

**Santa Cruz
Public Libraries
Joint Powers
Authority**

Santa Cruz, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2006

Santa Cruz Public Libraries Joint Powers Authority
Basic Financial Statements
For the year ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Santa Cruz Public Libraries Joint Powers Authority (Authority) as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

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

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

Caporicci & Larson

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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, 2006.

I. Financial Highlights

- **Government-Wide Highlights:**

The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$2,576,158 (*net assets*). Of this amount, a balance of \$740,022 is unrestricted and available to meet the Authority's ongoing obligations (*unrestricted net assets*). The remainder of net assets consists of \$1,836,136 net investment in capital assets.

Changes in Net Assets - The Authority's total net assets increased by \$475,300 in fiscal year 2006.

The Authority's total Liabilities decreased by \$267,169 during the fiscal year due to decrease in Accounts Payable of \$61,363 and a decrease in Notes and Leases Payable of \$208,194.

- **Fund Highlights:**

As of the close of the fiscal year, the Authority's general fund reported an ending fund balance of \$1,110,680 which is an increase of \$470,148 in comparison with the prior year amount. This was due mainly to an unanticipated increase in Sales Tax of \$121,103 and to reduced cost in Personnel Services of \$167,215. Of this balance, \$650,379 is unreserved and undesignated.

The Authority's general fund total liabilities decreased by \$31,978 during the fiscal year. Changes in liabilities consist of a decrease of \$61,363 in accounts payable, and an increase of \$23,868 in Due to Other Funds.

II. Overview of the Financial Statements

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

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

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

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

The Authority's Library services function is principally supported by taxes and intergovernmental revenues, and is therefore considered a *governmental activity*. The government-wide financial statements can be found on pages 8-9 of this report.

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

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

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

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

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15-23 of this report.

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

III. Government-wide Financial Analysis

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

Santa Cruz Public Libraries
Net Assets
At June 30, 2006

	2006	2005
Total assets	\$ 3,455,047	\$ 3,246,916
Current liabilities	637,130	776,735
Noncurrent liabilities	241,759	369,323
Total liabilities	878,889	1,146,058
Net assets:		
Invested in capital assets, net	1,836,136	1,787,136
Restricted	-	-
Unrestricted	740,022	313,722
Total net assets	\$ 2,576,158	\$ 2,100,858

The \$740,022 in *unrestricted net assets* represents the balance in the amounts normally used to meet the Authority’s ongoing obligations.

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

Santa Cruz Public Libraries
Changes in Net Assets
 Fiscal year ended June 30, 2006

	2006	2005
General revenues:		
Sales Tax	\$ 6,336,018	\$ 5,997,615
Unrestricted Investment Earnings	39,731	13,712
Miscellaneous Revenue	3,325	8,948
Total general revenues and transfers	6,379,074	6,020,275
Program revenues	5,459,852	5,043,361
Total revenues	11,838,926	11,063,636
Expenses	11,363,626	10,758,442
Change in net assets	475,300	305,194
Net assets - beginning of year	2,100,858	3,739,358
Prior period adjustments (Note 4)	-	(1,943,694)
Net assets - end of year	\$ 2,576,158	\$ 2,100,858

The Authority's net assets increased by \$ 475,300 during the fiscal year due to increases in revenues not offset by increases in expenses.

IV. Financial Analysis of the Authority's Funds

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

Governmental Funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. As mentioned above, such information may be useful in assessing the Authority's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the fiscal year, the Authority's general fund reported an ending fund balance of \$1,110,680, which is an increase of \$470,148 in comparison with the prior year amount. This was due to surplus in estimated revenues of \$775,290, and offset by an increase in estimated expenditures of \$534,492. The fund balance amount represents \$650,379 in unreserved and undesignated and \$460,301 of designated fund balance.

The Authority's general fund *unreserved fund balance* at the end of the current fiscal year was \$1,110,680.

V. Budgetary Highlights

The final amended budget is more than the original budget for revenues by \$673,308, due to increases in sales tax and in the maintenance of effort contributions from the members of the JPA. The final amended budget is more than the original budget for expenses by \$554,208, due to increases in employee costs, as well as increases in book purchases.

The final actual revenues are greater than the final amended budget by \$205,641, making the final actual greater than the original budget for revenues by \$878,949. The final actual expenses are greater than the final amended budget by \$330,644, making the final actual greater than the original budget for expenses by \$884,852.

