u> |

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 7 – Commitments and Contingencies

The Authority is a recipient of various governmental grants which may be subject to program compliance audits. Accordingly, the Authority’s compliance with applicable grant requirements may be established at a future date. The amount of expenditures which may be disallowed by a granting agency cannot be determined at this time, although the Authority anticipates such amounts, if any, will be immaterial.

Note 8 – Retirement Plans

CalPERS Miscellaneous Employees’ Pension Plans

The Authority uses City employees who are covered under the City’s contributions to the California Public Employee Retirement System (“CalPERS”). CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. The miscellaneous employees of the City are part of a three-tier agent multiple-employer defined benefit pension plan. Benefit provisions under the Plans are established by State statute and City resolutions. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, and assumptions at the CalPERS website.

Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are, generally, 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.

The Authority assumes its share of pension costs based upon rates established by CalPERS for the City’s miscellaneous employees. No separate pension benefit obligation is calculated for the Authority; accordingly, no obligation is presented herein. Further information regarding the City’s participation in CalPERS may be found in the City’s annual comprehensive financial report.

Note 9 – Net Position and Fund Balance

A. Net Investment in Capital Assets

At June 30, 2023, the net investment in capital assets category of net position consisted of the following:

| | Governmental Activities |
|--|----------------------------|
| Net investment in capital assets: | |
| Capital assets, nondepreciable/amortizable | \$ 71,353 |
| Capital assets, depreciable/amortizable, net | 4,858,059 |
| Lease liability - due in one year | (221,194) |
| Lease liability - due in more than one year | (3,648,907) |
| Total | \$ 1,059,311 |

Santa Cruz Public Libraries Joint Powers Authority
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Net Position and Fund Balance (Continued)

B. Stabilization Arrangement

During fiscal year, 2017 the Authority’s Board approved an establishment of a stabilization agreement to cover cash flow issues and unexpected expenditures in future fiscal years. The reserve may be used for expenditures in the event of a declaration of a state or federal state of emergency or a local emergency. At June 30, 2023, the Authority had \$3,413,689 pursuant to the stabilization agreement.

Expenditures of the amounts in the revenue stabilization reserve may occur only when specific circumstances exist. The adopted resolution directs that these resources may be used if any one of the unforeseen and non-recurring events listed below occur that create significant financial difficulty for the Authority:

- a) Sudden and unexpected significant facility failures that threaten the immediate safety of City/Authority patrons, staff or the community;
- b) Declaration of a State of Emergency by the Governor;
- c) Acts of Terrorism declared by the Governor or the President of the United States; or
- d) Acts of Nature, which are infrequent in occurrence.

The Authority’s fund balance consisted of \$11,488,524 unassigned fund balance at the end of June 30, 2023.

C. Stewardship and Accountability

Excess Expenditures Above Appropriations

For the year ended June 30, 2023, the General Fund’s expenditures exceeded appropriations by \$130,252.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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Santa Cruz Public Libraries Joint Powers Authority
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund - Budget to Actual
For the Year Ended June 30, 2023

| | Budgeted Amounts | | Actual | Variance with |
|---------------------------------------|-----------------------|-----------------------|-------------------------|--|
| | Original | Final | Amounts (GAAP Basis) | Final Budget Positive (Negative) |
| REVENUES: | | | | |
| Taxes | \$ 10,666,565 | \$ 10,875,331 | \$ 10,572,557 | \$ (302,774) |
| Intergovernmental | 6,115,273 | 7,478,194 | 7,611,344 | 133,150 |
| Charges for services | 4,640 | 4,640 | - | (4,640) |
| Fines and forfeitures | 12,000 | 12,000 | 34,349 | 22,349 |
| Library parcel taxes | 110,000 | 110,000 | - | (110,000) |
| Use of money and property | 98,093 | 98,398 | 72,240 | (26,158) |
| Donations | 39,873 | 676,430 | 538,270 | (138,160) |
| Other revenues | 44,190 | 81,069 | 6,387 | (74,682) |
| Total revenues | 17,090,634 | 19,336,062 | 18,835,147 | (500,915) |
| EXPENDITURES: | | | | |
| Current | | | | |
| Contracted personnel services | 13,071,023 | 13,611,956 | 11,356,105 | 2,255,851 |
| Services, supplies, and other charges | 5,136,097 | 7,090,904 | 5,405,409 | 1,685,495 |
| Capital outlay | 458,000 | 793,834 | 4,569,871 | (3,776,037) |
| Debt service: | | | | |
| Principal | - | - | 216,268 | (216,268) |
| Interest and fiscal charges | - | - | 79,293 | (79,293) |
| Total expenditures | 18,665,120 | 21,496,694 | 21,626,946 | (130,252) |
| REVENUES OVER (UNDER) | | | | |
| EXPENDITURES | (1,574,486) | (2,160,632) | (2,791,799) | (370,663) |
| OTHER FINANCING SOURCES: | | | | |
| Proceeds from sale of capital assets | - | - | 13,550 | 13,550 |
| Inception of lease liability | - | - | 4,086,369 | 4,086,369 |
| Transfers in | - | 29,745 | 1,245 | (28,500) |
| Transfers out | (55,000) | (29,745) | (1,245) | 28,500 |
| Total other financing sources | (55,000) | - | 4,099,919 | 4,099,919 |
| NET CHANGES IN FUND BALANCE | \$ (1,629,486) | \$ (2,160,632) | 1,308,120 | \$ 3,729,256 |
| FUND BALANCE: | | | | |
| Beginning of year | | | 10,180,403 | |
| End of year | | | <u>\$ 11,488,523</u> | |

