

Chair Carlos Palacios
Vice Chair Jamie Goldstein
Board Member Martin Bernal
Board Member Jenny Haruyama



**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
(LFFA)
REGULAR BOARD MEETING
THURSDAY FEBRUARY 7, 2019**

9:00 A.M.

**DOWNTOWN BRANCH LIBRARY
224 CHURCH STREET, SANTA CRUZ, CA 95060**

1. CALL TO ORDER / ROLL CALL

Board Members Jamie Goldstein, Carlos Palacios, Martin Bernal and Jenny Haruyama

2. ADDITIONAL MATERIALS

Additional information submitted after distribution of the agenda packet.

3. ADDITIONS AND DELETIONS TO AGENDA

4. ORAL COMMUNICATION

Any member of the audience may address the Board on any matter either on or off the agenda that is within the Board's jurisdiction. Note, however, that the Board is not able to undertake extended discussion or act on non-agendized items. Such items can be referred to staff for appropriate action which may include placement on a future agenda. If you intend to address a subject that is on the Agenda, please hold your comments regarding that item until it is before the Board, so that we may properly respond to all comments on that subject at the same time. In general 3 minutes will be permitted per speaker during Oral Communication; A MAXIMUM of 30 MINUTES is set aside for Oral Communications at this time.

5. EXECUTIVE DIRECTOR REPORT

A. Director's Report for February (PG.4-5)

6. PROJECT UPDATES AND COMMENTS BY BOARD MEMBERS

7. CONSENT CALENDAR

- A. Approve Minutes of the December 6, 2018 Board Meeting
RECOMMENDED ACTION: Approve Minutes (PG.6-7)
- B. Authorize LFFA Treasurer-Controller to Adjust the 2018-19 Budget
RECOMMENDED ACTION: Authorize LFFA Treasurer-Controller to Adjust the 2018-19 Budget (PG.8-9)
- C. Receive LFFA Basic Financial Statements and Independent Auditor's Report
RECOMMENDED ACTION: Receive LFFA Basic Financial Statements and Independent Auditor's Report (PG.10-41)

All items listed in the "Consent Calendar" will be enacted by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Board votes on the action unless members of the public or the Board request specific items to be discussed for separate review. Items pulled for separate discussion will be considered following General Business.

8. GENERAL BUSINESS

- A. Annual Election of Board Chair and Board Vice-Chair
RECOMMENDED ACTION: Elect Chair and Vice-Chair for 2019 (PG.42-43)
- B. Receive Financing Schedule for the 2019 Special Tax Bonds
RECOMMENDED ACTION: Receive Financing Schedule (PG.44-45)

Other Business items are intended to provide an opportunity for public discussion of each item listed. The following procedure is followed for each Business item: 1) Staff explanation; 2) Board questions; 3) Public comment; 4) Board deliberation; 5) Decision.

9. SCHEDULED UPCOMING MEETINGS

March 7, 2019	Aptos Branch Library 7695 Soquel Drive, Aptos, CA 95003	Agenda Items: Bond Expenditure Plan
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LFFA
February 7, 2019

10. ADJOURNMENT

Adjourned to a Regular Meeting of the Libraries Facilities Financing Authority (LFFA) to be held on Thursday March 7, 2019 at 6:00 p.m. at the Aptos Branch Library, located at 7695 Soquel Drive, Aptos, CA 95003.

The Santa Cruz City-County Library System does not discriminate against persons with disabilities. Out of consideration for people with chemical sensitivities, we ask that you attend fragrance free. Upon request, the agenda can be provided in a format to accommodate special needs. Additionally, if you wish to attend this public meeting and will require assistance such as an interpreter for American Sign Language, Spanish, or other special equipment please call the Library Administration Office at (831)427-7706 at least five days in advance so that we can arrange for such special assistance, or email library_admin@santacruzpl.org.

February 2019

Library Director's Report to the LFFA

Aptos

Byrons Kim has been selected as a Design Build Criteria Consultant for the Aptos Branch. Two community meetings have been held. Criteria documents are expected by June 2019. A design/build firm will be selected in the summer of 2019 with a final design expected by the end of the year. Construction will follow with the opening of the remodeled facility expected in the spring of 2022. This branch will be closed during construction.

Boulder Creek

The County allocation of an additional \$1.1 million to the Boulder Creek project brings the total available to \$1.6 million. A community meeting scheduled for January 17 was cancelled due to a power outage. The meeting has been rescheduled for February 7. Construction is expected to begin in late winter of 2020 after the opening of the new Felton Branch with a grand opening in summer 2020.

Branciforte

Library staff explored design priorities with Jayson Architects and David Tanza. Initial funding has increased from \$1 million to \$2 million. Meetings with the community are expected in early 2019. This branch will be closed during construction. Grand opening is expected in the fall of 2021.

