

**Santa Cruz  
Public Libraries  
Joint Powers  
Authority**

Santa Cruz, California

*Basic Financial Statements and  
Independent Auditors' Report*

*For the year ended June 30, 2010*

**Santa Cruz Public Libraries Joint Powers Authority**  
**Basic Financial Statements**  
**For the year ended June 30, 2010**

**Table of Contents**

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	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....	3
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities and Changes in Net Assets .....	10
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet .....	11
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Assets.....	12
Statement of Revenues, Expenditures and Changes in Fund Balance .....	13
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 .....	14
Notes to Basic Financial Statements .....	16
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule - General Fund.....	30
Notes to Required Supplementary Information.....	31
<b>Supplementary Information:</b>	
Combining Balance Sheet .....	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	35
<b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	36

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Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Administrative Board of 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, 2010, as listed in the foregoing table of contents. These financial statements are the responsibility of Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2010, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Management Discussion and Analysis and the Required Supplementary Information, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedules listed in the foregoing table of contents as Supplemental Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
January 27, 2011

## 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, 2010.

### I. Financial Highlights

- **Government-Wide Highlights:**

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$1,581,344 (*net assets*). A component of this balance represents \$1,592,338 of net investment in capital assets; however, the remainder of net assets consists of unrestricted net assets of negative (\$10,994) that primarily is the residual balance of the deficit unrestricted net assets of (\$901,278) from the prior fiscal year. 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 increased by \$768,760 in fiscal year 2010 that was the result of the Authority's efforts to reduce expenses, which included employee layoffs, furloughs and less spending on books and materials.

The Authority's total assets decreased by \$9,396 at fiscal year end. Certain asset categories did experience increases during the year, including Cash and Cash Equivalents of \$101,932, Interest Receivable of \$933 and Taxes Receivable of \$54,326. However, these increases were offset by decreases in Accounts Receivable of \$4,769, Prepaid Expenses of \$28,944, Due From Other Governments of \$11,350 and Net Capital Assets of \$121,524.

In addition, the Authority's total liabilities decreased by \$778,156 during the fiscal year due to decreases in Accounts Payable of \$7,878, Due to City of Santa Cruz of \$667,431, Interest Payable of \$13,701, Deferred Revenue of \$9,787, Deposits Payable of \$56, Loans Payable of \$39,010 and Notes Payable of \$40,293.

- **Fund Highlights:**

As of the close of the fiscal year, the Authority's general fund reported a fund balance of \$511,782 which is an increase of \$797,280 in comparison with the prior year amount. This is a significant improvement in the Authority's financial condition as it had a negative fund balance of \$(285,498) in the prior fiscal year. The fund balance is a measure of whether the Authority will have sufficient resources to meet its near-term obligations.

The Authority's general fund total assets increased by \$112,128 and the total liabilities decreased by \$685,152 during the fiscal year. Changes in assets consist of increases in Cash and Cash Equivalents of \$101,932, Interest Receivable of \$933 and Taxes Receivable of \$54,326, coupled with decreases in Accounts Receivable of \$4,769, Prepaid Expenses of \$28,944 and Due From Other Governments of \$11,350. Changes in liabilities consist of a decrease in Due to City of Santa Cruz of \$667,431, Accounts Payable of \$7,878, Deposits Payable of \$56 and Deferred Revenue of \$9,787.

## 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*.

**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.

**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.

### 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, 2010**

	2010	2009
Total assets	\$ 2,628,437	\$ 2,637,833
Current liabilities	626,106	1,313,229
Noncurrent liabilities	430,766	512,020
Total liabilities	1,056,872	1,825,249
Net assets:		
Invested in capital assets, net	1,592,338	1,713,862
Restricted	-	-
Unrestricted	(10,994)	(901,278)
Total net assets	\$ 1,581,344	\$ 812,584

The figure in *unrestricted net assets* represents the balance in the amounts normally used to meet the Authority's ongoing obligations. At June 30, 2010, the Authority had a negative balance of (\$10,994) in unrestricted net assets; however, this is still a significant improvement from the negative balance of (\$901,278) in the prior fiscal year end.

