

Santa Cruz Public Libraries Joint Powers Authority

Santa Cruz, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2008



Santa Cruz Public Libraries Joint Powers Authority
Basic Financial Statements
For the year ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Santa Cruz Public Libraries Joint Powers Authority (Authority) as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statement date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions that, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the Authority has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying basic financial statements.

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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Administrative Board of the Santa Cruz
Public Libraries Joint Powers Authority
Santa Cruz, California
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The accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Capricci & Carson

Irvine, California
January 23, 2009

Management's Discussion and Analysis

Management of the Santa Cruz Public Libraries Joint Powers Authority (Authority) provides this Management Discussion and Analysis 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, 2008.

I. Financial Highlights

- Government-Wide Highlights:**

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$1,749,375 (*net assets*). Of this amount, a balance of \$195,616 is unrestricted and available to meet the Authority's ongoing obligations (*unrestricted net assets*). The remainder of net assets consists of \$1,553,759 net investment in capital assets.

Changes in Net Assets - The Authority's total net assets decreased by \$898,861 in fiscal year 2008.

The Authority's total assets decreased by \$680,643 at fiscal year end. All asset categories experienced decreases during the year; however, the major decreases were in Cash and Cash Equivalents of \$505,654, Taxes Receivable of \$80,908 and Net Capital Assets of \$66,380.

In addition, the Authority's total liabilities increased by \$218,218 during the fiscal year due to an increase in Accounts Payable of \$266,456 that was offset by decreases in Deferred Revenue, Notes Payable and Other Payables of \$48,238.

- Fund Highlights:**

As of the close of the fiscal year, the Authority's general fund reported an ending fund balance of \$406,668 which is a decrease of \$875,317 in comparison with the prior year amount. This was due mainly to an increase in Personnel Costs of \$665,784 and Moving Costs of \$218,048.

The Authority's general fund total assets decreased by \$680,643 and the total liabilities increased by \$218,218 during the fiscal year. Changes in assets consist mainly of a decrease in Cash and Cash Equivalents of \$505,654, a decrease in Taxes Receivable of \$80,908 and a decrease in Net Capital Assets of \$66,380. Changes in liabilities consist mainly of an increase in Accounts Payable of \$266,456 and a decrease in Notes Payable of \$40,293.

II. 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 assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets 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 9-10 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.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, 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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund 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 Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15-24 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents a section containing *required supplementary information* which includes a budgetary comparison schedule for the general fund, to demonstrate compliance with the budget. This section can be found on pages 25-27 of this report.

III. Government-wide Financial Analysis

By far the largest portion of the Authority's net assets reflects its investment in capital assets, primarily machinery, furnishings and equipment. 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 assets.

Santa Cruz Public Libraries Net Assets At June 30, 2008

	2008	2007
Total assets	<u>\$ 2,818,060</u>	<u>\$ 3,498,703</u>
Current liabilities	907,512	649,001
Noncurrent liabilities	161,173	201,466
Total liabilities	<u>1,068,685</u>	<u>850,467</u>
Net assets:		
Invested in capital assets, net	1,553,759	1,620,139
Restricted	-	-
Unrestricted	<u>195,616</u>	<u>1,028,097</u>
Total net assets	<u>\$ 1,749,375</u>	<u>\$ 2,648,236</u>

The \$195,616 in *unrestricted net assets* represents the balance in the amounts normally used to meet the Authority's ongoing obligations.

Governmental Activities. All the activities of the Authority are governmental and it has no business-type activities.

Santa Cruz Public Libraries Changes in Net Assets Fiscal year ended June 30, 2008

General revenues:	2008	2007
Sales Tax	\$ 6,465,955	\$ 6,632,947
Unrestricted Investment Earnings	68,446	81,040
Miscellaneous Revenue	29,950	10,557
Total general revenues	<u>6,564,351</u>	<u>6,724,544</u>
Program revenues	5,673,705	5,473,264
Other financing sources	400	-
Total revenues	<u>12,238,456</u>	<u>12,197,808</u>
Expenses	<u>13,137,317</u>	<u>12,125,730</u>
Changes in net assets	<u>(898,861)</u>	<u>72,078</u>
Net assets - beginning of year	<u>2,648,236</u>	<u>2,576,158</u>
Net assets - end of year	<u>\$ 1,749,375</u>	<u>\$ 2,648,236</u>

The Authority's net assets decreased by \$898,861 during the fiscal year due to increases in expenses outpacing increases in revenues.