Capitola

Construction of the new Capitola Branch Library continues. Site grading is underway. The City of Capitola has provided a library construction camera at:

<http://www.cityofcapitola.org/publicworks/page/library-construction-camera>

The Friends Chapter Capital Campaigns continues to be successful in raising resources for amenities within the building. Branch staff continue to work shifts at Aptos and Live Oak. Grand opening is expected in the spring of 2020.

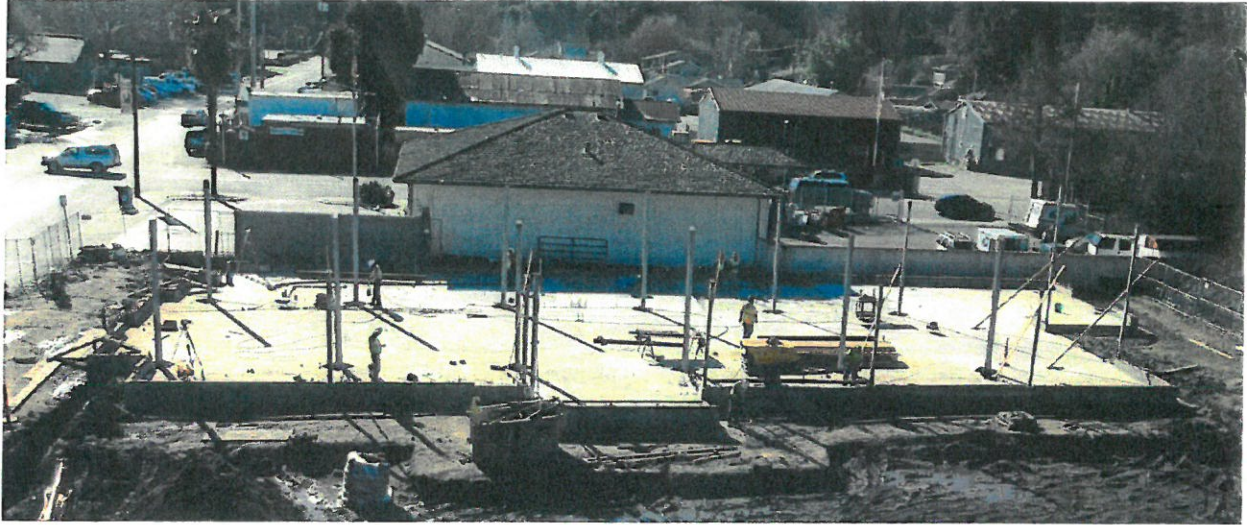
Downtown

The City Council endorsed the Downtown Library Advisory Committee (DLAC) recommendation of Option B, relocating the Downtown Branch Library to a mixed-use project on Cedar, Lincoln, and Cathcart Streets to the Santa Cruz City Council in September.

Felton

The region was hit with a series of storms over the last month which slowed construction on the new building. Fortunately, Thompson Builders has been able to take advantage of breaks in the storms to make some significant progress. Recently, the concrete foundations and slab were poured and the building's perimeter has taken shape. Currently they are installing the steel columns and framing will follow shortly. Much of the electrical conduit and water piping has been installed for the building as

well. In addition, the infrastructure for the advanced septic system is in the ground and other site utilities are being installed as appropriate. Grand opening is expected in early 2020.



Garfield

Library staff explored design priorities with Jayson Architects and David Tanza. Initial funding has increased from \$500,000 to \$2 million. Meetings with the community are expected in spring 2019. This branch will be closed during construction. Grand opening is expected in the summer of 2020.

La Selva Beach

The schematic design has been finalized and a revised budget prepared. Value engineering has been prepared and several items have been selected to be add alternates. The County hopes to award a contract in the summer of 2019 with a 6 month construction process beginning fall of 2019 with opening expected in spring of 2020. This branch will be closed during construction.

Live Oak Annex

County, Library and Noll and Tam staff held three community planning meetings in the fall of 2018. The County hopes to award a contract for the project in the winter of 2020 with a potential opening of the summer of 2021.

Scotts Valley

The Scotts Valley City Council will hear the outcome of a building assessment done by Group 4 and a performing arts feasibility study completed by AMS on March 6.

Chair Jenny Haruyama
Vice Chair Carlos Palacios
Board Member Jamie Goldstein
Board Member Martin Bernal



**SANTA CRUZ PUBLIC LIBRARIES
A CITY-COUNTY SYSTEM**

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
(LFFA)**

**REGULAR MEETING MINUTES
THURSDAY DECEMBER 6, 2018
9:00 A.M.**

1. ROLL CALL

PRESENT: Martin Bernal, Jenny Haruyama, Christina Mowrey (Alternate), Jamie Goldstein
STAFF: Library Director Susan Nemitz

2. ADDITIONAL MATERIALS

None

3. ADDITIONS AND DELETIONS TO AGENDA

The Agenda of December 6, 2018 was approved by consensus.

