

Santa Cruz Public Libraries Joint Powers Authority

Santa Cruz, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2009

C&L
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Certified Public Accountants

Santa Cruz Public Libraries Joint Powers Authority
Basic Financial Statements
For the year ended June 30, 2009

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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, 2009, 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 financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including cities, counties, districts and agencies. These actions by the State include:

- 8% of Property Taxes borrowed -- to be repaid in 3 years

These actions are significant to the various providers of funding for the Authority. As a result, these actions may affect the Authority's ongoing operations. Certain lawsuits are in process to stop such State actions. State legislation is also in the process to aid local governments to be able to borrow from a Joint Powers Authority the 8% of property taxes borrowed by the State. For more detailed information, see Note 11 in the Notes to the 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

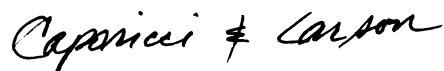
To the Administrative Board of the Santa Cruz
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests 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.

As discussed in Note 12 to the basic financial statements, the Authority continues to suffer significant reductions in net assets from operations, which raises uncertainties regarding future operations. Management's plans regarding those matters are described in Note 12. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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.



Irvine, California
December 18, 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, 2009.

I. Financial Highlights

- **Government-Wide Highlights:**

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$812,584 (*net assets*). A component of this balance represents \$1,713,862 of net investment in capital assets; however, the remainder of net assets consists of unrestricted net assets of negative (\$901,278) that primarily resulted from a sales tax decline. Unrestricted net assets represent the amount normally used to meet the Authority's ongoing obligations.

Changes in Net Assets - The Authority's total net assets decreased by \$936,791 in fiscal year 2009, which was primarily caused by a decline in sales tax revenue.

The Authority's total assets decreased by \$180,227 at fiscal year end. Most asset categories experienced decreases during the year; however, the major decreases were in Cash and Cash Equivalents of \$126,556, Taxes Receivable of \$113,280 and Due From Other Governments of \$101,702. These decreases were offset by increases in Net Capital Assets of \$160,103.

In addition, the Authority's total liabilities increased by \$756,564 during the fiscal year due primarily to increases in Due to City of Santa Cruz of \$667,431 and Loans Payable of \$430,150 to the City as well. These increases were offset by decreases in Accounts Payable of \$262,132, Deferred Revenue of \$53,736 and Notes Payable of \$40,293.

- **Fund Highlights:**

As of the close of the fiscal year, the Authority's general fund reported an ending negative fund balance of (\$285,498) which is a decrease of \$692,166 in comparison with the prior year amount. Even though this decrease in fund balance was smaller than the prior year decline of \$875,317, it still showed that the Authority's spending significantly exceeded its revenue sources. The negative fund balance at the end of this fiscal year meant that the Authority did not have sufficient resources to meet its near-term obligations.

The Authority's general fund total assets decreased by \$340,330 and the total liabilities increased by \$351,836 during the fiscal year. Changes in assets consist mainly of decreases in Cash and Cash Equivalents of \$126,556, Taxes Receivable of \$113,280 and Due From Other Governments of \$101,702. Changes in liabilities consist mainly of an increase in Due to City of Santa Cruz of \$667,431 and decreases in Accounts Payable of \$262,132 and Deferred Revenue of \$53,736.

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. The fund financial statements can be found on pages 11 and 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. 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 15-26 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 27-29 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, 2009

	2009	2008
Total assets	\$ 2,637,833	\$ 2,818,060
Current liabilities	1,313,229	907,512
Noncurrent liabilities	512,020	161,173
Total liabilities	1,825,249	1,068,685
Net assets:		
Invested in capital assets, net	1,713,862	1,553,759
Unrestricted	(901,278)	195,616
Total net assets	\$ 812,584	\$ 1,749,375

The figure in *unrestricted net assets* represents the balance in the amounts normally used to meet the Authority's ongoing obligations. At June 30, 2009, the Authority actually had a negative balance of (\$901,278) in unrestricted net assets.

