

**Santa Cruz
Public Libraries
Joint Powers
Authority**

Santa Cruz, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2012

Santa Cruz Public Libraries Joint Powers Authority
Basic Financial Statements
For the year ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and major fund of the Santa Cruz Public Libraries Joint Powers Authority, (Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 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 major fund of the Authority, as of June 30, 2012, 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 February 12, 2013, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. These are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lance, Soll & Lughard, LLP

Brea, California
February 12, 2013

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, 2012.

I. Financial Highlights

- **Government-Wide Highlights:**

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$3,219,526 (*net assets*). A component of this balance represents \$1,282,715 of net investment in capital assets; however, the remainder of net assets consists of unrestricted net assets of \$1,936,811. 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 \$741,038 in fiscal year 2012 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 increased by \$786,938 at the end of the fiscal year. All asset categories, except two, experienced increases during the year, including Cash and Cash Equivalents of \$921,126, Interest Receivable of \$557, Taxes Receivable of \$79,835 and Accounts Receivable of \$15,036. The asset category Due from Other Governments decreased by \$63,233 and Net Capital Assets decreased by \$166,383.

The Authority's total liabilities increased by \$45,900 during the fiscal year due to increases in Accounts Payable of \$142,153 and Deposits Payable of \$452, coupled with decreases in Loans Payable of \$43,009, Notes Payable of \$40,293, Deferred Revenue of \$12,072, Interest Payable of \$1,331.

- **Fund Highlights:**

As of the close of the fiscal year, the Authority's general fund reported a fund balance of \$2,292,113 which is an increase of \$822,788 in comparison with the prior year amount. The fund balance is a measure of whether the Authority will have sufficient resources to meet its near-term obligations.

The Authority's general fund total assets increased by \$953,321 and the total liabilities increased by \$130,533 during the fiscal year. Changes in assets consist of increases in Cash and Cash Equivalents of \$921,126, Interest Receivable of \$557, Taxes Receivable of \$79,835 and Accounts Receivable of \$15,036. There was a decrease in Due from Other Governments of \$63,233. Changes in liabilities consist of a decrease in Deferred Revenue of \$12,072 coupled with increases in Accounts Payable and Deposits Payable of \$142,153 and \$452 respectively.

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Santa Cruz Public Libraries Joint Powers Authority's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., interest on long-term debt due but unpaid at the end of the fiscal year).

The Authority's library services function is principally supported by taxes and intergovernmental revenues, and is therefore considered a *governmental activity*. The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements can be found on pages 11-14 of this report.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund statements focus on *near-term inflows and outflows of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority has one governmental fund, the general fund, which is used to account for all of its activities.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18-30 of this report.

II. Overview of the Financial Statements (Continued)

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents a section containing *required supplementary information* which includes a budgetary comparison schedule for the general fund to demonstrate compliance with the budget. This section can be found on pages 32-33 of this report.

III. Government-wide Financial Analysis

By far the largest portion of the Authority's net assets reflects its investment in capital assets, primarily machinery, furnishings, equipment and leasehold improvements. These assets are used to provide services to citizens; consequently, they are not available for future spending. The table below shows the components of the net assets.

Santa Cruz Public Libraries Net Assets At June 30, 2012

	2012	2011
Total assets	\$ 3,982,476	\$ 3,195,538
Current liabilities	500,939	369,586
Noncurrent liabilities	262,011	347,464
Total liabilities	762,950	717,050
Net assets:		
Invested in capital assets, net	1,282,715	1,449,098
Restricted	-	-
Unrestricted	1,936,811	1,029,390
Total net assets	\$ 3,219,526	\$ 2,478,488

The figure in *unrestricted net assets* represents the balance in the amounts normally used to meet the Authority's ongoing obligations. At June 30, 2012, the Authority had a balance of \$1,936,811 in unrestricted net assets which is a significant improvement from the balance of \$1,029,390 in the prior fiscal year end.

