

**Santa Cruz Public
Libraries Joint Powers
Authority**

Santa Cruz, California

Annual Financial Report

For the Fiscal Year Ended June 30, 2021

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Santa Cruz Public Libraries Joint Powers Authority

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and the general fund of the Santa Cruz Public Libraries Joint Powers Authority (Authority) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 general fund information of the Authority, as of June 30, 2021, and the respective changes in financial position 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 the management's discussion and analysis and the general fund budgetary comparison information 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 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 balance sheet by program and the schedule of revenues, expenditures and changes in fund balances by program for the library operating funds (Schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules are the responsibility of management, were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Menlo Park, California
April 25, 2022

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, 2021.

Financial Highlights

- Government-Wide Highlights:

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$8,450,484 (*Net Position*). A component of this balance represents \$775,383 of investment in capital assets; however, the remainder of Net Position consists of unrestricted Net Position of \$7,675,101. 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 \$2,677,612 in fiscal year 2021 mainly due to increase in sales tax revenue and a decrease in expenditures as a result of restructuring during the fiscal year.

By the end of the fiscal year, the Authority's total assets increased by \$2,694,045. Current asset categories that experienced increases during the year include cash and cash equivalents of \$2,669,120, accounts receivable of \$25,559, prepaid expenses of \$10,203 and the taxes receivable category of \$192,825. Current asset categories that experienced decreases during the year include Interest receivable of \$415, and Due from other governments of \$85,659.

The Authority's total liabilities sustained an increase of \$41,137 during the fiscal year primarily due to an increase in accounts payable.

- Fund Highlights:

As of the close of the fiscal year, the Authority's general fund reported a fund balance of \$7,675,101 which is an increase of \$2,770,496 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 \$2,811,633 and the total liabilities increased by \$41,137 during the fiscal year. The increases were primarily attributable to an increase in the Authority's Pooled Cash with the City receiving more sales tax revenue and having less expenditures during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is 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*.

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 8-9 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 10-13 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 14-24 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 25-26 of this report.

Government-Wide Financial Analysis

Analysis of Net Position

About 9% 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, 2021		
	2021	2020
Total assets	\$8,727,373	\$6,008,624
Total liabilities	276,889	235,752
Net Position:		
Investment in Capital Assets	775,383	868,267
Unrestricted	7,675,101	4,904,605
Total Net Position	\$8,450,484	\$5,772,872

The figure in *Unrestricted Net Position* represents the balance in the amounts normally used to meet the Authority's ongoing obligations. At June 30, 2021, the Authority had a balance of \$7,675,101 in unrestricted net position which is an increase of \$2,770,496 from \$4,904,605 prior fiscal year end. Total net position increased \$2,677,612 to \$8,450,484 from \$5,772,872 in prior fiscal year end.

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 year ended June 30, 2021**

	2021	2020
General Revenues		
Sales Tax	\$9,176,532	\$8,069,015
Unrestricted Investment Earnings	41,143	100,769
Miscellaneous Revenue	26,000	5,356
Total General Revenues	9,243,675	8,175,140
Program Revenues	6,539,564	6,131,199
Total revenues	15,783,239	14,306,339
Expenditures	13,105,627	14,754,880
Changes in Net Position	2,677,612	(448,541)
Net Position - beginning of year	5,772,872	6,221,413
Net Position - End of Year	\$8,450,484	\$5,772,872

Authority's net position increased \$2,677,612 during the fiscal year due to increase in sales tax revenue and a decrease in expenditures.

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 2021, the Authority's general fund reported an ending fund balance of \$7,675,101, an increase of \$2,770,496 (56.5%) in comparison with the prior fiscal year. This is due to an increase in tax revenues and a decrease in expenditures.

General Fund Budgetary Highlights

The final amended budget is more than the original budget for revenues and other financing sources by \$2,591,979 due to an increase in Taxes and Intergovernmental Revenues.

The final amended budget is more than the original budget for expenditures and other financing uses by \$508,087 primarily due to increases in Services, Supplies and Other.