4. ORAL COMMUNICATIONS

A member of the public commented on the number of movie/video acquisitions.

5. EXECUTIVE DIRECTOR REPORT

Library Director's Report – December 2018

6. PROJECT UPDATES AND COMMENTS BY BOARD MEMBERS

Jenny Haruyama replied to a question about the status of the Scotts Valley Branch library project related to Measure S.
Jamie Goldstein updated the Board on the Capitola Branch project. Groundbreaking was held last month.

A member of the public expressed her concerns of the use of Measure S funds for the Live Oak Annex.

7. CONSENT CALENDAR

RESULT:	APPROVED CONSENT CALENDAR A. Approved Minutes of August 2 and August 30, 2018 B. Accepted Letter from Brown Armstrong CPAs [UNANIMOUS]
MOVER:	Martin Bernal
SECONDER:	Jamie Goldstein
AYES:	Bernal, Goldstein, Haruyama, Mowrey

8. GENERAL BUSINESS

A. Determine Annual Meeting Schedule

The Board accepted the Annual Meeting Schedule as presented with one exception: The next meeting will be on February 7, 2019.

RESULT:	ACCEPTED ANNUAL MEETING SCHEDULE 2019 [UNANIMOUS]
MOVER:	Jamie Goldstein
SECONDER:	Christina Mowrey
AYES:	Bernal, Goldstein, Haruyama, Mowrey

9. ADJOURNMENT

The Libraries Facilities Financing Authority (LFFA) adjourned at 9:14 a.m. to the Regular Meeting on Thursday February 7, 2019 at 9:00 a.m. at the Downtown Branch Library, located at 224 Church Street, Santa Cruz, CA 95060.

ATTEST: _____
Helga Smith, Clerk of the Board

All documents referred to in these minutes are available in the Santa Cruz Public Libraries – Library Headquarters Office, 117 Union Street, Santa Cruz.

STAFF REPORT

AGENDA: February 7, 2019

TO: Board of Directors

FROM: LFFA Treasurer-Controller

SUBJECT: Authorize LFFA Treasurer-Controller to Adjust the 2018-19 Budget

RECOMMENDATION

Authorize the LFFA Treasurer-Controller to adjust 2018-19 budgeted revenues and expenditures as needed to distribute the “pay as you go” Measure S special tax revenues pursuant to the new maximum amounts, after consideration of debt, administration and existing bond funds.

DISCUSSION

On August 30, 2018, the LFFA Board approved the First Supplement to the Amended and Restated Joint Exercise of Powers Agreement for the Santa Cruz Libraries Facilities Financing Authority (LFFA), which provides that special tax revenues and net bond proceeds are to be distributed to the jurisdictions in the modified maximum amounts specified below using the percentages specified below.

	Original Maximum Amount	Modified Maximum Amount	Percentage
City of Capitola	\$8,000,000	\$10,000,000	12.90%
City of Santa Cruz	\$25,000,000	\$31,250,000	40.32%
City of Scotts Valley	\$3,000,000	\$3,750,000	4.84%
County of Santa Cruz	\$26,000,000	\$32,500,000	41.94%
Total	\$62,000,000	\$77,500,000	100.00%

The First Supplement subsequently took effect on September 25, 2018 following approval by the City of Capitola, City of Santa Cruz, City of Scotts Valley and the County of Santa Cruz.

The 2018-19 budget that was adopted by the LFFA includes revenues of \$4,399,215 and an equal amount of offsetting expenditures. After deducting the debt service payment of \$1,240,831 and administrative costs of \$100,000, the budget included a “pay as you go” distribution of \$3,058,384 to the jurisdictions as follows.

	Adopted Budget
City of Santa Cruz	\$1,918,218
City of Scotts Valley	\$193,596
County of Santa Cruz	\$946,570
Total	\$3,058,384

The 2018-19 budget did not include a “pay as you go” distribution to the City Capitola because at the time, the City’s original maximum distribution had been met. As a result of the modified maximum amounts in the First Supplement, the City of Capitola should receive a distribution in 2018-19.

The LFFA Treasurer-Controller has reviewed the member distribution history and calculated revenue and expenditure budget adjustments for 2018-19. The adjustments include a re-budget of June 2018 revenues that have been paid to members and additional estimated “pay as you go” revenues available for distribution in 2018-19.

The LFFA began the fiscal year with a carryover fund balance of \$253,710, resulting from 2017-18 residual revenues. In addition, the recommended revenue adjustments for 2018-19 increase assessments and interest by \$171,535, as shown below.