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

III. Government-wide Financial Analysis, Continued

Santa Cruz Public Libraries Changes in Net Assets Fiscal year ended June 30, 2012

	2012	2011
General revenues:		
Sales Tax	\$ 6,036,252	\$ 5,667,332
Unrestricted Investment Earnings	23,829	18,819
Miscellaneous Revenue	29,036	101,631
Total general revenues	6,089,117	5,787,782
Program revenues	5,471,960	5,752,693
Other financing sources	-	-
Total revenues	11,561,077	11,540,475
Expenditures	10,820,039	10,643,331
Changes in net assets	741,038	897,144
Net assets - beginning of year	2,478,488	1,581,344
Net assets - end of year	\$ 3,219,526	\$ 2,478,488

The Authority's net asset increased by \$741,038 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 \$2,292,113, which is an increase of \$822,788 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 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 \$95,922, due to increases in Intergovernmental of \$28,422 and increases in Other Revenues of \$67,500. The final amended budget is more than the original budget for expenditures and other financing uses by \$461,276, due to increases in Personnel Services of \$17,440, Services, Supplies and Other Charges of \$348,836 and Capital Outlay of \$95,000.

The actual revenues and other financing sources were more than the final amended budget by \$495,246. The actual expenditures and other financing uses were less than the final amended budget by \$969,387.

VI. Capital Asset and Debt Administration

Capital Assets. As of June 30, 2012, the Authority's investment in capital assets was \$1,282,715 (net of accumulated depreciation), which is \$166,383 less than the prior year. The decrease was attributed entirely to additional accumulated depreciation.

Long-term Debt. At the end of the current fiscal year, the Authority had total long-term debt outstanding of \$347,464, which consisted of outstanding note obligations of \$40,294 and outstanding loan obligations of \$307,170. The Authority's long-term debt decreased by \$83,302 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 2011-12 revenues (excluding other financing sources), 52% 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 increased during fiscal year 2011-12, but is not expected to increase significantly in fiscal year 2012-13. 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 primarily declining revenues in prior years, the Authority had enacted such actions as employee layoffs, work furloughs, less spending on books and reductions in branch hours. The Library Joint Powers Authority Board, anticipating a continued poor economy, is engaged in a financial planning process in which it hopes to set priorities for future library growth and spending. In fiscal year 2011-2012, the Library Joint Powers Authority implemented a new service model for the library system which is aimed at changing how services are delivered, improving technology at the branches, building up reserves and increasing branch hours.

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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BASIC FINANCIAL STATEMENTS

Santa Cruz Public Libraries

Statement of Net Assets

June 30, 2012

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,734,558
Interest receivable	4,075
Taxes receivable	590,897
Accounts receivable	15,036
Due from other governments	355,195
Total current assets	<u>2,699,761</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,282,715</u>
Total assets	<u><u>3,982,476</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and other current liabilities	403,954
Interest payable	7,838
Unearned revenue	3,098
Deposits payable	596
Loans payable - current portion	45,159
Notes payable - current portion	40,294
Total current liabilities	<u>500,939</u>
Noncurrent liabilities:	
Loans payable - due in more than one year	<u>262,011</u>
Total noncurrent liabilities	<u>262,011</u>
Total liabilities	<u><u>762,950</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	1,282,715
Unrestricted	<u>1,936,811</u>
Total net assets	<u><u>\$ 3,219,526</u></u>

Santa Cruz Public Libraries
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total	
Primary government:					
Library services	\$ 10,803,447	\$ 213,223	\$ 5,258,737	\$ 5,471,960	\$ (5,331,487)
Interest on long-term debt (unallocated)	16,592	-	-	-	(16,592)
Total primary government	\$ 10,820,039	\$ 213,223	\$ 5,258,737	\$ 5,471,960	(5,348,079)
		General Revenues:			
					6,036,252
					23,829
					29,036
				Total general revenues	6,089,117
				Change in net assets	741,038
				Net assets - beginning of year	2,478,488
				Net assets - end of year	\$ 3,219,526