The actual revenues and other financing sources were more than the final amended budget by \$190,117. The actual expenditures and other financing uses were less than the final amended budget by \$4,085,014.

Capital Assets and Debt Administration

As of June 30, 2021, the Authority's investment in capital assets was \$775,383 (net of accumulated depreciation), which is \$92,884 less than the prior year. The decrease was attributed to depreciation. Information about capital assets can be found in note 3.

At the end of the current fiscal year, the Authority had no long-term debt outstanding.

Economic Factors and Next Year's Budgets and Rates

The budget for fiscal year 2021-22 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.

The library system maintains a healthy and stable financial position. There is adequate, stable and diverse funding to finance ongoing operations, key strategic initiatives and capital projects. Of the Authority's fiscal year 2020-21 revenues (excluding other financing sources), 58% 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 and fees and fines. Sales tax revenues are driven by the general health of the local economy. Sales tax revenue increased by \$1,107,517 (about 14%) in fiscal year 2020-21 in line with the improved economy.

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.

Santa Cruz Public Libraries Joint Powers Authority
Statement of Net Position
June 30, 2021

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,624,863
Interest receivable	3,253
Taxes receivable	790,984
Accounts receivable	25,559
Prepaid expenses	10,203
Due from other governments	497,128
Total current assets	7,951,990
Noncurrent assets:	
Capital assets, net of accumulated depreciation	775,383
Total assets	8,727,373
LIABILITIES	
Current liabilities:	
Accounts payable and other current liabilities	276,889
Total liabilities	276,889
NET POSITION	
Investment in capital assets	775,383
Unrestricted	7,675,101
Total Net Position	\$ 8,450,484

Santa Cruz Public Libraries Joint Powers Authority
Statement of Activities
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government:				
Library services	\$ 13,105,627	\$ 15,829	\$ 6,523,735	\$ (6,566,063)
Total primary government	\$ 13,105,627	\$ 15,829	\$ 6,523,735	(6,566,063)

General Revenues:

Sales taxes	9,176,532
Unrestricted investment earnings	41,143
Miscellaneous	26,000
Total general revenues	9,243,675
Change in Net Position	2,677,612
Net Position - beginning of year	5,772,872
Net Position - end of year	\$ 8,450,484

Santa Cruz Public Libraries Joint Powers Authority
 Balance Sheet
 Year Ended June 30, 2021

	General
ASSETS	
Cash and cash equivalents	\$ 6,624,863
Interest receivable	3,253
Taxes receivable	790,984
Accounts receivable	25,559
Prepaid expenses	10,203
Due from other governments	497,128
Total assets	\$ 7,951,990
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and other current liabilities	\$ 276,889
Total liabilities	276,889
Fund Balances:	
Unassigned	7,675,101
Total fund balance	7,675,101
Total liabilities and fund balance	\$ 7,951,990

Santa Cruz Public Libraries Joint Powers Authority
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide
Statement of Net Position
Year Ended June 30, 2021

Total Fund Balance - Total Governmental Fund \$ 7,675,101

Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Infrastructure	579,683
Lease Improvements	2,103,369
Machinery and equipment	2,362,771
Software	3,983
Construction in progress	71,353
Less accumulated depreciation	<u>(4,345,776)</u>
Total capital assets	<u>775,383</u>
Net Position of Governmental Activities	<u><u>\$ 8,450,484</u></u>

Santa Cruz Public Libraries Joint Powers Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2021

	General Fund
REVENUES:	
Taxes	\$ 9,176,532
Intergovernmental	6,187,032
Charges for services	4,640
Fines and forfeitures	11,189
Use of money and property	41,143
Other revenues	362,703
Total revenues	15,783,239
EXPENDITURES:	
Current:	
Personnel services	9,029,257
Services, supplies, and other charges	3,917,817
Capital outlay	65,669
Total expenditures	13,012,743
REVENUES OVER (UNDER) EXPENDITURES	2,770,496
FUND BALANCE:	
Beginning of year	4,904,605
End of year	\$ 7,675,101

Santa Cruz Public Libraries Joint Powers Authority
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures
and Changes in Fund Balance to the Government-Wide Statement of Activities
Year Ended June 30, 2021

Net Change in Fund Balance - Total Governmental Funds \$ 2,770,496

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.