Santa Cruz Public Libraries Joint Powers Authority
Notes to Budgetary Schedules
For the Year Ended June 30, 2023

Note 1 - Budgetary Information

An annual budget is adopted by the Authority on or before June 30 for the fiscal year beginning July 1. The annual budget process begins in February with a public hearing, at which time the Board considers service and budget priorities for the following year. The Director of Libraries then prepares a proposed budget, based upon the service priorities and revenue estimates. The proposed budget is made available to the public for review prior to a public hearing in May of each year. At this hearing, the Board can request supplemental information from the Director of Libraries. This supplemental information, plus an update on available financing for the Library System is presented to the Board for review prior to final budget adoption.

Administratively, the Authority's budget is managed under the policies and procedures of the City. The Director of Libraries is authorized to approve appropriation transfers up to a specified amount; however, any new appropriation requires approval by the Authority's Board. Several supplemental appropriations that were necessary during the year are reflected in the final budgeted amounts. Expenditures may not legally exceed appropriations at the fund level.

All annual operating appropriations lapse at fiscal year-end, except for amounts legally encumbered at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental fund types. Encumbrances outstanding at year-end are reported as reservation of fund balances since they do not constitute expenditures or liabilities, and re-appropriations in the subsequent year provide authority to complete these transactions as expenditures.

In addition, project-length (or non-lapsing) budgets are adopted for capital improvements and other projects, and grant-funded projects or programs that may not be completed within the fiscal year during which the budget appropriation for the project or program originates. Under these circumstances, the appropriation continues until project or program completion, or unless the appropriation is subsequently amended or rescinded by the Authority Board.

Budgets are adopted each year for the General Fund. This budget is prepared on a basis consistent with GAAP.

SUPPLEMENTARY INFORMATION

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Santa Cruz Public Libraries Joint Powers Authority
Combining Schedule of Balance Sheets by Program
Library Operating Sub-Funds
For the Year Ended June 30, 2023

| | Library Operating Sub-Funds | | | | | | Total Library Operating Funds |
|---|-----------------------------|-----------------------|-----------------------------|-------------------------------|------------------|----------------------------|--|
| | Library JPA Operating | Technology Reserve | Felton Branch Reserve | JPA Vehicle Replacement | JPA Trusts | JPA - Capital Equipment | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 9,247,780 | \$ 256,049 | \$ - | \$ 509,489 | \$ 18,094 | \$ 69,110 | \$ 10,100,522 |
| Accounts receivable | 1,055,107 | - | - | - | - | - | 1,055,107 |
| Interest receivable | 21,045 | 511 | - | 1,016 | 36 | 138 | 22,746 |
| Taxes receivable | 801,417 | - | - | - | - | - | 801,417 |
| Due from other governments | 43,160 | - | - | - | - | - | 43,160 |
| Total assets | \$ 11,168,509 | \$ 256,560 | \$ - | \$ 510,505 | \$ 18,130 | \$ 69,248 | \$ 12,022,952 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and other current liabilities | 534,429 | - | - | - | - | - | 534,429 |
| Total liabilities | 534,429 | - | - | - | - | - | 534,429 |
| Fund Balances: | | | | | | | |
| Unassigned | 10,634,080 | 256,560 | - | 510,505 | 18,130 | 69,248 | 11,488,523 |
| Total fund balances | 10,634,080 | 256,560 | - | 510,505 | 18,130 | 69,248 | 11,488,523 |
| Total liabilities and fund balances | \$ 11,168,509 | \$ 256,560 | \$ - | \$ 510,505 | \$ 18,130 | \$ 69,248 | \$ 12,022,952 |

* The "Library Operating Funds" constitute sub-funds of the General Fund of the Santa Cruz Public Libraries Joint Powers Authority.