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, 2009

	2009	2008
General revenues:		
Sales Tax	\$ 5,732,239	\$ 6,465,955
Unrestricted Investment Earnings	4,918	68,446
Miscellaneous Revenue	29,550	29,950
Total general revenues	5,766,707	6,564,351
Program revenues	5,982,546	5,673,705
Other financing sources	-	400
Total revenues	11,749,253	12,238,456
Expenditures	12,686,044	13,137,317
Changes in net assets	(936,791)	(898,861)
Net assets - beginning of year	1,749,375	2,648,236
Net assets - end of year	\$ 812,584	\$ 1,749,375

The Authority's net assets decreased by \$936,791 during the fiscal year due to expenses outpacing 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 negative (\$285,498), which is a decrease of \$692,166 in comparison with the prior year amount. Even though the Authority did decrease its total expenditures in fiscal year 2009, the Authority also experienced decreased total revenues as well.

V. Budgetary Highlights

The final amended budget is more than the original budget for revenues and other financing sources by \$599,103, due to increases in Other Revenues of \$69,500, Transfers of \$70,300, and Debt Proceeds of \$467,303, coupled with a decrease in Use of Money and Property of \$8,000. The final amended budget is less than the original budget for expenditures and other financing uses by \$283,970, due mainly to a decrease in Personnel Services of \$932,355, coupled with increases in Services, Supplies and Other Charges of \$240,779, Transfers of \$65,700 and Capital Outlay of \$336,706.

The actual revenues and other financing sources were less than the final amended budget by \$656,818. The actual expenditures and other financing uses were less than the final amended budget by \$16,323.

VI. Capital Asset and Debt Administration

Capital Assets. As of June 30, 2009, the Authority's investment in capital assets was \$1,713,862 (net of accumulated depreciation), which is \$160,103 higher than the prior year due to remodeling of the Aptos branch parking lot and new signage at the Live Oak branch, but these increases were offset by additional depreciation.

Long-term Debt. At the end of the current fiscal year, the Authority had total long-term debt outstanding of \$591,323, which consisted of outstanding note obligations of \$161,173 and outstanding loan obligations of \$430,150. The Authority's long-term debt decreased by \$77,446 during the fiscal year due to scheduled annual repayment of outstanding debt. The Authority had one new debt issue during the year which was a \$467,303 loan from the City of Santa Cruz for the tenant improvements at the Union Locust building. Additional information on the Authority's long-term debt can be found in Note 4 of this report.

Short-term Debt. As of June 30, 2009, the Authority had a negative cash balance of \$667,431 in its main operating fund. The City of Santa Cruz made a short-term cash loan of \$667,431 to the Authority to offset this negative balance. This loan was repaid in July of 2009.

VII. Economic Factors and Next Year's Budgets

Of the Authority's fiscal year 2009 revenues (excluding debt proceeds), 49% came 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. Sales tax revenue declined during fiscal year 2008/09 and is expected to decline further in fiscal year 2009/10. Property tax collections, on the other hand, had been strong in the past, although budget transfers from the State have also had a negative impact on the library budget. However, due to the current state of the national and local economy, revenues have declined in the current fiscal year. In response to such declining revenues, the Authority has implemented plans to reduce its expenses, including employee layoffs, work furloughs and reductions in branch hours. The Library Joint Powers Authority Board, anticipating 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, 2009

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 33,672
Interest receivable	235
Taxes receivable	446,380
Accounts receivable	4,769
Prepaid expenses	28,944
Due from other governments	409,971
Total current assets	<u>923,971</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,713,862</u>
Total assets	<u><u>2,637,833</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and other current liabilities	518,565
Due to City of Santa Cruz	667,431
Interest payable	24,457
Deferred revenue	22,317
Deposits payable	1,156
Loans payable - current portion	39,010
Notes payable - current portion	40,293
Total current liabilities	<u>1,313,229</u>
Noncurrent liabilities:	
Loans payable - due in more than one year	391,140
Notes payable - due in more than one year	120,880
Total noncurrent liabilities	<u>512,020</u>
Total liabilities	<u><u>1,825,249</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	1,713,862
Unrestricted	(901,278)
Total net assets	<u><u>\$ 812,584</u></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, 2009

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total		
Primary government:						
Library services	\$ 12,638,222	\$ 278,357	\$ 5,704,189	\$ 5,982,546	\$	(6,655,676)
Interest on long-term debt (unallocated)	47,822	-	-	-		(47,822)
Total primary government	\$ 12,686,044	\$ 278,357	\$ 5,704,189	\$ 5,982,546		(6,703,498)
General Revenues:						
						5,732,239
						4,918
						29,550
						5,766,707
						(936,791)
						1,749,375
						\$ 812,584