The actual fund balance is better than final amended budget by \$536,285.

VI. Capital Asset and Debt Administration

Capital Assets. As of June 30, 2006, the Authority's investment in capital assets was \$1,836,136 (net of accumulated depreciation), which is \$206,171 lower than the prior year due to additional lease improvement and equipment of \$30,409 and depreciation of \$236,580.

Long-term Debt. At the end of the current fiscal year, the Authority had total long-term debt outstanding of \$241,759, which consisted of note obligations due in more than one year. The Authority's long-term debt decreased by \$127,563 during the fiscal year due to scheduled annual repayment of existing debt. The Authority did not issue any new debt during the year. Additional information on the Authority long-term debt can be found in Note 3 of this report.

VII. Economic Factors and Next Year's Budgets

57% of the Library's revenues come from a dedicated quarter cent sales tax approved by the voters in 1996. The balance of the revenue is local contributions, property tax collected in the County unincorporated areas designated for libraries, bequest income, and fees and fines. Sales tax revenues are driven by the general health of the local economy. Growth has been slow in recent years. Property tax collections, on the other hand, have been strong, although budget transfers from the State have had a negative impact on the library budget. The Library Joint Powers Authority Board, anticipating major capital expenditures for buildings as well as the need to reauthorize the sales tax in 2012, is engaged in a financial planning process in which it hopes to set priorities for future library growth.

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, 1543 Pacific Avenue, Santa Cruz, California.

BASIC FINANCIAL STATEMENTS

Santa Cruz Public Libraries

Statement of Net Assets

June 30, 2006

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 510,464
Interest receivable	10,813
Taxes receivable	553,799
Due from other governments	543,835
Total current assets	<u>1,618,911</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,836,136</u>
Total assets	<u><u>3,455,047</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and other current liabilities	492,512
Interest payable	1,336
Deferred revenue	15,024
Deposits payable	695
Leases payable - current portion	87,270
Notes payable - current portion	40,293
Total current liabilities	<u>637,130</u>
Noncurrent liabilities:	
Leases payable - due in more than one year	-
Notes Payable - due in more than one year	241,759
Total noncurrent liabilities	<u>241,759</u>
Total liabilities	<u><u>878,889</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	1,836,136
Unrestricted	740,022
Total net assets	<u><u>\$ 2,576,158</u></u>

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

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	\$ 11,348,054	\$ 275,850	\$ 5,184,002	\$ 5,459,852	\$ (5,888,202)
Interest on long-term debt (unallocated)	15,572	-	-	-	(15,572)
Total primary government	\$ 11,363,626	\$ 275,850	\$ 5,184,002	\$ 5,459,852	(5,903,774)
General Revenues and Transfers:					
Taxes:					
					6,336,018
					6,336,018
					39,731
					3,325
					6,379,074
					475,300
					2,100,858
					\$ 2,576,158

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries

Balance Sheet

Governmental Fund

June 30, 2006

	<u>Major Fund</u> <u>General</u>
ASSETS	
Cash and cash equivalents	\$ 510,464
Interest receivable	10,813
Taxes receivable	553,799
Due from other governments	543,835
Due from other funds	23,868
Total assets	\$ 1,642,779
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and other current liabilities	\$ 492,512
Deferred revenue	15,024
Deposits payable	695
Due to other funds	23,868
Total liabilities	532,099
Fund Balances:	
Unreserved:	
Designated:	
Branch upgrades	-
Contingencies	137,468
Technology upgrades	141,076
Capital projects	131,360
Felton Branch	50,397
Undesignated	650,379
Total fund balance	1,110,680
Total liabilities and fund balance	\$ 1,642,779

See accompanying Notes to Basic Financial Statements.

Santa Cruz Public Libraries
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Total Fund Balance - Total Governmental Fund \$ 1,110,680

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	247,720
Buildings	1,758,907
Lease Improvements	214,124
Machinery and equipment	1,521,426
Software	61,760
Construction in progress	58,713
Less accumulated depreciation	<u>(2,026,514)</u>
Total capital assets	<u>1,836,136</u>

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

(1,336)

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

Leases payable - current portion	(87,270)
Notes payable - current portion	(40,293)
Leases payable - due in more than one year	-
Notes Payable - due in more than one year	<u>(241,759)</u>
Total long-term liabilities	<u>(369,322)</u>