Santa Cruz Public Libraries Joint Powers Authority
Combining Statement of Revenues, Expenditures and Changes in Sub-Fund Balances by Program
For the Year Ended June 30, 2023

| | Library Operating Sub-Funds | | | | | | Total Library Operating Funds |
|---|-----------------------------|-----------------------|-----------------------------|-------------------------------|------------------|----------------------------|--|
| | Library JPA Operating | Technology Reserve | Felton Branch Reserve | JPA Vehicle Replacement | JPA Trusts | JPA - Capital Equipment | |
| REVENUES: | | | | | | | |
| Sales and use tax | \$ 10,572,557 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,572,557 |
| Federal grants | 146,740 | - | - | - | - | - | 146,740 |
| State grants | 76,091 | - | - | - | - | - | 76,091 |
| Local grants | 6,687 | - | - | - | - | - | 6,687 |
| Maintenance of effort | 7,381,826 | - | - | - | - | - | 7,381,826 |
| Fines and forfeitures | 34,349 | - | - | - | - | - | 34,349 |
| Investment income | 73,204 | (2,260) | (9) | 1,996 | 61 | (752) | 72,240 |
| Contributions and donations | 538,270 | - | - | - | - | - | 538,270 |
| Other miscellaneous revenues | 6,387 | - | - | - | - | - | 6,387 |
| Total revenues | 18,836,111 | (2,260) | (9) | 1,996 | 61 | (752) | 18,835,147 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| Personnel services | 11,356,105 | - | - | - | - | - | 11,356,105 |
| Services, supplies and other charges | 5,405,409 | - | - | - | - | - | 5,405,409 |
| Capital outlay | 4,569,871 | - | - | - | - | - | 4,569,871 |
| Debt service: | | | | | | | |
| Principal | 216,268 | - | - | - | - | - | 216,268 |
| Interest and fiscal charges | 79,293 | - | - | - | - | - | 79,293 |
| Total expenditures | 21,626,946 | - | - | - | - | - | 21,626,946 |
| REVENUES OVER (UNDER) EXPENDITURES | (2,790,835) | (2,260) | (9) | 1,996 | 61 | (752) | (2,791,799) |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Sale of surplus equipment | 13,550 | - | - | - | - | - | 13,550 |
| Inception of lease liability | 4,086,369 | - | - | - | - | - | 4,086,369 |
| Transfers in | 1,245 | - | - | - | - | - | 1,245 |
| Transfers out | - | - | (1,245) | - | - | - | (1,245) |
| Total other financing sources (uses) | 4,101,164 | - | (1,245) | - | - | - | 4,099,919 |
| NET CHANGES IN FUND BALANCES | 1,310,329 | (2,260) | (1,254) | 1,996 | 61 | (752) | 1,308,120 |
| FUND BALANCES: | | | | | | | |
| Beginning of year | 9,323,751 | 258,820 | 1,254 | 508,509 | 18,069 | 70,000 | 10,180,403 |
| End of year | <u>\$ 10,634,080</u> | <u>\$ 256,560</u> | <u>\$ -</u> | <u>\$ 510,505</u> | <u>\$ 18,130</u> | <u>\$ 69,248</u> | <u>\$ 11,488,523</u> |

Santa Cruz Public Libraries Joint Powers Authority
Authority's Financial Condition
For the Year Ended June 30, 2023

At June 30, 2023, the Authority had unrestricted net position of \$11,477,218, an increase of \$1,296,815 from the prior year of \$10,180,403 on the government-wide financial statements. The total fund balance in the amount of \$11,488,523 is unassigned. The following is the three-year trend information of financial condition of the Authority:

Government-Wide Financial Statements

| Year | Total Net Position | | Unrestricted Net Position | | Change in Net Position | |
|------|--------------------|--------------|---------------------------|--------------|------------------------|--------------|
| | | Change \$ | | Change \$ | | Change \$ |
| 2021 | \$ 8,450,484 | \$ 2,677,612 | \$ 7,675,101 | \$ 2,770,496 | \$ 2,677,612 | \$ 3,126,153 |
| 2022 | 10,812,520 | 2,362,036 | 10,180,403 | 2,505,302 | 2,362,036 | (315,576) |
| 2023 | 12,536,529 | 1,724,009 | 11,477,218 | 1,296,815 | 1,724,009 | (638,027) |

Fund Financial Statements

| Year | Unassigned Fund Balance | |
|------|-------------------------|--------------|
| | | Change \$ |
| 2021 | \$ 7,675,101 | \$ 2,770,496 |
| 2022 | 10,180,403 | 2,505,302 |
| 2023 | 11,488,523 | 1,308,120 |

The Authority's financial condition over the last fiscal years had improved. For fiscal year 2023 the Authority saw an increase of \$1,724,009 in total net position for a total net position of \$12,536,529. For fiscal year 2022, the total net position increased by \$2,362,036, for a total net position of \$10,812,520. For fiscal year 2023 the Authority saw an increase of \$1,308,120 in total fund balance. For fiscal year 2022, total fund balance increased by \$2,505,302.

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