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries
Balance Sheet
Governmental Fund
June 30, 2012

	Major Fund General
ASSETS	
Cash and cash equivalents	\$ 1,734,558
Interest receivable	4,075
Taxes receivable	590,897
Accounts receivable	15,036
Due from other governments	355,195
Total assets	\$ 2,699,761
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and other current liabilities	\$ 403,954
Unearned revenue	3,098
Deposits payable	596
Total liabilities	407,648
Fund Balances:	
Unrestricted:	
Committed	80,291
Unassigned	2,211,822
Total fund balance	2,292,113
Total liabilities and fund balance	\$ 2,699,761

Santa Cruz Public Libraries
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2012

Total Fund Balance - Total Governmental Fund \$ 2,292,113

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
Lease Improvements	2,018,031
Machinery and equipment	1,648,085
Software	3,983
Construction in progress	71,353
Less accumulated depreciation	<u>(3,038,420)</u>
Total capital assets	1,282,715

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. (7,838)

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	\$ (45,159)	\$ (262,011)	(307,170)
Notes Payable	(40,294)	-	<u>(40,294)</u>
Total long-term liabilities	<u>\$ (85,453)</u>	<u>\$ (262,011)</u>	<u>(347,464)</u>

Net Assets of Governmental Activities \$ 3,219,526

Santa Cruz Public Libraries
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the year ended June 30, 2012

	<u>Major Fund</u> <u>General</u>
REVENUES:	
Taxes	\$ 6,036,252
Intergovernmental	5,132,007
Charges for services	15,665
Fines and forfeitures	197,558
Use of money and property	23,829
Other revenues	<u>155,766</u>
Total revenues	<u>11,561,077</u>
EXPENDITURES:	
Current:	
Personnel services	7,370,616
Services, supplies, and other charges	3,266,448
Debt service:	
Principal	83,302
Interest	<u>17,923</u>
Total expenditures	<u>10,738,289</u>
REVENUES OVER (UNDER) EXPENDITURES	822,788
Net change in fund balance	822,788
FUND BALANCE:	
Beginning of year	<u>1,469,325</u>
End of year	<u>\$ 2,292,113</u>

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, 2012

Net Change in Fund Balance - Total Governmental Funds	\$ 822,788
<p>Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:</p>	
<p>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.</p>	(166,383)
<p>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.</p>	83,302
<p>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.</p>	
<p> Prior year interest payable</p>	\$ 9,169
<p> Current year interest payable</p>	<u>7,838</u>
<p> Change between prior and current year</p>	1,331
Change in Net Assets of Governmental Activities	<u><u>\$ 741,038</u></u>

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NOTES TO BASIC FINANCIAL STATEMENTS

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements
For the year ended June 30, 2012

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, 2012

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, 2012

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, 2012

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances

GASB Statement No. 54 defines the components of fund balance and classifies it into five categories. Nonspendable fund balance is amounts that are legally or contractually required to be maintained intact, such as the principal of an endowment. Restricted fund balance is amounts that are subject to externally enforceable restrictions, such as those imposed by creditors, grantors or laws. Committed fund balance is amounts whose use is constrained by limitations that the government imposes upon itself by the highest level of decision making body. Assigned fund balance is amounts whose intended use is established by the governing body or its specified delegate. Unassigned fund balance is the excess of total fund balance over the other four categories combined. Prior to the implementation of GASB Statement No. 54, encumbrances were reported in the financial statements as a reservation of fund balance. Encumbrances are now reported as assigned fund balance if they are not already included in nonspendable, restricted or committed fund balance.

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 \$1,734,558 at June 30, 2012. 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 26, 2012, which is more conservative than that allowed by the 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 Successor Agency (Redevelopment)
- 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

Investments Authorized by the City's Investment Policy, Continued

- 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.
- 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.
- 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.