Net Assets of Governmental Activities \$ 2,576,158

Santa Cruz Public Libraries
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the year ended June 30, 2006

	<u>Major Fund</u> <u>General</u>
REVENUES:	
Taxes	\$ 6,336,018
Intergovernmental	5,159,947
Charges for services	24,262
Fines and forfeitures	251,588
Use of money and property	39,731
Other revenues	27,380
Total revenues	<u>11,838,926</u>
EXPENDITURES:	
Current:	
Personnel services	7,889,488
Services, supplies, and other charges	3,013,327
Debt service:	
Principal	208,194
Interest	18,701
Capital outlay	239,068
Total expenditures	<u>11,368,778</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>470,148</u>
FUND BALANCE:	
Beginning of year	<u>640,532</u>
End of year	<u>\$ 1,110,680</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, 2006

Net Change in Fund Balance - Total Governmental Funds \$ 470,148

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

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

Capital outlay	239,068	
Not capitalized (expensed)	(208,659)	
		30,409

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. (236,580)

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

Lease principal payments		208,194
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Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. Therefore, it was not reported as an expenditure in the governmental fund.

Prior year interest payable	4,465	
Current year change in interest payable	(1,336)	
		3,129

Change in Net Assets of Governmental Activities \$ 475,300

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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, 2006

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

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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

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

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

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all governmental funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Authority presented one major governmental fund.

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

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

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Cash Equivalents

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

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

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

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

The City investments with LAIF at June 30, 2006, included a small portion of the pooled funds invested in derivatives and similar transactions. These investments may include the following:

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

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

As of June 30, 2006, the City had pooled cash and investments in LAIF, which had invested 2.567% of the pooled investment funds in derivatives and similar transactions.

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk, and concentration risk.

E. Capital Assets

Capital assets are defined by the Authority as assets having an estimated useful life in excess of one year, and an initial individual cost as follows, depending on the asset type:

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

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets, Continued

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized in accordance with generally accepted accounting principles. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

F. Interest Payable

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

G. Long-Term Debt

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

Fund Financial Statements - The fund financial statements do not present long-term debt. Consequently, long-term debt is shown 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 are 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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances

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

J. Use of Estimates

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

2. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2006 the Authority's capital assets consisted of the following:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Non-depreciable assets:				
Construction In Progress	\$ 58,713	\$ -	\$ -	\$ 58,713
Total non-depreciable assets	58,713	-	-	58,713
Depreciable assets:				
Infrastructure	247,720	-	-	247,720
Buildings	1,758,907	-	-	1,758,907
Lease improvements	190,560	23,564	-	214,124
Machinery and equipment	1,514,581	6,845	-	1,521,426
Software	61,760	-	-	61,760
Total depreciable assets, at cost	3,773,528	30,409	-	3,803,937
Total capital assets	3,832,241	30,409	-	3,862,650
Less accumulated depreciation:				
Infrastructure	(102,101)	(15,456)	-	(117,557)
Buildings	(404,378)	(90,448)	-	(494,826)
Lease improvements	(99,245)	(16,130)	-	(115,375)
Machinery and equipment	(1,122,450)	(114,546)	-	(1,236,996)
Software	(61,760)	-	-	(61,760)
Total accumulated depreciation	(1,789,934)	(236,580)	-	(2,026,514)
Total capital assets, net	\$ 2,042,307	\$ (206,171)	\$ -	\$ 1,836,136

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, 2006 was \$236,580.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CAPITAL ASSETS, Continued

B. Fund Financial Statements

The fund financial statements do not present general government capital assets. Consequently, capital assets are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

3. LONG-TERM DEBT

A summary of long-term debt transactions for the year ended June 30, 2006, is as follows:

Description	Balance			Balance June 30, 2006	Classification	
	July 1, 2005	Additions	Deletions		Due within one year	Due in more than one year
2001 Lease Purchase Agreements	\$ 255,171	\$ -	\$ (167,901)	\$ 87,270	\$ 87,270	\$ -
2004 Library Debt to County	322,345	-	(40,293)	282,052	40,293	241,759
Total	\$ 577,516	\$ -	\$ (208,194)	\$ 369,322	\$ 127,563	\$ 241,759

2001 Lease Purchase Agreements

On July 23, 2001, the Authority entered into a lease purchase agreement with Municipal Leasing Associates for two capital improvement projects for building renovations of one branch and parking lot expansion to another branch. The lease purchase agreements are payable in semi-annual installments of \$89,561 with an annual interest rate of 5.25%. The balance outstanding at June 30, 2006 was \$87,270.