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries
Balance Sheet
Governmental Fund
June 30, 2009

	<u>Major Fund</u> <u>General</u>
ASSETS	
Cash and cash equivalents	\$ 33,672
Interest receivable	235
Taxes receivable	446,380
Accounts receivable	4,769
Prepaid expenses	28,944
Due from other governments	409,971
Total assets	\$ 923,971
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and other current liabilities	\$ 518,565
Due to City of Santa Cruz	667,431
Deferred revenue	22,317
Deposits payable	1,156
Total liabilities	1,209,469
Fund Balance:	
Unreserved:	
Undesignated	(285,498)
Total fund balance	(285,498)
Total liabilities and fund balance	\$ 923,971

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, 2009

Total Fund Balance - Total Governmental Fund \$ (285,498)

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. The capital assets were adjusted as follows:

Infrastructure		579,683
Buildings		1,758,907
Lease Improvements		259,124
Machinery and equipment		1,628,319
Software		61,760
Construction in progress		52,613
Less accumulated depreciation		<u>(2,626,544)</u>
Total capital assets		<u>1,713,862</u>

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds. (24,457)

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

	Current Portion	Long-Term Portion	
Loans payable	\$ (39,010)	\$ (391,140)	(430,150)
Notes Payable	<u>(40,293)</u>	<u>(120,880)</u>	<u>(161,173)</u>
Total long-term liabilities	<u>\$ (79,303)</u>	<u>\$ (512,020)</u>	<u>(591,323)</u>

Net Assets of Governmental Activities \$ 812,584

Santa Cruz Public Libraries
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the year ended June 30, 2009

	<u>Major Fund</u> <u>General</u>
REVENUES:	
Taxes	\$ 5,732,239
Intergovernmental	5,609,609
Charges for services	13,624
Fines and forfeitures	264,733
Use of money and property	4,918
Other revenues	<u>124,130</u>
Total revenues	<u>11,749,253</u>
EXPENDITURES:	
Current:	
Personnel services	8,744,078
Services, supplies, and other charges	3,709,384
Debt service:	
Principal	77,446
Interest	32,951
Capital outlay	<u>344,863</u>
Total expenditures	<u>12,908,722</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,159,469)</u>
OTHER FINANCING SOURCES (USES):	
Debt proceeds	<u>467,303</u>
Total other financing sources (uses)	<u>467,303</u>
Net change in fund balance	(692,166)
FUND BALANCE:	
Beginning of year	<u>406,668</u>
End of year	<u>\$ (285,498)</u>

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, 2009

Net Change in Fund Balance - Total Governmental Funds \$ (692,166)

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 their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.

Capital outlay 344,863

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.

(184,760)

Proceeds from issuance of debt was recorded as a revenue in the governmental funds, but such proceeds increased long-term liabilities in the Government-Wide Statement of Net Assets.

(467,303)

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.

Principal payments 77,446

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 fund.

Prior year interest payable \$ 9,586

Current year interest payable 24,457

Change between previous and current year (14,871)

Change in Net Assets of Governmental Activities \$ (936,791)

NOTES TO BASIC FINANCIAL STATEMENTS

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements
For the year ended June 30, 2009

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 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.

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds. Each fund is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority uses only one fund, 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, 2009

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. 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, 2009

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 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 City's investments with LAIF at June 30, 2009, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that 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, 2009, the City had pooled cash and investment in LAIF, which had invested 14.71% of the pool investment funds in structured notes and asset-backed securities as compared to 14.72% in the prior year. As of June 30, 2009 the LAIF fair value factor of 1.001304743 was used to calculate the fair values of the investments in LAIF.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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 capital assets. Consequently, capital assets are presented as 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 in 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, 2009:

Cash and Investments	<u>\$ 33,672</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, 2009

3. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2009 the Authority's capital assets consisted of the following:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Non-depreciable assets:				
Construction In Progress	\$ 58,713	\$ -	\$ (6,100)	\$ 52,613
Total non-depreciable assets	58,713	-	(6,100)	52,613
Depreciable assets:				
Infrastructure	247,720	331,963	-	579,683
Buildings	1,758,907	-	-	1,758,907
Lease improvements	259,124	-	-	259,124
Machinery and equipment	1,609,319	19,000	-	1,628,319
Software	61,760	-	-	61,760
Total depreciable assets, at cost	3,936,830	350,963	-	4,287,793
Total capital assets	3,995,543	350,963	(6,100)	4,340,406
Less accumulated depreciation:				
Infrastructure	(148,469)	(16,379)	-	(164,848)
Buildings	(675,722)	(89,322)	-	(765,044)
Lease improvements	(147,878)	(15,171)	-	(163,049)
Machinery and equipment	(1,407,955)	(63,888)	-	(1,471,843)
Software	(61,760)	-	-	(61,760)
Total accumulated depreciation	(2,441,784)	(184,760)	-	(2,626,544)
Total capital assets, net	\$ 1,553,759	\$ 166,203	\$ (6,100)	\$ 1,713,862

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, 2009 was \$184,760.

B. 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. LONG-TERM DEBT

A summary of long-term debt transactions for the year ended June 30, 2009, is as follows:

Description	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Classification	
					Due within one year	Due in more than one year
City of Santa Cruz Loan	\$ -	\$ 467,303	\$ (37,153)	\$ 430,150	\$ 39,010	\$ 391,140
2004 Library Debt to County	201,466	-	(40,293)	161,173	40,293	120,880
Total	\$ 201,466	\$ 467,303	\$ (77,446)	\$ 591,323	\$ 79,303	\$ 512,020

City of Santa Cruz Loan

In September of 2008, the Authority executed a loan agreement with the City for \$467,303 related to the costs of the Authority's 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 fixed at \$60,518 and payments began in January of 2009. The principal balance outstanding at June 30, 2009 was \$430,150.

The annual installment payments remaining on this loan at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ 39,010	\$ 21,508	\$ 60,518
2011	40,961	19,557	60,518
2012	43,009	17,509	60,518
2013	45,159	15,359	60,518
2014	47,417	13,101	60,518
2015-2018	214,594	27,478	242,072
Total	\$ 430,150	\$ 114,512	\$ 544,662

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 2009. The principal balance outstanding at June 30, 2009 was \$161,173.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. LONG-TERM DEBT, Continued

The annual installment payments remaining on this agreement at June 30, 2009, are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 40,293	\$ 3,933	\$ 44,226
2011	40,293	2,949	43,242
2012	40,293	1,966	42,259
2013	40,294	983	41,277
Total	<u>\$ 161,173</u>	<u>\$ 9,831</u>	<u>\$ 171,004</u>

5. RELATED PARTY TRANSACTIONS

The cities of Santa Cruz and Watsonville and the County are required to provide funding to the Santa Cruz County Library Financing Authority 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 2009, the Authority's share of the revenues is 77.41%; therefore, the Authority's share of the member contributions is as follows:

	Authority's Share (77.41%)
City of Santa Cruz	\$ 1,079,677
City of Watsonville	419,318
County of Santa Cruz	4,022,587
Total	<u>\$ 5,521,582</u>

6. DUE FROM OTHER GOVERNMENTS

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

	2009
County of Santa Cruz	\$ 405,136
State of California - First 5 Grant	4,835
Total	<u>\$ 409,971</u>

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. DUE TO CITY OF SANTA CRUZ

Due to City of Santa Cruz represents a cash loan at fiscal year end to cover the Authority's negative cash balance in its main operating fund as follows:

	2009
City of Santa Cruz	\$ 667,431
Total	\$ 667,431

8. COMMITMENTS AND CONTINGENCIES

A. Commitments

As of June 30, 2009, the Authority has committed \$21,160 for architectural services related to the design of the Felton Branch replacement project.

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 at June 30, 2009.

9. 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 system, 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. OTHER REQUIRED FUND DISCLOSURES

A. Deficit in Unrestricted Net Assets

At June 30, 2009, the Governmental Activities had a deficit in unrestricted net assets:

Governmental Activities	<u>\$ (901,278)</u>
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The deficit in the Governmental Activities was mainly the result of the new debts that the Authority incurred during fiscal year 2009. There was one short-term loan of \$667,431 from the City to cover the Authority's negative cash balance at year end due to excess spending. There was also one long-term note of \$467,303 from the City used by the Authority for improvements at its new headquarters building.