Bond proceeds held by fiscal agents to be used only for specific capital outlay, payments of certain long-term debt and maintaining required reserves are invested in accordance with the requirements and restrictions of the City's investment policy unless provided for otherwise by the City Council or Redevelopment Agency Board and as permitted by specific State statutes, applicable City ordinance or resolution, and bond indenture requirements.

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, 2012, 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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

Investment in State Investment Pool, Continued

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, 2012, the City had \$54,440,528 invested in LAIF accounts, which had invested 3.467% of the pool investments in structured notes and asset-backed securities as compared to 5.006% in the previous year. The City's share of structured notes and asset-backed securities due to its holdings in LAIF amounted to approximately 1.064% of investments at June 30, 2012.

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 with a weighted average maturity of 449 days at June 30, 2012.

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, 2012, the City held \$28,842,351 in callable securities, which amounted to approximately 16.57% of investments at June 30, 2012. 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

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City manages credit risk by evaluating and pre-qualifying banks and primary dealers and by investing in securities with top ratings issued by nationally recognized statistical rating organizations. 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. Although the investment in the Dreyfus California AMT-Free Muni Fund is not rated, and therefore, not in compliance with the City policy, it was authorized by City Council and City Officials as a necessary investment to preserve the tax-exempt status of the related bond proceeds.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

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.

3. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2012 the Authority's capital assets consisted of the following:

	Balance July 1, 2011	Additions	Deletions	Reclassifications	Balance June 30, 2012
Non-depreciable assets:					
Construction In Progress	\$ 71,353	\$ -	\$ -	\$ -	\$ 71,353
Total non-depreciable assets	71,353	-	-	-	71,353
Depreciable assets:					
Infrastructure	579,683	-	-	-	579,683
Buildings	1,758,907	-	-	(1,758,907)	-
Lease improvements	259,124	-	-	1,758,907	2,018,031
Machinery and equipment	1,648,085	-	-	-	1,648,085
Software	3,983	-	-	-	3,983
Total depreciable assets, at cost	4,249,782	-	-	-	4,249,782
Total capital assets	4,321,135	-	-	-	4,321,135
Less accumulated depreciation:					
Infrastructure	(217,892)	(26,522)	-	-	(244,414)
Buildings	(941,087)	(85,809)	-	1,026,896	-
Lease improvements	(193,391)	(15,172)	-	(1,026,896)	(1,235,459)
Machinery and equipment	(1,515,684)	(38,880)	-	-	(1,554,564)
Software	(3,983)	-	-	-	(3,983)
Total accumulated depreciation	(2,872,037)	(166,383)	-	-	(3,038,420)
Total capital assets, net	\$ 1,449,098	\$ (166,383)	\$ -	\$ -	\$ 1,282,715

In fiscal year 2012, the Authority reclassified the balances from the Buildings asset category into the Lease Improvements asset category, along with the associated accumulated depreciation. The Authority does not own any of its facilities, so any amounts spent on Buildings really relates to Lease Improvements.

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, 2012 was \$166,383.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

3. CAPITAL ASSETS, Continued

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.

4. LONG-TERM DEBT

A summary of long-term debt transactions for the year ended June 30, 2012, is as follows:

Description	Balance			Balance June 30, 2012	Classification	
	July 1, 2011	Additions	Deletions		Due within one year	Due in more than one year
City of Santa Cruz Loan	\$ 350,179	\$ -	\$ (43,009)	\$ 307,170	\$ 45,159	\$ 262,011
2004 Library Debt to County	80,587	-	(40,293)	40,294	40,294	-
Total	\$ 430,766	\$ -	\$ (83,302)	\$ 347,464	\$ 85,453	\$ 262,011

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, 2012 was \$307,170.

The annual installment payments remaining on this loan at June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 45,159	\$ 15,359	\$ 60,518
2014	47,417	13,101	60,518
2015	49,788	10,730	60,518
2016	52,278	8,240	60,518
2017	54,892	5,626	60,518
2018	57,636	2,882	60,518
Total	\$ 307,170	\$ 55,938	\$ 363,108

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

4. LONG-TERM DEBT, Continued

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 0.393% for 2012. The principal balance outstanding at June 30, 2012 was \$40,294.