The annual installment payments on these agreements at June 30, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 87,270	\$ 2,291	\$ 89,561
Total	\$ 87,270	\$ 2,291	\$ 89,561

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 on August, 2005 and will 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. The balance outstanding at June 30, 2006 was \$282,052.

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

3. LONG-TERM DEBT, Continued

2004 Library Debt to County, Continued

The annual installment payments on this agreement at June 30, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 40,293	\$ 5,610	\$ 45,903
2008	40,293	4,809	45,102
2009	40,293	4,007	44,300
2010	40,293	3,206	43,499
2011	40,293	2,404	42,697
2012	40,293	1,603	41,896
2013	40,294	801	41,095
Total	\$ 282,052	\$ 22,440	\$ 304,492

4. RELATED PARTY TRANSACTIONS

The cities of Santa Cruz and Watsonville and the County are required to provide funding to the Authority in accordance with a maintenance of effort agreement. The contributions for fiscal year 2006 by these agencies were as follows:

	Total County Revenue	Authority's Share (77.75%)
City of Santa Cruz	\$ 1,394,751	\$ 1,084,419
City of Watsonville	541,684	421,159
County of Santa Cruz	4,232,928	3,291,102
Total	\$ 6,169,363	\$ 4,796,680

5. DUE FROM OTHER GOVERNMENTS

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

	2006
City of Santa Cruz	\$ 527,368
Read-to-me Grant	467
LSTA Tuition Reimbursement	8,000
Richardson Trust	8,000
	\$ 543,835

Santa Cruz Public Libraries Joint Powers Authority
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

6. COMMITMENTS AND CONTINGENCIES

A. Commitments

The following is a list of commitments at June 30, 2006:

1. The Authority has committed approximately \$8,215 for furniture. The remaining commitment is \$8,215.
2. The Authority has committed approximately \$44,000 for self check out equipment. The remaining commitment is \$44,000.

As of June 30, 2006, 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.

7. RETIREMENT PLANS

Pension Plan

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

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

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

The Authority assumes its share of pension costs based upon rates established by PERS for the City's general employees. No separate pension benefit obligation is calculated for the Authority, accordingly, no obligation is presented herein. Further information regarding the City's participation in PERS may be found in the City's basic financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries
Required Supplementary Information
For the year ended June 30, 2006

1. BUDGETARY BASIS OF ACCOUNTING

An annual budget is adopted by the Board of the Libraries Joint Powers Authority (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 of Santa Cruz. The Director of Libraries is authorized to approve appropriation transfers up to a specified amount; however, any new appropriation requires approval by the Authority Board. Several supplemental appropriations were necessary during the year and are reflected in the budget amounts in the financial statements. Expenditures may not legally exceed appropriations.

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

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

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

Budgets are adopted each year for the General Fund. This budget is prepared on a basis consistent with Generally Accepted Accounting Principles (GAAP).

Santa Cruz Public Libraries
Required Supplementary Information, Continued
For the year ended June 30, 2006

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts (Budgetary Basis) Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 5,890,992	\$ 6,214,915	\$ 6,336,018	\$ 121,103
Intergovernmental	4,755,000	5,096,210	5,159,947	63,737
Charges for services	24,700	24,700	24,262	(438)
Fines and forfeitures	249,300	249,300	251,588	2,288
Use of money and property	8,930	17,105	39,731	22,626
Other revenues	31,055	31,055	27,380	(3,675)
Total revenues	10,959,977	11,633,285	11,838,926	205,641
EXPENDITURES:				
Current:				
Personnel services	7,916,283	8,056,703	7,889,488	167,215
Services, supplies, and other charges	2,914,669	3,151,428	3,013,327	138,101
Debt service:				
Principal	208,194	208,194	208,194	-
Interest	18,701	18,701	18,701	-
Capital outlay	87,367	264,396	239,068	25,328
Total expenditures	11,145,214	11,699,422	11,368,778	330,644
NET CHANGE IN FUND BALANCES	(185,237)	(66,137)	470,148	536,285
BUDGETARY FUND BALANCES:				
Beginning of year	640,532	640,532	640,532	-
End of year	\$ 455,295	\$ 574,395	\$ 1,110,680	\$ 536,285