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

**Santa Cruz Public Libraries  
Changes in Net Assets  
Fiscal year ended June 30, 2010**

	2010	2009
General revenues:		
Sales Tax	\$ 5,383,555	\$ 5,732,239
Unrestricted Investment Earnings	(591)	4,918
Miscellaneous Revenue	45,813	29,550
Total general revenues	5,428,777	5,766,707
Program revenues	5,639,638	5,982,546
Other financing sources	525	-
Total revenues	11,068,940	11,749,253
Expenditures	10,300,180	12,686,044
Changes in net assets	768,760	(936,791)
Net assets - beginning of year	812,584	1,749,375
Net assets - end of year	\$ 1,581,344	\$ 812,584

The Authority's net assets increased by \$768,760 during the fiscal year due to the Authority's continued efforts to reduce its operating expenses.

#### IV. Financial Analysis of the Authority's Funds

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

**Governmental Funds.** The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. 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 \$511,782, which is an increase of \$797,280 in comparison with the prior year amount. This increase has been possible because of the Authority's efforts to reduce operating costs, which have included employee layoffs, furloughs and less spending on books and materials. In addition, the Authority has received increased donations and assistance from the Friends of the Santa Cruz Public Library organization.

#### V. Budgetary Highlights

The final amended budget is more than the original budget for revenues and other financing sources by \$99,134, due to increases in Other Revenues of \$96,634, Fines and Forfeitures of \$20,000, and Intergovernmental of \$2,500, coupled with a decrease in Charges For Services of \$20,000. The final amended budget is more than the original budget for expenditures and other financing uses by \$103,134, due to increases in Services, Supplies and Other Charges of \$75,139 and Capital Outlay of \$27,995.

The actual revenues and other financing sources were less than the final amended budget by \$348,496. The actual expenditures and other financing uses were less than the final amended budget by \$706,202.

## **VI. Capital Asset and Debt Administration**

**Capital Assets.** As of June 30, 2010, the Authority's investment in capital assets was \$1,592,338 (net of accumulated depreciation), which is \$121,524 less than the prior year. Increases in capital assets from the new phone system project and ongoing Felton Branch project were offset by retirements of equipment and additional accumulated depreciation.

**Long-term Debt.** At the end of the current fiscal year, the Authority had total long-term debt outstanding of \$512,020, which consisted of outstanding note obligations of \$120,880 and outstanding loan obligations of \$391,140. The Authority's long-term debt decreased by \$79,303 during the fiscal year due to scheduled annual repayments of outstanding debt. 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 2010 revenues (excluding other financing sources), 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 revenues come from local contributions, property tax collected in the County unincorporated areas designated for libraries, bequest income, donations and fees and fines. Sales tax revenues are driven by the general health of the local economy. Sales tax revenue declined during fiscal year 2009-10, but is expected to hold steady in fiscal year 2010-11. Property tax collections had been strong in the past, but the drop in property values due to the poor housing market and budget transfers from the State have also had a negative impact on the library budget. 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, 2010

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	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 135,604
Interest receivable	1,168
Taxes receivable	500,706
Due from other governments	398,621
Total current assets	<u>1,036,099</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,592,338</u>
<b>Total assets</b>	<u><u>2,628,437</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and other current liabilities	510,687
Interest payable	10,756
Deferred revenue	12,530
Deposits payable	1,100
Loans payable - current portion	40,961
Notes payable - current portion	40,293
Total current liabilities	<u>616,327</u>
Noncurrent liabilities:	
Loans payable - due in more than one year	350,179
Notes payable - due in more than one year	80,587
Total noncurrent liabilities	<u>430,766</u>
<b>Total liabilities</b>	<u><u>1,047,093</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,592,338
Unrestricted	<u>(10,994)</u>
<b>Total net assets</b>	<u><u>\$ 1,581,344</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, 2010**

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Revenue
						and Changes in Net Assets
						Governmental Activities
<b>Primary government:</b>						
Library services	\$ 10,288,441	\$ 260,679	\$ 5,365,964	\$ 12,995	\$ 5,639,638	\$ (4,648,803)
Interest on long-term debt (unallocated)	11,739	-	-	-	-	(11,739)
<b>Total primary government</b>	<b>\$ 10,300,180</b>	<b>\$ 260,679</b>	<b>\$ 5,365,964</b>	<b>\$ 12,995</b>	<b>\$ 5,639,638</b>	<b>(4,660,542)</b>
<b>General Revenues:</b>						
						5,383,555
						(591)
						45,813
<b>Other Financing Sources (Uses):</b>						
						525
						<u>5,429,302</u>
						768,760
						812,584
						<u>\$ 1,581,344</u>