The annual installment payments remaining on this agreement at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 40,294	\$ 158	\$ 40,452
Total	\$ 40,294	\$ 158	\$ 40,452

5. RELATED PARTY TRANSACTIONS

The cities of Santa Cruz and Watsonville and the County of Santa Cruz are required to provide funding to the Santa Cruz County Library Financing Authority in accordance with the maintenance of effort agreement. The net revenues received by the County Library Financing Authority are then passed through to the Library Joint Powers Authority (Authority) and the City of Watsonville based on a prescribed formula. For fiscal year 2012, the Authority's share of the revenues is \$5,065,063 or 77.39%. Distribution of the member contributions are as follows:

Contributing Member Agencies	County Library Financing Authority Contributions	Less: Miscellaneous Costs	Net Contributions	Library Joint Powers Authority Share (77.39%)	City of Watsonville Library Share (22.61%)
City of Santa Cruz	\$ 1,394,751	\$ (2,713)	\$ 1,392,038	\$ 1,077,298	\$ 314,740
City of Watsonville	541,684	(787)	540,897	418,600	122,297
County of Santa Cruz	4,611,920	-	4,611,920	3,569,165	1,042,755
Total	\$ 6,548,355	\$ (3,500)	\$ 6,544,855	\$ 5,065,063	\$ 1,479,792

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

6. DUE FROM OTHER GOVERNMENTS

Due from other governments include anticipated grant reimbursements from the State for incurred expenditures and funding for Library operations from the County Library Financing Authority. Amounts due are as follows:

	<u>FY 2012</u>
County of Santa Cruz	\$ 353,941
State of California - First 5 Grant	<u>1,254</u>
Total	<u><u>\$ 355,195</u></u>

7. COMMITMENTS AND CONTINGENCIES

A. Commitments

As of June 30, 2012, the Authority had no outstanding commitments.

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, 2012.

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.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

9. FUND BALANCE

In fiscal year 2011, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and the Authority approved a fund balance policy that recognized five fund balance classifications: *nonspendable, restricted, committed, assigned and unassigned*.

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

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

In addition, the Board approved an establishment of a stabilization agreement to cover cash flow issues and unexpected expenditures in future fiscal years. The amount at June 30, 2012 is \$441,254. This amount is included in unassigned fund balance.

The following table shows the classification of the Authority's fund balances at the end of June 30, 2012:

Fund Balance Category	General Fund
Committed for:	
Technology improvements	\$ 4,875
New Felton branch	1,159
JPA Vehicle Replacement	74,257
Unassigned	2,211,822
Total Fund Balances	\$ 2,292,113

10. AUTHORITY'S FINANCIAL CONDITION

At June 30, 2012, the Authority had unrestricted net assets of \$1,936,811, an increase of \$907,421 from the prior year of \$1,029,390 on the Government-Wide Financial Statements, and a surplus fund balance of \$2,292,113, an increase of \$822,788 from the prior year balance of \$1,469,325 on the Fund Financial Statements.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2012

10. AUTHORITY'S FINANCIAL CONDITION, Continued

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

Government-Wide Financial Statements

	Total Net		Unrestricted		Change in	
	Assets (Deficit)	Change \$	Net Assets	Change \$	Net Assets	Change \$
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
2011	2,478,488	897,144	1,029,390	1,040,384	897,144	128,384
2012	3,219,526	741,038	1,936,811	907,421	741,038	(156,106)

Fund Financial Statements

	Total Fund	
	Balance (Deficit)	Change \$
2009	\$ (285,498)	\$ (692,166)
2010	511,782	797,280
2011	1,469,325	957,543
2012	2,292,113	822,788

The Authority has steadily improved its financial condition over the last three fiscal years. Whereas fiscal year 2009 saw a huge drop in the Authority's total net assets of \$936,791, fiscal years 2010, 2011 and 2012 saw an increase of \$768,760, \$897,144 and \$741,038 respectively, 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, \$957,543 and \$822,788 respectively, for fiscal years 2010, 2011 and 2012. These improvements in net assets and fund balance reduce the uncertainties regarding the Authority's ability to conduct future operations.