	Adjusted Budget	Increase
Assessments	\$4,565,050	\$169,835
Interest	\$5,700	\$1,700
Total	\$4,570,750	\$171,535

This results in available financing of \$425,245 that may be distributed in 2018-19. The recommended expenditure adjustments for 2018-19 provide a “pay as you go” distribution of \$3,483,626, an increase of \$425,242, to the jurisdictions as follows.

	Adjusted Budget	Increase
City of Capitola	\$133,556	\$133,556
City of Santa Cruz	\$1,953,103	\$34,885
City of Scotts Valley	\$205,014	\$11,418
County of Santa Cruz	\$1,191,953	\$245,383
Total	\$3,483,626	\$425,242

The LFFA Treasurer-Controller therefore requests authorization to adjust 2018-19 budgeted revenues and expenditures as needed to distribute “pay as you go” Measure S special tax revenues pursuant to the new maximum amounts, after consideration of debt, administration and existing bond funds.



STAFF REPORT

AGENDA: February 7, 2019
TO: Board of Directors
FROM: LFFA Treasurer-Controller
SUBJECT: LFFA Basic Financial Statements and Independent Auditor's Report

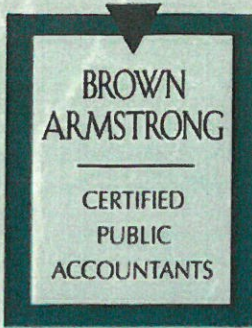
RECOMMENDATION

Accept and file the Basic Financial Statements and Independent Auditor's Report for fiscal year ended June 30, 2018 and related correspondence.

DISCUSSION

Pursuant to Section 4 (d) (i) of the Amended and Restated Joint Exercise of Powers Agreement, the LFFA Treasurer-Controller is required to "prepare or cause to be prepared an independent audit to be made by a certified public accountant, or a public accountant, as required under Sections 6505, 6505.5 and 6505.6 of the Joint Powers Act." On June 7, 2018, the Board approved an amendment to the contract with the CPA firm of Brown Armstrong to conduct the audit.

The audit was conducted 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. The audit opinion is provided on page 2 of the Independent Auditor's Report. An Unqualified Opinion, often referred to as a "clean opinion" was issued reflecting that the report was presented fairly, in all material respects and is free of any misrepresentations.



BROWN ARMSTRONG

Certified Public Accountants

Board of Directors of
Santa Cruz County Library Facilities Financing Authority
Santa Cruz, California

We have audited the financial statements of the governmental activities and general fund information of Santa Cruz County Library Facilities Financing Authority (the Authority) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 22, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017*, and GASB Statement No. 86, *Certain Debt Extinguishment Issues* during the year ended 2018. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events as well as assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the Authority's financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.

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REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 26, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements, or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Budgetary Comparison Schedule, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of Board of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 26, 2018

**SANTA CRUZ LIBRARIES
FACILITIES FINANCING AUTHORITY**

**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

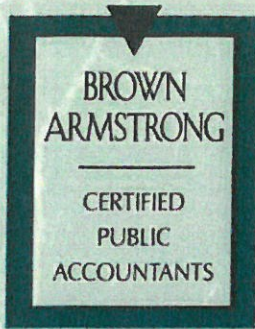
YEAR ENDED JUNE 30, 2018

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
JUNE 30, 2018**

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FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Cruz Libraries Facilities Financing Authority
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund information of the Santa Cruz Libraries Facilities Financing Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund information of the Authority as of June 30, 2018, and the respective changes in its financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 17 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018, 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* in considering the Authority's internal control over financial reporting and compliance

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 26, 2018

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Current Assets	
Cash and investments	\$ 906,901
Restricted cash and investments	20,188,722
Total Current Assets	21,095,623
LIABILITIES	
Current Liabilities	
Accounts payable	1,840
Interest payable	267,111
Bonds payable, due within one year	288,214
Total Liabilities	557,165
Long-Term Liabilities:	
Bonds payable, due in more than one year	21,919,944
Total Liabilities	22,477,109
NET POSITION	
Unrestricted	(1,381,486)
Total Net Position	\$ (1,381,486)

See accompanying notes to the basic financial statements.

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:			
General government	\$ 5,594,180	\$ -	\$ (5,594,180)
Total governmental activities	<u>\$ 5,594,180</u>	<u>\$ -</u>	<u>(5,594,180)</u>
General Revenues:			
			4,394,341
			261,884
			<u>4,656,225</u>
			(937,955)
Net position:			
			(443,531)
			<u>\$ (1,381,486)</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
BALANCE SHEET
JUNE 30, 2018**

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 906,901
Restricted cash and investments	<u>20,188,722</u>
 Total Assets	 <u><u>\$ 21,095,623</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	<u>\$ 1,840</u>
 Total Liabilities	 <u>1,840</u>
 Fund Balance:	
Restricted	20,188,722
Unrestricted	<u>905,061</u>
 Total Fund Balance	 <u>21,093,783</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 21,095,623</u></u>

See accompanying notes to the basic financial statements.