**Santa Cruz Public Libraries**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2010**

	Major Fund
	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 135,604
Interest receivable	1,168
Taxes receivable	500,706
Due from other governments	398,621
<b>Total assets</b>	<b>\$ 1,036,099</b>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities:</b>	
Accounts payable and other current liabilities	\$ 510,687
Deferred revenue	12,530
Deposits payable	1,100
<b>Total liabilities</b>	<b>524,317</b>
<b>Fund Balances:</b>	
Unreserved:	
Designated:	
Contingencies	9,459
Technology upgrades	4,780
Capital projects	471
Felton Branch	1,143
Undesignated	495,929
<b>Total fund balance</b>	<b>511,782</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,036,099</b>

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, 2010**

**Total Fund Balance - Total Governmental Fund** \$ 511,782

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 Balance Sheet. The capital assets were adjusted as follows:

Infrastructure	579,683
Buildings	1,758,907
Lease Improvements	259,124
Machinery and equipment	1,617,209
Software	61,760
Construction in progress	78,918
Less accumulated depreciation	(2,763,263)
Total capital assets	1,592,338

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (10,756)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Current Portion	Long-Term Portion	
Loans payable	\$ (40,961)	\$ (350,179)	(391,140)
Notes Payable	(40,293)	(80,587)	(120,880)
Total long-term liabilities	\$ (81,254)	\$ (430,766)	(512,020)

**Net Assets of Governmental Activities** \$ 1,581,344

**Santa Cruz Public Libraries**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**For the year ended June 30, 2010**

	Major Fund General
<b>REVENUES:</b>	
Taxes	\$ 5,383,555
Intergovernmental	5,216,027
Charges for services	14,304
Fines and forfeitures	246,375
Use of money and property	(591)
Other revenues	208,745
<b>Total revenues</b>	<b>11,068,415</b>
<b>EXPENDITURES:</b>	
Current:	
Personnel services	7,517,716
Services, supplies, and other charges	2,621,223
Debt service:	
Principal	79,303
Interest	25,440
Capital outlay	27,978
<b>Total expenditures</b>	<b>10,271,660</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>796,755</b>
<b>OTHER FINANCING SOURCES (USES):</b>	
Sale of surplus equipment	525
<b>Total other financing sources (uses)</b>	<b>525</b>
<b>Net change in fund balance</b>	<b>797,280</b>
<b>FUND BALANCE:</b>	
Beginning of year	(285,498)
End of year	\$ 511,782

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, 2010**

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**Net Change in Fund Balance - Total Governmental Funds** \$ 797,280

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

Governmental funds reported capital outlay and other capital expenses 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 and other capital expenses recorded as capital assets in the current period. 46,718

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. (168,242)

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. 79,303

Interest payable on long-term debt 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, it was not reported as an expenditure in the governmental fund.

Prior year interest payable	\$ 24,457	
Current year interest payable	10,756	
Change between prior and current year		13,701

**Change in Net Assets of Governmental Activities** **\$ 768,760**

See accompanying Notes to Basic Financial Statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2010**

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**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, 2010**

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**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 three categories:

- Charges for services (including fines and forfeitures)
- Operating grants and contributions
- Capital grants and contributions

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund 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, 2010**

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**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. 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.

Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investments is allocated to all funds on the basis of daily cash and investment balances.

The Authority also participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. These structured notes and asset-backed securities are subject to market risk as to change in interest rates.

*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.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Capital Assets, Continued*

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 items 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.

*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."

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*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 cash and investments balance of \$135,604 at June 30, 2010:

The Authority's funds are pooled with the City's cash and investments in order to generate optimum interest income.

*Investments Authorized by the City's Investment Policy*

The investments made by the City treasurer are limited to those allowable under State statutes as incorporated into the City's Investment Policy, dated June 15, 2010, which is more conservative than that allowed by State statute.