65,669

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position, but did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure.

(158,553)

Change in Net Position of Governmental Activities

\$ 2,677,612

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 Generally Accepted Accounting Principles (“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 more significant of the Authority’s accounting policies are described below.

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 of Santa Cruz (the City) administers the library system. All library employees are employees of the City and have the same benefits and retirement programs as all other City employees.

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, 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,
- Operating grants and contributions, and
- Capital grants and contributions.

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.

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.

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, 2021, by multiplying its balance by a fair value factor determined by LAIF (1.00008297). This fair value factor was calculated by dividing the total fair value for all participants by the total amortized cost.

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 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.

Net Position

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

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

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."

Fund Balances

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.

Unassigned - This category represents amounts that have not been restricted, committed, or assigned to specific purposes.

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.

Note 2 - Cash Deposits and Investments

Cash and investments held by the Authority at June 30, 2021, consisted of \$6,624,863 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.

Cash Deposits

The total bank balance was collateralized or insured with securities held by the pledging financial institutions. The California Government Code requires California financial institutions to secure the local governments cash deposits by pledging securities in an undivided collateral pool. 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.

The market value of pledged securities must equal at least 110% of the City's cash deposits in the pool. California law also allows institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the pool's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

California Local Agency Investment Fund - The City is a participant in 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, 2021.

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, 2021.

Note 3 - Capital Assets

At June 30, 2021, the Authority's capital assets consisted of the following:

	Balance June 30, 2020	Additions	Balance June 30, 2021
Non-depreciable assets:			
Construction In progress	\$ 71,353	\$ -	\$ 71,353
Total non-depreciable assets	71,353	-	71,353
Depreciable assets:			
Infrastructure	579,683	-	579,683
Lease improvements	2,037,700	65,669	2,103,369
Machinery and equipment	2,362,771	-	2,362,771
Software	3,983	-	3,983
Total depreciable assets, at cost	4,984,137	65,669	5,049,806
Total capital assets	5,055,490	65,669	5,121,159
Less accumulated depreciation:			
Infrastructure	(361,032)	(13,189)	(374,221)
Lease improvements	(1,933,296)	(36,635)	(1,969,931)
Machinery and equipment	(1,888,912)	(108,729)	(1,997,641)
Software	(3,983)	-	(3,983)
Total accumulated depreciation	(4,187,223)	(158,553)	(4,345,776)
Total capital assets, net	\$ 868,267	\$ (92,884)	\$ 775,383

Purchases of books are recorded as expenditures when acquired and are not included in capital assets. Depreciation expense of the governmental activities for the year ended June 30, 2021 was \$158,553 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 of Santa Cruz are required to provide funding to the Santa Cruz County Library 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 Library Joint Powers Authority (Authority) and the City of Watsonville based on a prescribed formula. For fiscal year 2021, the Authority's share of the revenues is \$5,784,276 or 77.9%. 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 (77.9%)	City of Watsonville Library Share (22.1%)
City of Santa Cruz	\$ 1,744,751	\$ (10,997)	\$ 1,733,754	\$ 1,365,378	\$ 368,376
City of Watsonville	541,684	(3,120)	538,564	424,134	114,430
County of Santa Cruz	5,072,541	-	5,072,541	3,994,764	1,077,777
Total	\$ 7,358,976	\$ (14,117)	\$ 7,344,859	\$ 5,784,276	\$ 1,560,583

Note 5 - Due From Other Governments

Due from other governments includes funding for Library operations from the County Library Financing Authority. Amounts due are as follows:

	FY 2021
County of Santa Cruz	\$ 497,128
Total	\$ 497,128

Note 6 - Commitments and Contingencies

Commitments - As of June 30, 2021, the Authority had no outstanding commitments.