IV. Financial Analysis of the Authority's Funds

As noted earlier, the Agency 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. As mentioned above, such information may be useful in assessing the Authority's financing requirements. In particular, *unreserved 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, the Authority's general fund reported an ending fund balance of \$406,668, which is a decrease of \$875,317 in comparison with the prior year amount. This was due to an increase in total expenditures of \$1,087,270, offset by the increase in total revenues of only \$40,248. The fund balance amount represents \$151,994 in reserves and \$254,674 in designations for contingencies, technology upgrades, capital projects and branch upgrades.

The Authority's general fund had no *unreserved, undesignated fund balance* at the end of fiscal year 2008.

V. Budgetary Highlights

The final amended budget is more than the original budget for revenues by \$3,310, due to an increase in intergovernmental revenue. The final amended budget is more than the original budget for expenses by \$864,132, due to increases in personnel services of \$333,786, services, supplies and other charges of \$142,846 and capital outlay of \$387,500.

The final actual revenues are greater than the final amended budget by \$100,721 making the final actual greater than the original budget for revenues by \$104,031. The final actual expenses are less than the final amended budget by \$619,586, making the final actual greater than the original budget for expenses by \$244,546.

The actual fund balance is better than the final amended budget by \$697,352.

VI. Capital Asset and Debt Administration

Capital Assets. As of June 30, 2008, the Authority's investment in capital assets was \$1,553,759 (net of accumulated depreciation), which is \$66,380 lower than the prior year due to additional depreciation and retirement of assets.

Long-term Debt. At the end of the current fiscal year, the Authority had total long-term debt outstanding of \$201,466, which consisted of note obligations due in more than one year. The Authority's long-term debt decreased by \$40,293 during the fiscal year due to scheduled annual repayment of existing debt. The Authority did not issue any new debt during the year. Additional information on the Authority's long-term debt can be found in Note 4 of this report.

VII. Economic Factors and Next Year's Budgets

Of the Authority's fiscal year 2008 revenues, 53% comes from a dedicated quarter cent sales tax approved by the voters in 1996. This tax was originally intended to sunset in 2012, but the voters approved making this quarter cent sales tax permanent in 2008. The balance of the Authority's revenue comes from local contributions, property tax collected in the County unincorporated areas designated for libraries, bequest income, and fees and fines. Sales tax revenues are driven by the general health of the local economy. Growth has been slow in recent years. Property tax collections, on the other hand, had been strong in the recent past, although budget transfers from the State have had a negative impact on the library budget. However, due to the current state of the national and local economy, both of these revenues should not have any significant growth in the near future. The Library Joint Powers Authority Board, anticipating major capital expenditures for buildings as well as the continued decline in the economy, is engaged in a financial planning process in which it hopes to set priorities for future library growth and spending.

VIII. Requests for Information

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

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Santa Cruz Public Libraries
Statement of Net Assets
June 30, 2008

	Primary Government
	Governmental
	Activities

ASSETS

Current assets:

Cash and cash equivalents	\$ 160,228
Interest receivable	10,167
Taxes receivable	559,660
Accounts receivable	22,573
Due from other governments	<u>511,673</u>
Total current assets	<u>1,264,301</u>

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>1,553,759</u>
Total assets	<u>2,818,060</u>

LIABILITIES

Current liabilities:

Accounts payable and other current liabilities	780,697
Interest payable	9,586
Deferred revenue	76,053
Deposits payable	883
Leases payable - current portion	-
Notes payable - current portion	<u>40,293</u>
Total current liabilities	<u>907,512</u>

Noncurrent liabilities:

Leases payable - due in more than one year	-
Notes payable - due in more than one year	<u>161,173</u>
Total noncurrent liabilities	<u>161,173</u>
Total liabilities	<u>1,068,685</u>

NET ASSETS

Invested in capital assets, net of related debt	1,553,759
Unrestricted	<u>195,616</u>
Total net assets	<u>\$ 1,749,375</u>

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Total	Governmental Activities
Primary government:					
Library services	\$ 13,127,731	\$ 249,197	\$ 5,424,508	\$ 5,673,705	\$ (7,454,026)
Interest on long-term debt (unallocated)	9,586	-	-	-	(9,586)
Total primary government	\$ 13,137,317	\$ 249,197	\$ 5,424,508	\$ 5,673,705	(7,463,612)
General Revenues and Transfers:					
Taxes:					
Sales taxes					6,465,955
Total taxes					6,465,955
Unrestricted investment earnings					68,446
Miscellaneous					29,950
Other Financing Sources (Uses):					
Sale of equipment					400
Total general revenues and other financing sources					6,564,751
Change in net assets					(898,861)
Net assets - beginning of year					2,648,236
Net assets - end of year					\$ 1,749,375