The scope of the investment policy includes all activities of the City and the following reporting entities:

- City of Santa Cruz
- City of Santa Cruz Redevelopment Agency
- Santa Cruz Public Improvement Financing Corporation
- Santa Cruz Public Financing Authority

Under provisions of this policy, the City is authorized to invest in the following types of investments:

- Money market accounts deposited with a nationally or state-chartered bank.
- Bonds issued by the City. Purchases of this type shall not exceed five years to maturity.
- U.S. Treasury bills, notes, bonds, or certificates of indebtedness, or those securities backed by the full faith and credit of the U.S. Government with maturities not to exceed five years.
- Obligations, participations, or other instruments of, or issued by, a Federal agency or a United States government-sponsored enterprise with maturities not to exceed five years.
- Bankers' acceptances with a term not to exceed 180 days' maturity or 40% of the City's portfolio.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**2. CASH AND INVESTMENTS, Continued**

- Nonnegotiable and nontransferable certificates of deposit issued by the following types of financial institutions which have branch office locations within Santa Cruz County: a nationally or state-chartered bank, state or federal credit union, or a state-licensed branch of a foreign bank. Purchases may not exceed 30% of the City's portfolio with no more than 5% of the portfolio deposited with a single issuer.
- State of California Local Agency Investment Fund as long as the total amount of City and Agency combined funds invested does not exceed the limit set by LAIF.
- Shares of beneficial interest issued by diversified management companies investing in authorized securities and obligations (e.g., money market mutual funds). Purchases shall not exceed 20% of the City's portfolio with no more than 10% of the portfolio in a single mutual fund.

*Investments Authorized by the City's Investment Policy, Continued*

- Repurchase agreements with primary dealers of the Federal Reserve with specific terms and conditions. The market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities, and the value shall be adjusted no less than quarterly. Securities that can be pledged for collateral consist only of investments permitted within this policy with a maximum maturity of five years. Purchases shall not exceed 92 days to maturity and 20% of the portfolio.
- Internal financing pool established for the purpose of providing loans to City departments or funds for significant one-time purchases. Investments in the pool shall not exceed the lesser of \$10 million or 10% of the City's portfolio.

*Investment in State Investment Pool*

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, 2010, 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, 2010, the City had \$80,542,362 invested in LAIF accounts, which had invested 5.413% of the pool investments in structured notes and asset-backed securities as compared to 14.713% in the previous year. The City's share of structured notes and asset-backed securities due to its holdings in LAIF amounted to approximately 3.632% of investments at June 30, 2010.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**2. CASH AND INVESTMENTS, Continued**

*Interest Rate Risk*

In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to two and one-half (2 ½) years or less. The City is in compliance with this provision of the investment policy.

*Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations*

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yield than the original bonds. As a result, the fair value of the callable bonds is highly sensitive to changes in interest rates. As of June 30, 2010, the City held \$19,551,386 in callable securities, which amounted to approximately 16.29% of investments at June 30, 2010. The investment policy limits the purchase of callable U.S. Agency instruments to discreet calls and those that pay 100% of the principal at the redemption date. In addition, purchases of callable U.S. Agency instruments are not to exceed 30% of the value of the portfolio. The City is in compliance with these provisions of the investment policy.

*Credit Risk*

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy requires that the management company of mutual funds must have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. The investment in the Goldman Sachs Tax-Free Money Market Fund is rated by only one nationally recognized statistical rating organization; however, it is approved by the National Association of Investors Corporation.

*Concentration of Credit Risk*

The City's investment policy states that not more than 25% of the portfolio shall be invested in any one entity or any one instrument to protect the City from concentration of credit risk, with the following exceptions: U.S. Treasury Obligations and the external investment pool (LAIF). In addition, purchases of mutual funds must not exceed 20% of the value of the portfolio. Purchases in a single mutual fund may not exceed 10% of the value of the portfolio. The City is in compliance with these provisions of the investment policy.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**3. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