Contingencies - In the opinion of the Authority's management, there were no additional outstanding matters that would have a significant effect on the financial position of the operations of the Authority at June 30, 2021.

Note 7 - Retirement Plans

CalPERS Miscellaneous and Safety 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 PERS for the City's general 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 PERS may be found in the City's basic financial statements.

Note 8 - Fund Balance

Fund balance classification. The order of fund balance classification within each fund is determined by the fund's total nonspendable amount and remaining fund balance. All nonspendable funds such as inventories and prepaid expenditures must always be classified first, even if this action creates a deficit unassigned fund balance, and classifying funds under the remaining categories is not allowable if the action creates a deficit unassigned fund balance. Unless prohibited by legal requirements, the following fund balance category order should be used when classifying any remaining funds: *restricted, committed, assigned, and unassigned.*

The Library Joint Powers Authority has been established as the highest authority for fund balance commitments. The approval of fund balance assignments and the classification of fund balance amounts have been delegated to the Director of Libraries.

Santa Cruz Public Libraries Joint Powers Authority

Notes to Financial Statements

June 30, 2021

The Library Joint Powers Authority Board has been established as the highest authority for fund balance commitments. The approval of fund balance assignments and the classification of fund balance amounts have been delegated to the Director of Libraries.

The 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, 2021, the Authority had \$1,982,478 earmarked pursuant to the stabilization agreement.

The emergency contingency can 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 \$7,675,101 unassigned fund balance at the end of June 30, 2021.

Note 9 - Authority’s Financial Condition

At June 30, 2021, the Authority had unrestricted Net Position of \$7,675,101, an increase of \$2,770,496 from the prior year of \$4,904,605 on the Government-Wide Financial Statements. The total fund balance in the amount of \$7,675,101 is unassigned. The following is the two year trend information of financial condition of the Authority:

Government-Wide Financial Statements						
	Total Net Position (Deficit)	Change \$	Unrestricted Net Position	Change \$	Change in Net Position	Change \$
2020	5,772,872	(448,541)	4,904,605	(303,363)	(448,541)	62,923
2021	8,450,484	2,677,612	7,675,101	2,770,496	2,677,612	3,126,153
Fund Financial Statements						
		2020	4,904,605	(303,362)		
		2021	7,675,101	2,770,496		

The Authority’s financial condition over the last fiscal years had improved. For fiscal year 2021 the Authority saw an increase of \$2,677,9612 in total Net Position. For fiscal year 2020, the total Net Position decreased by \$448,541, for a total Net Position of \$5,772,872. For fiscal year 2021 the Authority saw an increase of \$2,770,496 in total fund balance. For fiscal year 2020, total fund balance decreased by \$303,362.



Required Supplementary Information
June 30, 2021

Santa Cruz Public Libraries Joint
Powers Authority

Santa Cruz Public Libraries Joint Powers Authority
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (GAAP Basis)	Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 6,913,172	\$ 8,688,433	\$ 9,176,532	\$ 488,099
Intergovernmental	5,795,273	6,126,303	6,187,032	60,729
Charges for services	-	-	4,640	4,640
Fines and forfeitures	70,250	70,250	11,189	(59,061)
Use of money and property	117,560	117,560	41,143	(76,417)
Other revenues	104,888	590,576	362,703	(227,873)
Total revenues	13,001,143	15,593,122	15,783,239	190,117
EXPENDITURES:				
Current:				
Personnel services	11,667,623	11,094,224	9,029,257	2,064,967
Services, supplies, and other charges	4,654,047	5,766,753	3,917,817	1,848,936
Capital outlay	268,000	236,780	65,669	171,111
Total expenditures	16,589,670	17,097,757	13,012,743	4,085,014
REVENUES OVER (UNDER)				
EXPENDITURES	(3,588,527)	(1,504,635)	2,770,496	4,275,131
OTHER FINANCING SOURCES (USES):				
Transfers in	-	50,000	50,000	-
Transfers out	-	(50,000)	(50,000)	-
Total other financing sources (uses)	-	-	-	-
NET CHANGE IN FUND BALANCE	(3,588,527)	(1,504,635)	2,770,496	4,275,131
BUDGETARY FUND BALANCES:				
Beginning of year	4,904,605	4,904,605	4,904,605	-
End of year	<u>\$ 1,316,078</u>	<u>\$ 3,399,970</u>	<u>\$ 7,675,101</u>	<u>\$ 4,275,131</u>