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries

Balance Sheet

Governmental Fund

June 30, 2008

	Major Fund	
	General	
ASSETS		
Cash and cash equivalents	\$ 160,228	
Interest receivable	10,167	
Taxes receivable	559,660	
Accounts receivable	22,573	
Due from other governments	511,673	
Total assets	\$ 1,264,301	
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and other current liabilities	\$ 780,697	
Deferred revenue	76,053	
Deposits payable	883	
Total liabilities	857,633	
Fund Balances:		
Reserved	151,994	
Unreserved:		
Designated:		
Branch upgrades	156,496	
Contingencies	9,537	
Technology upgrades	4,591	
Capital projects	9,477	
Felton Branch	74,573	
Total fund balance	406,668	
Total liabilities and fund balance	\$ 1,264,301	

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2008

Total Fund Balance - Total Governmental Fund	\$ 406,668
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Amounts reported for governmental activities in the Statement of Net Assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the governmental funds.

Infrastructure	247,720
Buildings	1,758,907
Lease Improvements	259,124
Machinery and equipment	1,609,319
Software	61,760
Construction in progress	58,713
Less accumulated depreciation	<u>(2,441,784)</u>
Total capital assets	<u>1,553,759</u>

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in governmental funds.

(9,586)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds.

Notes payable - current portion	(40,293)
Notes Payable - due in more than one year	<u>(161,173)</u>
Total long-term liabilities	<u>(201,466)</u>

Net Assets of Governmental Activities	\$ 1,749,375
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Santa Cruz Public Libraries

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

For the year ended June 30, 2008

	Major Fund
	General
REVENUES:	
Taxes	\$ 6,465,955
Intergovernmental	5,383,153
Charges for services	8,916
Fines and forfeitures	240,281
Use of money and property	68,446
Other revenues	71,305
Total revenues	12,238,056
EXPENDITURES:	
Current:	
Personnel services	8,958,479
Services, supplies, and other charges	3,953,917
Debt service:	
Principal	40,293
Interest	12,129
Capital outlay	148,955
Total expenditures	13,113,773
REVENUES OVER (UNDER) EXPENDITURES	(875,717)
OTHER FINANCING SOURCES (USES):	
Sale of equipment	400
Total other financing sources (uses)	400
Net change in fund balance	(875,317)
FUND BALANCE:	
Beginning of year	1,281,985
End of year	\$ 406,668

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ (875,317)
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Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

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

Capital outlay	148,955
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure.

	(215,335)
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Repayment of principal debt was an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Note principal payments	40,293
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Interest payable on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, it was not reported as an expenditure in the governmental funds.

Prior year interest payable	12,129
Current year interest payable	(9,586)
	2,543

Change in Net Assets of Governmental Activities	\$ (898,861)
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NOTES TO BASIC FINANCIAL STATEMENTS

Santa Cruz Public Libraries Joint Powers Authority

Notes to Basic Financial Statements

For the year ended June 30, 2008

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.

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. All library employees are employees of the City and have the same benefits and retirement programs as all other City employees.

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which 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

The Authority's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Authority.

The basic 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 related infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Certain types of transactions are reported as program revenues for the Authority in two categories:

- Charges for services (including fines and forfeitures)
- Operating 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 Balance for all governmental funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Authority presented one major governmental fund.

The governmental fund is accounted for on a spending or "*current financial resources*" measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financial sources) and decreases (expenditures and other financial uses) in fund balance.

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on general long-term obligations, which is recorded when due, are recorded when they are expected to be liquidated with expendable available resources.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also 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, the deferred revenue is removed from the balance sheet and revenue is recognized.

Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Cash Equivalents

The Authority's cash is pooled with that of the City.

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The cash balance in the pooled accounts is available to meet current operating requirements of the Authority. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The Authority's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the Authority are those of the City and are included in the City's basic financial statements.

The investments made by the City are limited to those allowable under State Statutes and include the following types of investments:

Certificates of Deposit	Government Agency Securities
Bankers Acceptances	Treasury Bill and Notes
Medium term Notes	Passbook savings accounts
Repurchase Agreements	State of California Local Agency Investment Fund (LAIF)

The City investments with LAIF at June 30, 2008, included a small portion of the pooled funds invested in derivatives and similar transactions. These investments may include the following:

Structured Notes – Debt securities (other than Asset-Backed Securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and/or that have been imbedded forwards or options.