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2018**

Fund Balance - Total Governmental Fund (Page 5) \$ 21,093,783

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund. Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental fund. All liabilities are reported in the statement of net position.

Balances as of the end of the year are:

Bonds payable	(22,208,158)
Interest payable	<u>(267,111)</u>

Net Position of Governmental Activities (Page 3) \$ (1,381,486)

See accompanying notes to the basic financial statements.

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>
REVENUES:	
Tax assessments	\$ 4,394,341
Interest income	261,884
	<u>4,656,225</u>
Total Revenues	
EXPENDITURES:	
Contributions to other agencies	4,853,424
Interest on long-term debt	569,836
General and administrative	5,340
	<u>5,428,600</u>
Total Expenditures	
REVENUES OVER (UNDER) EXPENDITURES	<u>(772,375)</u>
NET CHANGE IN FUND BALANCE	<u>(772,375)</u>
FUND BALANCE:	
Beginning of year	<u>21,866,158</u>
End of year	<u>\$ 21,093,783</u>

See accompanying notes to the basic financial statements.

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balance - Total Governmental Fund (Page 7) \$ (772,375)

Amounts reported for governmental activities in the statement of activities are different because:

Some expenses reported in the Government-Wide Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in the governmental fund.

Amortization of bond premium	38,215
Change in accrued interest payable	<u>(203,795)</u>

Change in Net Position of Governmental Activities (Page 4)	<u><u>\$ (937,955)</u></u>
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See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Santa Cruz Libraries Facilities Financing Authority (the Authority) was organized on December 9, 2014, under a Joint Exercise of Powers Agreement and was amended and restated on February 28, 2017, as a result of a joint community facilities agreement. The members of the Authority include the County of Santa Cruz (the County), the City of Santa Cruz, the City of Scotts Valley, and the City of Capitola (collectively, the Members). The Authority was created under the Mello-Roos Community Facilities Act of 1982, in conformity with California Government Code Section 53311 et seq. for the purpose of financing the acquisition, construction, and/or improvement of public library facilities. Certain authorized facilities will be owned or operated by one or more of the Members, or owned by another local agency but controlled, in whole or in part, by a Member.

B. Basis of Presentation

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Government-Wide Financial Statements

The Authority's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities.

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

Transactions reported as program revenues for the Authority are operating grants and contributions.

Governmental Fund Financial Statements

The Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for the major governmental fund. Accompanying schedules are presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Government-Wide Financial Statements. Governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Governmental Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are sales taxes, interest income, and member contributions. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliations of the Governmental 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.

Major Fund

The Authority reported the following major governmental fund in the accompanying financial statements:

- The General Fund - The General Fund is used for all general revenues of the Authority not specifically levied or collected for other Authority funds and the related expenditures. This is the only fund of the Authority.

C. Cash and Investments

The Authority's cash is pooled with the County's cash and investments to maximize the yield. The County pools its available cash for investment purposes.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid 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.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

D. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Long-Term Liabilities

Long-term debt and other financed obligations are reported as liabilities in the Government-Wide Financial Statements. Bond premiums are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are expensed as incurred.

F. Use of Restricted and Unrestricted Net Position

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

G. Net Position

Government-Wide Financial Statements

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

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. For the year ended June 30, 2018, the Authority did not have any assets invested in capital assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributions, or laws or regulations of other governments. For the year ended June 30, 2018, the Authority did not have a restricted net position.

Unrestricted Net Position – This amount is all net position that is not restricted or invested in capital assets. For the year ended June 30, 2018, the Authority had an unrestricted net position of negative \$1,381,486.

H. Fund Balance

Fund Financial Statements – The Authority has adopted the provisions of GASB Statement No. 54, *Fund Balance and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. Fund balance consists of Nonspendable, Restricted, Committed, Assigned, and Unassigned amounts as described below:

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. The Authority did not have any nonspendable fund balance as of June 30, 2018.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The Authority had a restricted fund balance of \$20,188,722 as of June 30, 2018.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Authority's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period. The Authority did not have any committed fund balance as of June 30, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Balance (Continued)

Assigned fund balance – amounts that are constrained by the Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose. The Authority did not have any assigned fund balance as of June 30, 2018.

Unassigned fund balance – the residual classification for the Authority’s General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. The Authority had an unassigned fund balance of \$21,093,783 as of June 30, 2018.

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution.