During fiscal 2011-12, 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 2012-13 with a positive fund balance based on its current budget. The Authority is not anticipating that revenues will increase significantly in fiscal year 2012-13; however, the Authority has continued policies to control expenses, including the implementation of the new service model for the Library.

11. OTHER INFORMATION

In 2011, the Authority approved a new service model for the Library system. Among other things, this new model will change the way services are provided, improve technology at the branches, build up-reserves and increase the number of hours that the branches are open. The new model will also result in changing the classification of Library positions, reducing some employees' hours and laying off certain employees. The implementation of the first phase of the new service model took place in January of 2012.

REQUIRED SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries
Required Supplementary Information
For the year ended June 30, 2012

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 5,501,530	\$ 5,501,530	\$ 6,036,252	\$ 534,722
Intergovernmental	5,157,600	5,186,022	5,132,007	(54,015)
Charges for services	13,600	13,600	15,665	2,065
Fines and forfeitures	225,000	225,000	197,558	(27,442)
Use of money and property	4,096	4,096	23,829	19,733
Other revenues	135,690	203,190	155,766	(47,424)
Total revenues	11,037,516	11,133,438	11,561,077	427,639
EXPENDITURES:				
Current:				
Personnel services	7,903,568	7,921,008	7,370,616	550,392
Services, supplies, and other charges	3,297,182	3,646,018	3,266,448	379,570
Debt service:				
Principal	81,254	81,254	83,302	(2,048)
Interest	23,100	23,100	17,923	5,177
Capital outlay	25,000	120,000	-	120,000
Total expenditures	11,330,104	11,791,380	10,738,289	1,053,091
REVENUES OVER (UNDER)				
EXPENDITURES	(292,588)	(657,942)	822,788	1,480,730
OTHER FINANCING SOURCES (USES):				
Transfers in	-	9,959	83,704	73,745
Transfers out - interagency	-	(148,668)	(83,704)	64,964
Total other financing sources (uses)	-	(138,709)	-	138,709
NET CHANGE IN FUND BALANCE	(292,588)	(796,651)	822,788	1,619,439
BUDGETARY FUND BALANCES:				
Beginning of year	1,469,325	1,469,325	1,469,325	
End of year	\$ 1,176,737	\$ 672,674	\$ 2,292,113	\$ 1,619,439

Santa Cruz Public Libraries
Required Supplementary Information
For the year ended June 30, 2012

1. BUDGETARY BASIS OF ACCOUNTING

An annual budget is adopted by the Authority on or before June 30 for the fiscal year beginning July 1. The annual budget process begins in February with a public hearing, at which time the Board considers service and budget priorities for the following year. The Director of Libraries then prepares a proposed budget, based upon the service priorities and revenue estimates. The proposed budget is made available to the public for review prior to a public hearing in May of each year. At this hearing, the Board can request supplemental information from the Director of Libraries. This supplemental information, plus an update on available financing for the Library System is presented to the Board for review prior to final budget adoption.

Administratively, the Authority's budget is managed under the policies and procedures of the City. The Director of Libraries is authorized to approve appropriation transfers up to a specified amount; however, any new appropriation requires approval by the Authority Board. Several supplemental appropriations that were necessary during the year are reflected in the final budgeted amounts. Expenditures may not legally exceed appropriations at the department level.

All annual operating appropriations lapse at fiscal year end, except for amounts legally encumbered at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental fund types. Encumbrances outstanding at year-end are reported as reservation of fund balances since they do not constitute expenditures or liabilities, and re-appropriations in the subsequent year provide authority to complete these transactions as expenditures.