Asset-Backed Securities – Generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2008, the City had pooled cash and investments in LAIF, which had invested 9.399% of the pooled investment funds in derivatives and similar transactions.

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 as follows, depending on the asset type:

Infrastructure	\$ 25,000
Buildings and lease improvements	10,000
Machinery and equipment	5,000
Software (if qualified)	5,000

Santa Cruz Public Libraries Joint Powers Authority

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets, Continued

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized in accordance with generally accepted accounting principles. 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 estimated useful lives of the assets as follows:

Infrastructure	5-100 Years
Buildings and lease improvements	15-50 Years
Machinery and equipment	5-20 Years
Software	5 Years

Fund Financial Statements

The fund financial statements do not present general government capital assets. 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 Assets.

F. Interest Payable

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred. Interest payable is not presented on the fund financial statements because the fund financial statements do not present liabilities related to long-term debt.

G. Long-Term Debt

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

Fund Financial Statements – The fund financial statements do not present long-term debt. 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 Assets.

H. Net Assets

In the Government-Wide Financial Statements, net assets may be classified in the following categories:

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

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Assets, Continued

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

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

I. Fund Balances

In the Fund Financial Statements, the General Fund reports reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

2. CASH AND INVESTMENTS

The Authority had the following cash and investments at June 30, 2008:

Cash and Investments	\$	<u>160,228</u>
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The Authority's funds are pooled with the City's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, related to authorized investments, interest rate risk, credit rate risk, custodial credit risk, and concentration risk is available in the basic financial statements of the City.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

3. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2008 the Authority's capital assets consisted of the following:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Non-depreciable assets:				
Construction In Progress	\$ 58,713	\$ -	\$ -	\$ 58,713
Total non-depreciable assets	<u>58,713</u>	<u>-</u>	<u>-</u>	<u>58,713</u>
Depreciable assets:				
Infrastructure	247,720	-	-	247,720
Buildings	1,758,907	-	-	1,758,907
Lease improvements	214,124	45,000	-	259,124
Machinery and equipment	1,517,616	103,955	(12,252)	1,609,319
Software	61,760	-	-	61,760
Total depreciable assets, at cost	<u>3,800,127</u>	<u>148,955</u>	<u>(12,252)</u>	<u>3,936,830</u>
Total capital assets	<u>3,858,840</u>	<u>148,955</u>	<u>(12,252)</u>	<u>3,995,543</u>
Less accumulated depreciation:				
Infrastructure	(133,013)	(15,456)	-	(148,469)
Buildings	(585,274)	(90,448)	-	(675,722)
Lease improvements	(131,505)	(16,373)	-	(147,878)
Machinery and equipment	(1,327,149)	(93,058)	12,252	(1,407,955)
Software	(61,760)	-	-	(61,760)
Total accumulated depreciation	<u>(2,238,701)</u>	<u>(215,335)</u>	<u>12,252</u>	<u>(2,441,784)</u>
Total capital assets, net	\$ 1,620,139	\$ (66,380)	\$ -	\$ 1,553,759

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, 2008 was \$215,335.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

4. LONG-TERM DEBT

A summary of long-term debt transactions for the year ended June 30, 2008, is as follows:

Description	Balance			Balance June 30, 2008	Classification	
	July 1, 2007	Additions	Deletions		Due within one year	Due in more than one year
2004 Library Debt to County	\$ 241,759	\$ -	\$ (40,293)	\$ 201,466	\$ 40,293	\$ 161,173
Total	\$ 241,759	\$ -	\$ (40,293)	\$ 201,466	\$ 40,293	\$ 161,173

2004 Library Debt to County

On April 26, 2004, the Authority entered into an agreement with the County to repay an overpayment received due to a distribution error from the County. Payments began in August of 2005 and consist of fixed annual principal payments of \$40,293 plus interest. The interest rate is based upon the LAIF interest rate used by both parties and varies year to year. The interest portion listed below is estimated based on the LAIF rate used for 2008. The principal balance outstanding at June 30, 2008 was \$201,466.