The Authority considers restricted fund balance to be spent first when both restricted and unrestricted resources are available for use. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Authority considers Committed amounts to be reduced first, followed by Assigned amounts, and then Unassigned amounts.

I. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Effect of New Governmental Accounting Standards Board Pronouncements

During the fiscal year ending June 30, 2018, the Authority implemented the following standards:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Authority has implemented the provisions of GASB Statement No. 75 in the current year with no impact to the financial statements.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. The Authority has implemented the provisions of GASB Statement No. 81 in the current year with no impact to the financial statements.

GASB Statement No. 85 – *Omnibus 2017*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Authority has implemented the provisions of GASB Statement No. 85 in the current year with no impact to the financial statements.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Authority has implemented the provisions of GASB Statement No. 86 in the current year with no impact to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Future Governmental Accounting Standards Board Pronouncements

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 83 as of the date of the basic financial statements.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 84 as of the date of the basic financial statements.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority has not fully judged the effect of the implementation of GASB Statement No. 87 as of the date of the basic financial statements.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Authority has not fully judged the impact of implementation of GASB Statement No. 88 on the financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority has not fully judged the impact of implementation of GASB Statement No. 89 on the financial statements.

GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The Authority has not fully judged the impact of implementation of GASB Statement No. 90 on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments and restricted cash and investments consisted of the following at June 30, 2018:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Pooled cash and investments held by the County of Santa Cruz	\$ -	\$ 906,901	\$ 906,901
Cash with fiscal agent	<u>20,188,722</u>	<u>-</u>	<u>20,188,722</u>
Total	<u>\$ 20,188,722</u>	<u>\$ 906,901</u>	<u>\$ 21,095,623</u>

A. Cash Held with the County Treasurer

The Authority pools cash from all sources and all funds with the County Treasurer so that it can be invested at the maximum yield, consistent with safety and liquidity. The County Treasury Oversight Committee oversees the Treasurer’s investments and policies.

The California Government Code requires California banks and savings and loan associations to secure the County’s cash deposits by pledging securities as collateral. This code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County’s name.

NOTE 2 – CASH AND INVESTMENTS (Continued)

A. Cash Held with the County Treasurer (Continued)

The market value of pledged securities must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

B. Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's Investment Policy, where more restrictive. The table also identifies certain provisions of the County's Investment Policy that address interest rate risk, credit risk, and concentration risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local agency bonds	5 years	10%	None
U.S. Treasury obligations	5 years	100%	None
U.S. Governmental Agency obligations	5 years	100%	25%
Bankers' acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	10%
Bank deposits	5 years	10%	10%
Repurchase agreements	1 year	100%	10%
Medium-term notes	5 years	30%	10%
Mutual funds/money market mutual funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$50 million	None
Joint Powers Authority investment funds	N/A	25%	None
Supranationals	5 years	30%	None

C. Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

D. Concentration of Credit Risk

At June 30, 2018, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds, or medium-term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government sponsored enterprises are exempt from these limitations.

E. Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year-end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

NOTE 2 – CASH AND INVESTMENTS (Continued)

F. Local Agency Investment Fund

The County is a participant in the LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2018, 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 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, 2018, as included within the County's basic financial statements, the County invested in LAIF, of which was invested 0.08% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.08% in the previous year. LAIF provided a fair value factor of 0.998946071 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair value of LAIF, as the fair value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

G. Restricted Cash Held with Fiscal Agent

Restricted cash with fiscal agents in the amount of \$20,188,722 included certain amounts which are held by fiscal agents to be used for payment of long-term debt. These funds have been invested as permitted by applicable County ordinances and resolutions.

NOTE 3 – LONG-TERM DEBT

Activity for long-term debt for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within a Year	Amounts Due More than a Year
Governmental Activities:						
2017 Special Tax Bonds	\$ 21,170,000	\$ -	\$ -	\$ 21,170,000	\$ 250,000	\$ 20,920,000
Plus Deferred Amounts:						
For Issuance Premiums	1,076,373	-	(38,215)	1,038,158	38,214	999,944
Total Governmental Activities						
Long-Term Liabilities	<u>\$ 22,246,373</u>	<u>\$ -</u>	<u>\$ (38,215)</u>	<u>\$ 22,208,158</u>	<u>\$ 288,214</u>	<u>\$ 21,919,944</u>

NOTE 3 – LONG-TERM DEBT (Continued)

2017 Special Tax Bonds

On June 1, 2017, the Authority issued Santa Cruz Libraries Facilities Financing Authority Community Facilities District 2016-1 2017 Special Tax Bonds (2017 Special Tax Bonds) in the original amount of \$21,170,000. Interest from 3.00% to 5.00% is paid semi-annually and principal payments are made at September 1st. As of June 30, 2018, the total principal balance was \$21,170,000 and the unamortized bond premium was \$1,038,159. Principal and interest paid for the current period was \$38,214.