At June 30, 2010 the Authority's capital assets consisted of the following:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<b>Non-depreciable assets:</b>				
Construction In Progress	\$ 52,613	\$ 26,305	\$ -	\$ 78,918
Total non-depreciable assets	<u>52,613</u>	<u>26,305</u>	<u>-</u>	<u>78,918</u>
<b>Depreciable assets:</b>				
Infrastructure	579,683	-	-	579,683
Buildings	1,758,907	-	-	1,758,907
Lease improvements	259,124	-	-	259,124
Machinery and equipment	1,628,319	20,413	(31,523)	1,617,209
Software	61,760	-	-	61,760
Total depreciable assets, at cost	<u>4,287,793</u>	<u>20,413</u>	<u>(31,523)</u>	<u>4,276,683</u>
Total capital assets	<u>4,340,406</u>	<u>46,718</u>	<u>(31,523)</u>	<u>4,355,601</u>
Less accumulated depreciation:				
Infrastructure	(164,848)	(26,522)	-	(191,370)
Buildings	(765,044)	(88,403)	-	(853,447)
Lease improvements	(163,049)	(15,171)	-	(178,220)
Machinery and equipment	(1,471,843)	(38,146)	31,523	(1,478,466)
Software	(61,760)	-	-	(61,760)
Total accumulated depreciation	<u>(2,626,544)</u>	<u>(168,242)</u>	<u>31,523</u>	<u>(2,763,263)</u>
<b>Total capital assets, net</b>	<u>\$ 1,713,862</u>	<u>\$ (121,524)</u>	<u>\$ -</u>	<u>\$ 1,592,338</u>

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, 2010 was \$168,242.

**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, 2010**

**4. LONG-TERM DEBT**

A summary of long-term debt transactions for the year ended June 30, 2010, is as follows:

Description	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Classification	
					Due within one year	Due in more than one year
City of Santa Cruz Loan	\$ 430,150	\$ -	\$ (39,010)	\$ 391,140	\$ 40,961	\$ 350,179
2004 Library Debt to County	161,173	-	(40,293)	120,880	40,293	80,587
<b>Total</b>	<b>\$ 591,323</b>	<b>\$ -</b>	<b>\$ (79,303)</b>	<b>\$ 512,020</b>	<b>\$ 81,254</b>	<b>\$ 430,766</b>

***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, 2010 was \$391,140.

The annual installment payments remaining on this loan at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
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	49,788	10,730	60,518
2016-2018	164,806	16,748	181,554
<b>Total</b>	<b>\$ 391,140</b>	<b>\$ 93,004</b>	<b>\$ 484,144</b>

***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 average monthly effective yields of the LAIF rate, which was 0.809% for 2010. The principal balance outstanding at June 30, 2010 was \$120,880.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**4. LONG-TERM DEBT, Continued**

The annual installment payments remaining on this agreement at June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 40,293	\$ 978	\$ 41,271
2012	40,293	652	40,945
2013	40,294	326	40,620
<b>Total</b>	<b>\$ 120,880</b>	<b>\$ 1,956</b>	<b>\$ 122,836</b>

**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 2010, the Authority's share of the revenues is \$5,134,148 or 77.49%. Distribution of the member contributions are as follows:

Contributing Member Agencies	County Library Financing Authority Contributions	Less: Misc Cost	Net Contributions	Library Joint Powers Authority Share (77.49%)	Watsonville City Library Share (22.51%)
City of Santa Cruz	\$ 1,394,751	\$ (2,441)	\$ 1,392,310	\$ 1,078,901	\$ 313,409
City of Watsonville	541,684	(709)	540,975	419,202	121,773
County of Santa Cruz	4,692,277	-	4,692,277	3,636,045	1,056,232
<b>Total</b>	<b>\$ 6,628,712</b>	<b>\$ (3,150)</b>	<b>\$ 6,625,562</b>	<b>\$ 5,134,148</b>	<b>\$ 1,491,414</b>

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**6. DUE FROM OTHER GOVERNMENTS**

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

	<u>FY 2010</u>
County of Santa Cruz	\$ 398,422
State of California - First 5 Grant	<u>199</u>
<b>Total</b>	<u><u>\$ 398,621</u></u>

**7. COMMITMENTS AND CONTINGENCIES**

**A. Commitments**

As of June 30, 2010, the Authority had the following commitments:

<u>Project/Service</u>	<u>Amount</u>
Architectural services for the proposed Felton branch replacement	\$ 21,160
Consultant services for the open software (ILS) project	10,000
Consultant services for the VoIP phone system	10,410
Consultant services for the e-rate and ctf credits on telecommunications	<u>5,500</u>
	<u><u>\$ 47,070</u></u>

**B. Contingencies**

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, 2010.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**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 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.