The annual installment payments on this agreement at June 30, 2008, are as follows:

Year Ending June 30,	Principal			Total
	2009	2010	2011	
2009	\$ 40,293	\$ 40,293	\$ 40,293	\$ 49,879
2010		40,293		47,962
2011			5,751	46,044
2012		40,293		44,127
2013		40,294		42,211
Total	\$ 201,466	\$ 28,757		\$ 230,223

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

5. RELATED PARTY TRANSACTIONS

The cities of Santa Cruz and Watsonville and the County are required to provide funding to the Authority in accordance with a maintenance of effort agreement. The contributions for fiscal year 2008 by these agencies were as follows:

	Total Contributions	Authority's Share (77.40%)
City of Santa Cruz	\$ 1,394,751	\$ 1,079,537
City of Watsonville	541,684	419,263
County of Santa Cruz	4,778,394	3,698,477
Total	\$ 6,714,829	\$ 5,197,277

6. DUE FROM OTHER GOVERNMENTS

Due from other governments represents reimbursements of expenditures incurred for library operations as follows:

	2008
County of Santa Cruz	\$ 496,038
State of California - Read-to-me Grant	12,530
State of California - Family Place Grant	3,105
	<u>\$ 511,673</u>

7. COMMITMENTS AND CONTINGENCIES

A. Commitments

The following is a list of commitments at June 30, 2008:

1. The Authority has committed \$64,962 for purchases of equipment and services related to its automation system upgrade project.
2. The Authority has committed \$15,031 for architectural services related to the design of the Felton Branch replacement project.
3. The Authority has committed \$19,000 for materials and services related to the bi-lingual signage project at the Live Oak Branch.
4. The Authority has committed \$22,920 for information technology consulting services.
5. The Authority has also committed \$30,081 for miscellaneous supplies and services related to its ongoing operations.

As of June 30, 2008, in the opinion of 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2008

8. RETIREMENT PLANS

Pension Plan

Authority's employees are covered under the City's participation in the State of California's Public Employees Retirement System (PERS).

The City contributes to PERS, an agent multiple-employer public employee retirement systems, that acts as a common investment and administrative agency for participating public entities within the State of California.

The benefit provisions and all other requirements are established by State statute and City ordinance.

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.

9. SUBSEQUENT EVENTS

The Authority executed a loan agreement with the City in September of 2008 for \$467,303 related to the costs of tenant improvements at the Union Locust building. The loan will be repaid over ten years, with an annual interest rate of 5%. The annual debt service payment on this loan is \$60,518.

REQUIRED SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries
Required Supplementary Information
For the year ended June 30, 2007

1. BUDGETARY BASIS OF ACCOUNTING

An annual budget is adopted by the Board of 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 Board. Several supplemental appropriations were necessary during the year and are reflected in the budget amounts in the financial statements. 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.

In the Budgetary Comparison Schedules, the "Original Budget" column includes the final adopted budget amounts, along with the re-appropriations for encumbrances and continuing appropriations for project-length budgets automatically carried over from prior years.

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

Santa Cruz Public Libraries
Required Supplementary Information
For the year ended June 30, 2008

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget
	Original	Final		
			Positive (Negative)	
REVENUES:				
Taxes	\$ 6,473,764	\$ 6,473,764	\$ 6,465,955	\$ (7,809)
Intergovernmental	5,328,301	5,331,611	5,383,153	51,542
Charges for services	26,000	26,000	8,916	(17,084)
Fines and forfeitures	248,000	248,000	240,281	(7,719)
Use of money and property	30,960	30,960	68,446	37,486
Other revenues	27,000	27,000	71,305	44,305
Total revenues	12,134,025	12,137,335	12,238,056	100,721
EXPENDITURES:				
Current:				
Personnel services	8,753,470	9,087,256	8,958,479	128,777
Services, supplies, and other charges	3,937,429	4,080,275	3,953,917	126,358
Debt service:				
Principal	40,293	40,293	40,293	-
Interest	12,129	12,129	12,129	-
Capital outlay	125,906	513,406	148,955	364,451
Total expenditures	12,869,227	13,733,359	13,113,773	619,586
REVENUES OVER (UNDER) EXPENDITURES	(735,202)	(1,596,024)	(875,717)	720,307
OTHER FINANCING SOURCES (USES):				
Sale of equipment	-	-	400	400
Transfers in	-	454,355	431,000	(23,355)
Transfers out	-	(431,000)	(431,000)	-
Total other financing sources (uses)	-	23,355	400	(22,955)
NET CHANGE IN FUND BALANCE	(735,202)	(1,572,669)	(875,317)	697,352
BUDGETARY FUND BALANCES:				
Beginning of year	1,281,985	1,281,985	1,281,985	-
End of year	\$ 546,783	\$ (290,684)	\$ 406,668	\$ 697,352