The debt service requirement to maturity for the 2017 Special Tax Bonds, including interest, is as follows:

Year Ending June 30	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2019	\$ 250,000	\$ 795,081
2020	430,000	778,081
2021	450,000	756,081
2022	475,000	732,956
2023	495,000	708,706
2024-2028	2,880,000	3,136,156
2029-2033	3,595,000	2,428,056
2034-2038	4,220,000	1,798,659
2039-2043	4,965,000	1,037,089
2044-2046	3,410,000	181,650
Subtotal	21,170,000	\$ 12,352,515
Premium	1,038,158	
	<u>\$ 22,208,158</u>	

NOTE 4 – CONTINGENCIES AND COMMITMENTS

Lawsuits

In the ordinary course of business, the Authority is subject to various claims, investigations, proceedings, tax assessments, and legal actions from time to time arising out of the conduct of the Authority's business. Management believes that, based on current knowledge, the outcome of any such pending matters will not have a material adverse effect on the Authority's financial position.

Commitments

The Authority does not have any major contractual commitments or contingencies as of the year ended June 30, 2018.

NOTE 5 – SUBSEQUENT EVENTS

The Authority's management has evaluated all events and transactions that occurred after June 30, 2018, and through December 26, 2018, the date the financial statements and accompanying notes to the financial statements were available to be issued. During this period, no events or transactions occurred that would require adjustment of the financial statements or disclosure in the accompanying notes.

REQUIRED SUPPLEMENTARY INFORMATION

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Tax assessments	\$ 4,644,848	\$ 4,405,137	\$ 4,394,341	\$ (10,796)
Interest income	4,000	4,000	261,884	257,884
Total Revenues	<u>4,648,848</u>	<u>4,409,137</u>	<u>4,656,225</u>	<u>247,088</u>
EXPENDITURES:				
Contributions to other agencies	3,428,347	25,049,454	4,853,424	20,196,030
Principal on long-term debt	250,000	250,000	-	250,000
Interest on long-term debt	970,501	970,501	569,836	400,665
General and administrative	-	5,340	5,340	-
Total Expenditures	<u>4,648,848</u>	<u>26,275,295</u>	<u>5,428,600</u>	<u>20,846,695</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(21,866,158)</u>	<u>(772,375)</u>	<u>21,093,783</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (21,866,158)</u>	<u>(772,375)</u>	<u>\$ 21,093,783</u>
FUND BALANCE:				
Beginning of year			<u>21,866,158</u>	
End of year			<u>\$ 21,093,783</u>	

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

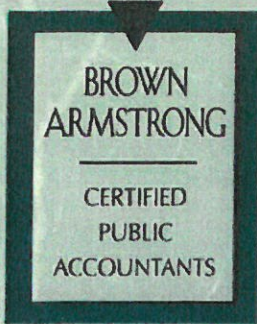
General Budget Policies

The Santa Cruz Libraries Facilities Financing Authority (the Authority) shall adopt an annual budget which provides for allocating the funds it receives to qualifying public libraries. The budget allocations shall be based on a per capita amount and service area population as defined herein. The Authority shall allocate and disburse all of the funds it receives each year.

On or before January 15th of each year, the County Administrative Office, after consulting with the Authority's Controller, shall provide the Authority's Board of Directors with a report including an estimate of the funds available to the Authority for the upcoming fiscal year and the population of the cities and Santa Cruz County (the County) for the preceding January as contained in the Official State Estimates of the Population for California Cities and Counties. As used herein, the fiscal year begins on July 1 and ends on June 30.

Based on the report on funds available, the Board of Directors shall make a determination for the upcoming fiscal year of the proposed amount to be distributed to qualified public libraries and the per capita amount to be distributed for the upcoming fiscal year. A qualified public library's proposed distribution amount for the upcoming fiscal year shall be equal to the per capita amount to be distributed multiplied by the service area population of the library. The per capita amount shall be determined by dividing the amount to be distributed by the County's total population for the previous January as estimated by the State of California in its Official State Estimates. The final distribution amount for the upcoming fiscal year shall be determined in June following the issuance of updated population numbers by the State.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S 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

Board of Directors
Santa Cruz Libraries Facilities Financing Authority
Santa Cruz, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and general fund information of the Santa Cruz Libraries Facilities Financing Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 26, 2018

Chair Carlo Palacios
Vice Chair Jamie Goldstein
Board Member Martin Bernal
Board Member Jenny Haruyama



STAFF REPORT

DATE: February 7, 2019
TO: LFFA Board of Directors
FROM: Susan Nemitz, Library Director
RE: Annual Election of Board Chair and Board Vice-Chair

RECOMMENDATION

That by motion the Board elects the Calendar year 2019 Board Chair and Vice-Chair as the County of Santa Cruz City and the City of Capitola respectively.