B. Deficit Fund Balance

At June 30, 2009, the General Fund had a deficit in fund balance:

General Fund	<u>\$ (285,498)</u>
--------------	---------------------

The deficit in the General Fund was the result of decreased sales tax and interest income revenues combined with increased capital outlay expenditures.

11. SUBSEQUENT EVENT

Subsequent to June 30, 2009, the State of California has decided to borrow, to defer certain revenue payments and to take certain funds from local governments, including the Santa Cruz County Library Financing Authority which passes through some of these revenues to the Authority. The 8% of Property Taxes takeaway from the Santa Cruz County Library Financing Authority is estimated to be \$282,401. The Authority's share of the Santa Cruz County Library Financing Authority's revenues is 77.49% for fiscal year 2010; consequently, the Authority's share of the loss is estimated to be \$218,833 and is significant to the Authority.

Property Taxes borrowed from the State for fiscal year 2009-10 were nearly \$2 billion Statewide to help the State's budget shortfall. Legislators and the Governor promised to allow local agencies to sell their eventual repayment from the State to investors to cover the property taxes and to pay the full cost of the sale, known as securitization. Passage of Senate Bill 67 (SB67) was accomplished on October 14, 2009. A bond sale necessary to complete the funding or securitization was accomplished in November, 2009 so the Authority will receive an amount from bond proceeds equivalent to the property tax loss in fiscal year 2009-10. Any delay in funding may mean that the Authority will have no choice but to adopt additional mid-year service reductions, layoffs and other measures to manage significant cash-flow shortfalls that will occur.

12. AUTHORITY'S FINANCIAL CONDITION

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

At June 30, 2009, the Authority had a deficit unrestricted net assets of (\$901,278), an increased deficit of \$1,096,894 from the prior year on the Government-Wide Financial Statements, and a deficit fund balance of (\$285,498), an increased deficit of \$692,166 from the prior year on the Fund Financial Statements.

The following is the two year trend information of financial condition of the Authority:

Government-Wide Financial Statements

	Total Net Assets (Deficit)		Change \$	Unrestricted Net Assets		Change \$	Change in Net Assets		Change \$
2008	\$	1,749,375		\$	195,616		\$	(898,861)	
2009		812,584	\$ (936,791)		(901,278)	\$ (1,096,894)		(936,791)	\$ (37,930)

Fund Financial Statements

	Total Fund Balance (Deficit)		Change \$
2008	\$	406,668	
2009		(285,498)	\$ (692,166)

The Authority continues to suffer significant deficits in unrestricted net assets and fund balance, which raises uncertainties regarding the Authority's ability to conduct future operations.

Per Management, during fiscal 2008-09, the Authority undertook certain procedures to reduce the deficit in fund balance including reductions in operating expenses which are anticipated to continue for the next few years.

Management estimates that the Authority will end the fiscal year 2009-2010 with a positive fund balance based on its current budget. Per Management, the Authority is anticipating flat or declining revenues in fiscal year 2009-10, however, according to Management, the Authority has taken steps to reduce its expenses and this action is expected to improve the Authority's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries
Required Supplementary Information
For the year ended June 30, 2009

1. BUDGETARY BASIS OF ACCOUNTING

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 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 department 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.

Santa Cruz Public Libraries
Required Supplementary Information, Continued
For the year ended June 30, 2009

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 6,288,944	\$ 6,288,944	\$ 5,732,239	\$ (556,705)
Intergovernmental	5,709,126	5,709,126	5,609,609	(99,517)
Charges for services	-	-	13,624	13,624
Fines and forfeitures	270,014	270,014	264,733	(5,281)
Use of money and property	35,332	27,332	4,918	(22,414)
Other revenues	36,555	106,055	124,130	18,075
Total revenues	12,339,971	12,401,471	11,749,253	(652,218)
EXPENDITURES:				
Current:				
Personnel services	9,727,154	8,794,799	8,744,078	50,721
Services, supplies, and other charges	3,442,254	3,683,033	3,709,384	(26,351)
Debt service:				
Principal	90,293	77,493	77,446	47
Interest	15,014	33,014	32,951	63
Capital outlay	-	336,706	344,863	(8,157)
Total expenditures	13,274,715	12,925,045	12,908,722	16,323
REVENUES OVER (UNDER) EXPENDITURES	(934,744)	(523,574)	(1,159,469)	(635,895)
OTHER FINANCING SOURCES (USES):				
Debt proceeds	-	467,303	467,303	-
Transfers in	-	70,300	65,700	(4,600)
Transfers out	-	(65,700)	(65,700)	-
Total other financing sources (uses)	-	471,903	467,303	(4,600)
NET CHANGE IN FUND BALANCE	(934,744)	(51,671)	(692,166)	(640,495)
FUND BALANCE:				
Beginning of year	406,668	406,668	406,668	-
End of year	\$ (528,076)	\$ 354,997	\$ (285,498)	\$ (640,495)