**9. OTHER REQUIRED FUND DISCLOSURES**

*A. Deficit in Unrestricted Net Assets*

At June 30, 2010, the Governmental Activities had a deficit in unrestricted net assets:

Governmental Activities	<u><u>\$ (10,994)</u></u>
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The deficit in the Governmental Activities represents the residual balance of the deficit that first occurred in fiscal year 2009. At that time, the deficit was \$(901,278). Since then, the Authority has worked toward improving its financial condition, mainly through cost reduction measures, such as layoffs, furloughs and reduced books and materials purchases. These efforts have enabled the Authority to reduce its deficit balance from \$(901,278) down to \$(10,994) in fiscal year 2010. It is anticipated that the Authority will end fiscal year 2011 with a positive balance.

**Santa Cruz Public Libraries Joint Powers Authority**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**10. AUTHORITY'S FINANCIAL CONDITION**

At June 30, 2010, the Authority had a deficit unrestricted net assets of (\$10,994), a decrease in the deficit of \$890,284 from the prior year on the Government-Wide Financial Statements, and a surplus fund balance of \$511,782, an increase of \$797,280 from the prior year deficit balance on the Fund Financial Statements.

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

Government-Wide Financial Statements

	Total Net Assets (Deficit)		Unrestricted Net Assets		Change in Net Assets	
		Change \$		Change \$		Change \$
2008	\$ 1,749,375		\$ 195,616		\$ (898,861)	
2009	812,584	\$ (936,791)	(901,278)	\$ (1,096,894)	(936,791)	\$ (37,930)
2010	1,581,344	768,760	(10,994)	890,284	768,760	1,705,551

Fund Financial Statements

	Total Fund Balance (Deficit)	
		Change \$
2008	\$ 406,668	
2009	(285,498)	\$ (692,166)
2010	511,782	797,280

The Authority has improved its financial condition significantly from the prior fiscal year. Whereas fiscal year 2009 saw a huge drop in the Authority's total net assets of \$936,791, fiscal year 2010 saw an increase of \$768,760 in total net assets. Similarly, whereas the Authority had a decrease in the fund balance of \$692,166 for fiscal year 2009, it saw an increase of \$797,280 for fiscal year 2010. This improvement in net assets and fund balances reduces the uncertainties regarding the Authority's ability to conduct future operations.

Per Management, during fiscal 2009-10, the Authority continued certain procedures to improve its fund balance, including reductions in operating expenses which are anticipated to continue for the next few years.

Management estimates that the Authority will also end fiscal year 2010-11 with a positive fund balance based on its current budget. Per Management, the Authority is not anticipating that revenues will increase significantly in fiscal year 2010-11; however, according to Management, the Authority has taken steps to contain 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, 2010**

*Budgetary Comparison Schedule, General Fund*

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 5,612,255	\$ 5,612,255	\$ 5,383,555	\$ (228,700)
Intergovernmental	5,251,531	5,254,031	5,216,027	(38,004)
Charges for services	38,890	18,890	14,304	(4,586)
Fines and forfeitures	320,000	340,000	246,375	(93,625)
Use of money and property	3,871	3,871	(591)	(4,462)
Other revenues	91,755	188,389	208,745	20,356
<b>Total revenues</b>	<b>11,318,302</b>	<b>11,417,436</b>	<b>11,068,415</b>	<b>(349,021)</b>
<b>EXPENDITURES:</b>				
Current:				
Personnel services	7,549,316	7,549,316	7,517,716	31,600
Services, supplies, and other charges	3,196,089	3,271,228	2,621,223	650,005
Debt service:				
Principal	79,315	79,315	79,303	12
Interest	50,008	50,008	25,440	24,568
Capital outlay	-	27,995	27,978	17
<b>Total expenditures</b>	<b>10,874,728</b>	<b>10,977,862</b>	<b>10,271,660</b>	<b>706,202</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>443,574</b>	<b>439,574</b>	<b>796,755</b>	<b>357,181</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of surplus equipment	-	-	525	525
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>525</b>	<b>525</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>443,574</b>	<b>439,574</b>	<b>797,280</b>	<b>357,706</b>
<b>BUDGETARY FUND BALANCES:</b>				
Beginning of year	(285,498)	(285,498)	(285,498)	-
End of year	\$ 158,076	\$ 154,076	\$ 511,782	\$ 357,706

**Santa Cruz Public Libraries**  
**Notes to Required Supplementary Information**  
**For the year ended June 30, 2010**

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**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.