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SUPPLEMENTARY INFORMATION

Santa Cruz Public Libraries
Combining Balance Sheet
Library Operating Funds*
June 30, 2006

	Library Operating Funds						Total Library Operating Funds
	Library JPA Operating	Lease-Garfield/ Aptos	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	
ASSETS							
Cash and cash equivalents	\$ 54,279	\$ -	\$ 136,226	\$ 139,865	\$ 130,111	\$ 49,983	\$ 510,464
Interest receivable	6,916	(219)	1,242	1,211	1,249	414	10,813
Taxes receivable	553,799	-	-	-	-	-	553,799
Due from other governments	543,835	-	-	-	-	-	543,835
Due from other funds	23,868	-	-	-	-	-	23,868
Total assets	\$ 1,182,697	\$ (219)	\$ 137,468	\$ 141,076	\$ 131,360	\$ 50,397	\$ 1,642,779
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and other current liabilities	\$ 492,512	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 492,512
Deferred revenue	15,024	-	-	-	-	-	15,024
Deposits payable	695	-	-	-	-	-	695
Due to other funds	-	23,868	-	-	-	-	23,868
Total liabilities	508,231	23,868	-	-	-	-	532,099
Fund Balances:							
Unreserved:							
Designated:							
Branch upgrades	-	-	-	-	-	-	-
Contingencies	-	-	137,468	-	-	-	137,468
Technology upgrades	-	-	-	141,076	-	-	141,076
Capital projects	-	-	-	-	131,360	-	131,360
Felton Branch	-	-	-	-	-	50,397	50,397
Undesignated	674,466	(24,087)	-	-	-	-	650,379
Total fund balances	674,466	(24,087)	137,468	141,076	131,360	50,397	1,110,680
Total liabilities and fund balances	\$ 1,182,697	\$ (219)	\$ 137,468	\$ 141,076	\$ 131,360	\$ 50,397	\$ 1,642,779

*The "Library Operating Funds" constitute 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, 2006

	Library Operating Funds						Total Library Operating Funds
	Library JPA Operating	Lease-Garfield/ Aptos	Contingency Reserve	Technology Reserve	Capital Projects Reserve	Felton Branch Reserve	
REVENUES:							
Sales and use tax	\$ 6,336,018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,336,018
Charges for services	14,838	-	-	-	-	-	14,838
Federal grants	7,240	-	-	-	-	-	7,240
State grants	290,027	-	-	-	-	-	290,027
Maintenance of effort	4,862,680	-	-	-	-	-	4,862,680
Room rentals	5,310	-	-	-	-	-	5,310
Interlibrary loan charges	4,114	-	-	-	-	-	4,114
Fines and forfeitures	251,588	-	-	-	-	-	251,588
Investment income	30,858	(25)	2,884	1,880	3,737	397	39,731
Contributions and donations	12,000	-	-	-	-	-	12,000
From McCaskill trusts	12,055	-	-	-	-	-	12,055
Other miscellaneous revenues	3,325	-	-	-	-	-	3,325
Total revenues	11,830,053	(25)	2,884	1,880	3,737	397	11,838,926
EXPENDITURES:							
Current:							
Personnel services	7,889,488	-	-	-	-	-	7,889,488
Services, supplies, and other charges	3,005,036	8,291	-	-	-	-	3,013,327
Debt service:							
Principal	208,194	-	-	-	-	-	208,194
Interest	18,701	-	-	-	-	-	18,701
Capital outlay	214,101	24,967	-	-	-	-	239,068
Total expenditures	11,335,520	33,258	-	-	-	-	11,368,778
REVENUES OVER (UNDER) EXPENDITURES	494,533	(33,283)	2,884	1,880	3,737	397	470,148
OTHER FINANCING SOURCES (USES):							
Transfer In	-	-	50,000	100,000	-	50,000	200,000
Transfer Out	(200,000)	-	-	-	-	-	(200,000)
Total other financing sources (uses)	(200,000)	-	50,000	100,000	-	50,000	-
Net change in fund balances	294,533	(33,283)	52,884	101,880	3,737	50,397	470,148
FUND BALANCES:							
Beginning of year	379,933	9,196	84,584	39,196	127,623	-	640,532
End of year	\$ 674,466	\$ (24,087)	\$ 137,468	\$ 141,076	\$ 131,360	\$ 50,397	\$ 1,110,680

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