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SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries
Combining Balance Sheet
Library Operating Funds*
June 30, 2009

	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	\$ -	\$ 9,298	\$ 4,698	\$ 478	\$ 19,198	\$ 33,672
Interest receivable	-	47	24	11	153	235
Taxes receivable	446,380	-	-	-	-	446,380
Accounts receivable	4,769	-	-	-	-	4,769
Prepaid expenses	28,944	-	-	-	-	28,944
Due from other governments	409,971	-	-	-	-	409,971
Total assets	\$ 890,064	\$ 9,345	\$ 4,722	\$ 489	\$ 19,351	\$ 923,971
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 518,565	\$ -	\$ -	\$ -	\$ -	518,565
Due to City of Santa Cruz	667,431	-	-	-	-	667,431
Deferred revenue	22,317	-	-	-	-	22,317
Deposits payable	1,156	-	-	-	-	1,156
Total liabilities	1,209,469	-	-	-	-	1,209,469
Fund Balances:						
Unreserved, Undesignated	(319,405)	9,345	4,722	489	19,351	(285,498)
Total fund balances	(319,405)	9,345	4,722	489	19,351	(285,498)
Total liabilities and fund balances	\$ 890,064	\$ 9,345	\$ 4,722	\$ 489	\$ 19,351	\$ 923,971

*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, 2009

	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	\$ 5,732,239	\$ -	\$ -	\$ -	\$ -	5,732,239
Charges for services	7,845	-	-	-	-	7,845
Federal and State grants	89,653	-	-	-	-	89,653
Maintenance of effort	5,519,956	-	-	-	-	5,519,956
Room rentals	4,530	-	-	-	-	4,530
Interlibrary loan charges	1,249	-	-	-	-	1,249
Fines and forfeitures	264,733	-	-	-	-	264,733
Investment income	3,489	(192)	131	(388)	1,878	4,918
Contributions and donations	74,125	-	-	-	-	74,125
From private trusts	20,455	-	-	-	-	20,455
Other miscellaneous revenues	29,550	-	-	-	-	29,550
Total revenues	11,747,824	(192)	131	(388)	1,878	11,749,253
EXPENDITURES:						
Current:						
Personnel services	8,744,078	-	-	-	-	8,744,078
Services, supplies, and other charges	3,709,384	-	-	-	-	3,709,384
Debt service:						
Principal	77,446	-	-	-	-	77,446
Interest	32,951	-	-	-	-	32,951
Capital outlay	344,863	-	-	-	-	344,863
Total expenditures	12,908,722	-	-	-	-	12,908,722
REVENUES OVER (UNDER) EXPENDITURES	(1,160,898)	(192)	131	(388)	1,878	(1,159,469)
OTHER FINANCING SOURCES (USES):						
Debt proceeds	467,303	-	-	-	-	467,303
Transfers in	65,700	-	-	-	-	65,700
Transfers out	-	-	-	(8,600)	(57,100)	(65,700)
Total other financing sources (uses)	533,003	-	-	(8,600)	(57,100)	467,303
Net change in fund balances	(627,895)	(192)	131	(8,988)	(55,222)	(692,166)
FUND BALANCES:						
Beginning of year	308,490	9,537	4,591	9,477	74,573	406,668
End of year	\$ (319,405)	\$ 9,345	\$ 4,722	\$ 489	\$ 19,351	(285,498)

*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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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, 2009, and have issued our report thereon dated December 18, 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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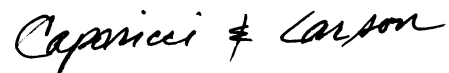
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To the Administrative Board of the Santa Cruz
Public Libraries Joint Powers Authority
Santa Cruz, California
Page 2

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.



Irvine, California
December 18, 2009