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## **SUPPLEMENTARY INFORMATION**

**Santa Cruz Public Libraries**  
**Combining Balance Sheet**  
**Library Operating Funds\***  
**June 30, 2010**

	Library Operating Funds					Total Library Operating Funds
	Library JPA Operating	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 119,793	\$ 9,434	\$ 4,767	\$ 470	\$ 1,140	\$ 135,604
Interest receivable	1,126	25	13	1	3	1,168
Taxes receivable	500,706	-	-	-	-	500,706
Due from other governments	398,621	-	-	-	-	398,621
<b>Total assets</b>	<b>\$ 1,020,246</b>	<b>\$ 9,459</b>	<b>\$ 4,780</b>	<b>\$ 471</b>	<b>\$ 1,143</b>	<b>\$ 1,036,099</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and other current liabilities	\$ 510,687	\$ -	\$ -	\$ -	\$ -	510,687
Deferred revenue	12,530	-	-	-	-	12,530
Deposits payable	1,100	-	-	-	-	1,100
<b>Total liabilities</b>	<b>524,317</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>524,317</b>
<b>Fund Balances:</b>						
Unreserved:						
Designated:						
Contingencies	-	9,459	-	-	-	9,459
Technology upgrades	-	-	4,780	-	-	4,780
Capital projects	-	-	-	471	-	471
Felton Branch	-	-	-	-	1,143	1,143
Undesignated	495,929	-	-	-	-	495,929
<b>Total fund balances</b>	<b>495,929</b>	<b>9,459</b>	<b>4,780</b>	<b>471</b>	<b>1,143</b>	<b>511,782</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,020,246</b>	<b>\$ 9,459</b>	<b>\$ 4,780</b>	<b>\$ 471</b>	<b>\$ 1,143</b>	<b>\$ 1,036,099</b>

\*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, 2010**

	Library Operating Funds					Total Library Operating Funds
	Library JPA Operating	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	
<b>REVENUES:</b>						
Sales and use tax	\$ 5,383,555	\$ -	\$ -	\$ -	\$ -	5,383,555
Charges for services	12,099	-	-	-	-	12,099
Federal grants	5,667	-	-	-	-	5,667
State grants	76,212	-	-	-	-	76,212
Maintenance of effort	5,134,148	-	-	-	-	5,134,148
Room rentals	2,116	-	-	-	-	2,116
Interlibrary loan charges	89	-	-	-	-	89
Fines and forfeitures	246,375	-	-	-	-	246,375
Investment income	(555)	114	58	(18)	(190)	(591)
Contributions and donations	143,477	-	-	-	-	143,477
From private trusts	19,455	-	-	-	-	19,455
Other miscellaneous revenues	45,813	-	-	-	-	45,813
<b>Total revenues</b>	<b>11,068,451</b>	<b>114</b>	<b>58</b>	<b>(18)</b>	<b>(190)</b>	<b>11,068,415</b>
<b>EXPENDITURES:</b>						
Current:						
Personnel services	7,517,716	-	-	-	-	7,517,716
Services, supplies, and other charges	2,621,223	-	-	-	-	2,621,223
Debt service:						
Principal	79,303	-	-	-	-	79,303
Interest	25,440	-	-	-	-	25,440
Capital outlay	27,978	-	-	-	-	27,978
<b>Total expenditures</b>	<b>10,271,660</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,271,660</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>796,791</b>	<b>114</b>	<b>58</b>	<b>(18)</b>	<b>(190)</b>	<b>796,755</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Sale of surplus equipment	525	-	-	-	-	525
<b>Total other financing sources (uses)</b>	<b>18,543</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,018)</b>	<b>525</b>
<b>Net change in fund balances</b>	<b>815,334</b>	<b>114</b>	<b>58</b>	<b>(18)</b>	<b>(18,208)</b>	<b>797,280</b>
<b>FUND BALANCES:</b>						
Beginning of year	(319,405)	9,345	4,722	489	19,351	(285,498)
End of year	\$ 495,929	\$ 9,459	\$ 4,780	\$ 471	\$ 1,143	511,782

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



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**INDEPENDENT AUDITORS' 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 basic financial statements of the Santa Cruz Public Libraries Joint Powers Authority (Authority), as of and for the year ended June 30, 2010, and have issued our report thereon dated January 27, 2011. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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

**Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the Board of Directors, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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Certified Public Accountants  
San Francisco, California  
January 27, 2011