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SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries

Combining Balance Sheet

Library Operating Funds*

June 30, 2008

	Library Operating Funds					Total Library Operating Funds
	Library JPA Operating	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	
ASSETS						
Cash and cash equivalents	\$ 65,274	\$ 8,189	\$ 4,549	\$ 8,291	\$ 73,925	\$ 160,228
Interest receivable	6,943	1,348	42	1,186	648	10,167
Taxes receivable	559,660	-	-	-	-	559,660
Accounts receivable	22,573	-	-	-	-	22,573
Due from other governments	511,673	-	-	-	-	511,673
Total assets	\$ 1,166,123	\$ 9,537	\$ 4,591	\$ 9,477	\$ 74,573	\$ 1,264,301
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 780,697	\$ -	\$ -	\$ -	\$ -	\$ 780,697
Deferred revenue	76,053	-	-	-	-	76,053
Deposits payable	883	-	-	-	-	883
Total liabilities	857,633	-	-	-	-	857,633
Fund Balances:						
Reserved	151,994	-	-	-	-	151,994
Unreserved:						
Designated:						
Branch upgrades	156,496	-	-	-	-	156,496
Contingencies	-	9,537	-	-	-	9,537
Technology upgrades	-	-	4,591	-	-	4,591
Capital projects	-	-	-	9,477	-	9,477
Felton Branch	-	-	-	-	74,573	74,573
Total fund balances	308,490	9,537	4,591	9,477	74,573	406,668
Total liabilities and fund balances	\$ 1,166,123	\$ 9,537	\$ 4,591	\$ 9,477	\$ 74,573	\$ 1,264,301

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

Santa Cruz Public Libraries

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Library Operating Funds*

For the year ended June 30, 2008

	Library Operating Funds					Total Library Operating Funds
	Library JPA Operating	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	
REVENUES:						
Sales and use tax	\$ 6,465,955	\$ -	\$ -	\$ -	\$ -	6,465,955
Federal grants	36,754	-	-	-	-	36,754
State grants	150,669	-	-	-	-	150,669
Maintenance of effort	5,195,730	-	-	-	-	5,195,730
Room rentals	5,465	-	-	-	-	5,465
Interlibrary loan charges	3,451	-	-	-	-	3,451
Fines and forfeitures	240,281	-	-	-	-	240,281
Investment income	49,545	7,020	321	9,564	1,996	68,446
Contributions and donations	18,000	-	-	-	-	18,000
From private trusts	23,355	-	-	-	-	23,355
Other miscellaneous revenues	29,950	-	-	-	-	29,950
Total revenues	12,219,155	7,020	321	9,564	1,996	12,238,056
EXPENDITURES:						
Current:						
Personnel services	8,958,479	-	-	-	-	8,958,479
Services, supplies, and other charges	3,953,917	-	-	-	-	3,953,917
Debt service:						
Principal	40,293	-	-	-	-	40,293
Interest	12,129	-	-	-	-	12,129
Capital outlay	148,955	-	-	-	-	148,955
Total expenditures	13,113,773	-	-	-	-	13,113,773
REVENUES OVER (UNDER)						
EXPENDITURES	(894,618)	7,020	321	9,564	1,996	(875,717)
OTHER FINANCING SOURCES (USES):						
Sale of equipment	400	-	-	-	-	400
Transfers in	381,000	-	-	-	50,000	431,000
Transfers out	(50,000)	(142,000)	-	(239,000)	-	(431,000)
Total other financing sources (uses)	331,400	(142,000)	-	(239,000)	50,000	400
Net change in fund balances	(563,218)	(134,980)	321	(229,436)	51,996	(875,317)
FUND BALANCES:						
Beginning of year	871,708	144,517	4,270	238,913	22,577	1,281,985
End of year	\$ 308,490	\$ 9,537	\$ 4,591	\$ 9,477	\$ 74,573	406,668

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

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the Santa Cruz Public Libraries Joint Powers Authority (Authority), as of and for the year ended June 30, 2008, and have issued our report thereon dated January 23, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Authority are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's basic financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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To the Administrative Board of the Santa Cruz
Public Libraries Joint Powers Authority
Santa Cruz, California
Page 2

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record and its distribution is not limited.

Capricio & Carson

Irvine, California
January 23, 2009