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
June 30, 2021

Santa Cruz Public Libraries Joint
Powers Authority

Santa Cruz Public Libraries Joint Powers Authority
Balance Sheet by Program
Library Operating Funds*
June 30, 2021

	Library Operating Funds					Total Library Operating Funds
	Library JPA Operating	Technology Reserve	Felton Branch Reserve	JPA Vehicle Replacement	JPA Trusts	
ASSETS						
Cash and cash equivalents	\$ 6,082,043	\$ 5,365	\$ 1,276	\$ 517,778	\$ 18,401	\$ 6,624,863
Interest receivable	2,905	4	1	330	13	3,253
Taxes receivable	790,984	-	-	-	-	790,984
Accounts receivable	25,559	-	-	-	-	25,559
Prepaid expenses	10,203	-	-	-	-	10,203
Due from other governments	497,128	-	-	-	-	497,128
Total assets	\$ 7,408,822	\$ 5,369	\$ 1,277	\$ 518,108	\$ 18,414	\$ 7,951,990
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 276,889	\$ -	\$ -	\$ -	\$ -	\$ 276,889
Total liabilities	276,889	-	-	-	-	276,889
Fund Balances:						
Unassigned	7,131,933	5,369	1,277	518,108	18,414	7,675,101
Total fund balances	7,131,933	5,369	1,277	518,108	18,414	7,675,101
Total liabilities and fund balances	\$ 7,408,822	\$ 5,369	\$ 1,277	\$ 518,108	\$ 18,414	\$ 7,951,990

*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
Schedule of Revenues, Expenditures and Changes in Fund Balances by Program
Library Operating Funds*
June 30, 2021

	Library Operating Funds					Total Library Operating Funds
	Library JPA Operating	Technology Reserve	Felton Branch Reserve	JPA Vehicle Replacement	JPA Trusts	
REVENUES:						
Sales and use tax	\$ 9,176,532	\$ -	\$ -	\$ -	\$ -	\$ 9,176,532
State grants	23,559	-	-	-	-	23,559
Local grants	379,197	-	-	-	-	379,197
Maintenance of effort	5,784,276	-	-	-	-	5,784,276
Room rentals	4,640	-	-	-	-	4,640
Fines and forfeitures	11,189	-	-	-	-	11,189
Investment income	37,654	38	9	3,312	130	41,143
Contributions and donations	295,228	-	-	-	-	295,228
From private trusts	41,475	-	-	-	-	41,475
Other miscellaneous revenues	26,000	-	-	-	-	26,000
Total revenues	15,779,750	38	9	3,312	130	15,783,239
EXPENDITURES:						
Current:						
Personnel services	9,029,257	-	-	-	-	9,029,257
Services, supplies and other charges	3,917,817	-	-	-	-	3,917,817
Capital outlay	65,669	-	-	-	-	65,669
Total expenditures	13,012,743	-	-	-	-	13,012,743
REVENUES OVER (UNDER) EXPENDITURES						
	2,767,007	38	9	3,312	130	2,770,496
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	50,000	-	50,000
Transfers out	(50,000)	-	-	-	-	(50,000)
Total other financing sources (uses)	(50,000)	-	-	50,000	-	-
Net change in fund balances	2,717,007	38	9	53,312	130	2,770,496
FUND BALANCES:						
Beginning of year	4,414,926	5,331	1,268	464,796	18,284	4,904,605
End of year	\$ 7,131,933	\$ 5,369	\$ 1,277	\$ 518,108	\$ 18,414	\$ 7,675,101

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