In addition, project-length (or non-lapsing) budgets are adopted for capital improvements and other projects, and grant-funded projects or programs that may not be completed within the fiscal year during which the budget appropriation for the project or program originates. Under these circumstances, the appropriation continues until project or program completion, or unless the appropriation is subsequently amended or rescinded by the Authority Board.

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

Santa Cruz Public Libraries
Combining Balance Sheet
Library Operating Funds*
June 30, 2012

	Library Operating Funds						Total Library Operating Funds
	Library JPA Operating	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	JPA Vehicle Replacement	
ASSETS							
Cash and cash equivalents	\$ 1,654,464	\$ -	\$ 4,825	\$ -	\$ 1,147	\$ 74,122	\$ 1,734,558
Interest receivable	3,929	-	9	-	2	135	4,075
Taxes receivable	590,897	-	-	-	-	-	590,897
Accounts receivable	14,985	-	41	-	10	-	15,036
Due from other governments	355,195	-	-	-	-	-	355,195
Total assets	\$ 2,619,470	\$ -	\$ 4,875	\$ -	\$ 1,159	\$ 74,257	\$ 2,699,761
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and other current liabilities	\$ 403,954	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403,954
Unearned revenue	3,098	-	-	-	-	-	3,098
Deposits payable	596	-	-	-	-	-	596
Total liabilities	407,648	-	-	-	-	-	407,648
Fund Balances:							
Unrestricted:							
Committed	-	-	4,875	-	1,159	74,257	80,291
Unassigned	2,211,822	-	-	-	-	-	2,211,822
Total fund balances	2,211,822	-	4,875	-	1,159	74,257	2,292,113
Total liabilities and fund balances	\$ 2,619,470	\$ -	\$ 4,875	\$ -	\$ 1,159	\$ 74,257	\$ 2,699,761

*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, 2012

	Library Operating Funds						Total Library Operating Funds
	Library JPA Operating	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	JPA Vehicle Replacement	
REVENUES:							
Sales and use tax	\$ 6,036,252	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,036,252
Charges for services	12,777	-	-	-	-	-	12,777
Federal grants	30,491	-	-	-	-	-	30,491
State grants	21,782	-	-	-	-	-	21,782
Local grants	14,671	-	-	-	-	-	14,671
Maintenance of effort	5,065,063	-	-	-	-	-	5,065,063
Room rentals	2,888	-	-	-	-	-	2,888
Fines and forfeitures	197,558	-	-	-	-	-	197,558
Investment income	23,147	24	56	-	13	589	23,829
Contributions and donations	54,262	-	-	-	-	-	54,262
From private trusts	72,468	-	-	-	-	-	72,468
Other miscellaneous revenues	29,036	-	-	-	-	-	29,036
Total revenues	11,560,395	24	56	-	13	589	11,561,077
EXPENDITURES:							
Current:							
Personnel services	7,370,616	-	-	-	-	-	7,370,616
Services, supplies, and other charges	3,266,448	-	-	-	-	-	3,266,448
Debt service:							
Principal	83,302	-	-	-	-	-	83,302
Interest	17,923	-	-	-	-	-	17,923
Total expenditures	10,738,289	-	-	-	-	-	10,738,289
REVENUES OVER (UNDER) EXPENDITURES	822,106	24	56	-	13	589	822,788
OTHER FINANCING SOURCES (USES):							
Transfers in	10,036	-	-	-	-	73,668	83,704
Transfers out	(73,668)	(9,561)	-	(475)	-	-	(83,704)
Total other financing sources (uses)	(63,632)	(9,561)	-	(475)	-	73,668	-
Net change in fund balances	758,474	(9,537)	56	(475)	13	74,257	822,788
FUND BALANCES:							
Beginning of year	1,453,348	9,537	4,819	475	1,146	-	1,469,325
End of year	\$ 2,211,822	\$ -	\$ 4,875	\$ -	\$ 1,159	\$ 74,257	\$ 2,292,113

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