DISCUSSION

Staff Report presented in 2016 by the former LFFA Interim Executive Director Marcus Pimentel is attached for reference.

Attachment:

Staff Report from January 14, 2016



STAFF REPORT

AGENDA: January 14, 2016

DATE: January 5, 2016

TO: Library Facilities Financing Authority (LFFA) Board of Directors

FROM: Marcus Pimentel, Interim Executive Director

SUBJECT: Item 6.a. –Annual election of Board Chair and Board Vice-Chair

RECOMMENDATION

That by motion the Board elects the Calendar year 2016 Board Chair and Vice-Chair as the City of Capitola and City of Santa Cruz respectively.

BACKGROUND

The LFFA agreement requires that at the first meeting of January the Board shall elect a Chair and a Vice-Chair. The Chair is the presiding officer and shall sign all contracts of the LFFA unless otherwise provided by a Board resolution.

DISCUSSION

At the LFFA’s first meeting in January 2015, the Board established a rotation schedule that would set for 2016 the City of Capitola as the Chair and the City of Santa Cruz as the Vice-Chair. The rotation for 2016 and the next 4 years are as follows:

<i>Year</i>	<i>Chair</i>	<i>Vice-Chair</i>
2016	City of Capitola	City of Santa Cruz
2017	City of Santa Cruz	City of Scotts Valley
2018	City of Scotts Valley	County of Santa Cruz
2019	County of Santa Cruz	City of Capitola
2020	City of Capitola	City of Santa Cruz

Prepared and approved by:
Marcus Pimentel
Interim Executive Director

ATTACHMENTS:

None

STAFF REPORT

AGENDA: February 7, 2019

TO: Board of Directors

FROM: Nicole Coburn, Assistant County Administrative Officer

SUBJECT: Financing Schedule 2019 Special Tax Bonds

RECOMMENDATION

Receive Financing Schedule for the 2019 Special Tax Bonds.

DISCUSSION

In 2016, the LFFA formed a community facilities district to finance modernization, upgrades and repairs of local libraries in Santa Cruz, Aptos, Live Oak, Scotts Valley, Boulder Creek, Capitola, Felton and La Selva Beach. On June 7, 2016, Santa Cruz County voters approved Measure S, which authorized the LFFA to issue up to \$67,000,000 in bonds, and levy a special tax annually on parcels within the community facilities district to pay debt service on the bonds and directly pay the costs of the authorized library projects.

The LFFA issued the first series of bonds in June 2017. The first series provided total net proceeds of \$22,003,758. After deducting issuance costs of \$377,311, members received a total of \$21,626,447 from the first series, as shown below.

	2017 Special Tax Bonds
City of Capitola	\$7,526,447
City of Santa Cruz	\$500,000
City of Scotts Valley	\$500,000
County of Santa Cruz	\$13,100,000
Total	\$21,626,447

The attached financing schedule details the actions that must be taken for the second series in June 2019. Members are being asked to finalize their bond funding requests by February 14 so that the Board may consider the bond expenditure plan for the second series at its meeting on March 7, 2019. The Board will have the option to approve the plan or provide additional input that will be incorporated and presented for approval on May 2, 2019. It will be necessary to approve the bond financing documents at the May meeting.

**SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY
COMMUNITY FACILITIES DISTRICT NO. 2016-1
2019 SPECIAL TAX PARITY BONDS**

FINANCING SCHEDULE

<u>Scheduled to be Completed</u>	<u>Date to Complete</u>
Members finalize bond funding requested amount	February 14
Agenda Deadline for March 7	February 28
Authority approves Bond Expenditure Plan (Second Series)	March 7
Authority approves Bond Consulting Contracts	March 7
Municipal Advisor distributes draft Preliminary Official Statement	March 22
Bond Counsel distributes draft Legal Documents/Resolutions	March 22
Initial comments due on draft Preliminary Official Statement	April 5
Municipal Advisor and Bond Counsel distribute revised Financing Documents	April 8
Comments due on Financing Documents	April 16
Staff Reports due to Staff for review	April 22
Submit Documents to Rating Agency/Bond Insurer	April 24
Agenda Deadline for May 2	April 25
Authority adopts Continuing Disclosure Practices	May 2
Authority approves Financing Documents	May 2
Receive Rating/Bond Insurance	May 15
Final Comments received on Preliminary Official Statement	May 20
Post Preliminary Official Statement on-line	May 22
Agenda Deadline for June 6 (if necessary)	May 30
Competitive Sale of Bonds	June 4
Bond Counsel distributes Closing Documents	June 10
Municipal Advisor delivers Final Official Statement to Printer	June 11
Bond Closing	June 20