

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of
Santa Clara, California)

Independent Auditor's Report,
Management's Discussion and Analysis,
Basic Financial Statements, and
Required Supplementary Information

For the Year Ended June 30, 2010

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
For the Year Ended June 30, 2010

Table of Contents

	<i>Page(s)</i>
Independent Auditor’s Report	1-2
Management’s Discussion & Analysis (Required Supplementary Information - Unaudited)	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Governmental Activity	7
Statement of Activities – Governmental Activity	8
Governmental Fund Financial Statements:	
Balance Sheet – General Fund	9
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	10
Notes to Basic Financial Statements	11-16
Other Required Supplementary Information - Unaudited:	
Budgetary Comparison Schedule – General Fund.....	17
Notes to Required Supplementary Information	18
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	19-20

Governing Board of the
Library Joint Powers Authority of Santa Clara County
Los Gatos, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activity and major fund of the Library Joint Powers Authority of Santa Clara County (the Authority), a component unit of the County of Santa Clara, California (the County), as of and for the year ended June 30, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund of the Authority as of June 30, 2010, and the respective changes in financial position thereof 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 9, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Gini & Connell LLP
Certified Public Accountants
Walnut Creek, California

February 9, 2011

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

The following discussion and analysis provides an overview of the Library Joint Powers Authority of Santa Clara County (the Authority) financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the Authority's basic financial statements, which follow this section.

Financial Highlights

- At June 30, 2010, the assets of the Authority exceeded its liabilities by \$32,826,537 (net assets). Of this amount, \$30,574,519 (unrestricted net assets) may be used to meet the Authority's ongoing obligations.
- The Authority's total net assets increased by \$158,239 when compared to the prior year.
- At June 30, 2010, the Authority's governmental fund reported an ending fund balance of \$31,121,595, a decrease of \$811,050 when compared to the prior year.
- At June 30, 2010, unreserved fund balance for the governmental fund was \$29,857,408 or 89% of total governmental fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The annual financial report for the Authority includes this management's discussion and analysis (MD&A), the basic financial statements, notes to basic financial statements and other required supplementary information.

The basic financial statements of the Authority are presented showing two different views of the Authority. The government-wide financial statements focus shows both long-term and short-term information on the Authority's overall financial status. The fund financial statements view focuses on the Authority's operations with a short-term focus.

The government-wide financial statements include the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of whether cash is received or paid. The statement of net assets presents information on all assets and liabilities and reports the difference between the two as net assets. The statement of activities presents information showing how the net assets changed during the fiscal year. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The fund financial statements include the balance sheet and statement of revenues, expenditures, and changes in fund balance and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Fund financial statements keep track of specific sources of funding and spending for particular purposes. The Authority has only one fund, which is a governmental fund. The fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's program. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Government-wide Financial Statement Analysis

Statement of Net Assets:

The following table summarizes the net assets of the Authority at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Assets			
Current assets	\$ 34,560,489	\$ 34,060,204	\$ 500,285
Capital assets, net	<u>2,252,018</u>	<u>2,859,624</u>	<u>(607,606)</u>
Total Assets	<u>36,812,507</u>	<u>36,919,828</u>	<u>(107,321)</u>
Liabilities			
Current liabilities	1,818,459	2,127,559	(309,100)
Noncurrent liabilities	<u>2,167,511</u>	<u>2,123,971</u>	<u>43,540</u>
Total Liabilities	<u>3,985,970</u>	<u>4,251,530</u>	<u>(265,560)</u>
Net assets			
Invested in capital assets	2,252,018	2,859,624	(607,606)
Unrestricted	<u>30,574,519</u>	<u>29,808,674</u>	<u>765,845</u>
Total net assets	<u>\$ 32,826,537</u>	<u>\$ 32,668,298</u>	<u>\$ 158,239</u>

As the above table indicates, total assets decreased by \$0.1 million during the year ended June 30, 2010. The decrease in total assets during the year ended June 30, 2010 is due to an increase of current assets of \$0.5 million offset by a decrease of capital assets by \$0.6 million. The increase of current assets was mainly due to the increase of due from other governmental agencies by \$1.6 million related to the Proposition 1A State borrowing offset by the decrease of unrestricted cash and investment and securities lending collateral by \$0.7 million and \$0.3 million, respectively. See discussion of the capital assets activity on page 5. Total liabilities decreased by \$0.3 million mainly due to the decrease of securities lending collateral - due to borrowers at June 30, 2010.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Statement of Activities:

The Statement of Activities identified the various revenue and expenses items, which impact the changes in net assets. The following table summarizes the changes in net assets for the year ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Program expenses - Education - Library operations	\$ 34,380,059	\$ 32,705,003	\$ 1,675,056
Program revenues			
Charges for service	748,720	970,746	(222,026)
Operating grants and contributions	3,132,093	3,469,732	(337,639)
Total program revenues	3,880,813	4,440,478	(559,665)
General revenues			
Property taxes	23,505,988	24,365,520	(859,532)
Library benefit assessments taxes	5,769,172	5,686,000	83,172
Investment earnings	296,710	601,053	(304,343)
Other revenues	1,085,615	407,148	678,467
Total general revenues	30,657,485	31,059,721	(402,236)
Total revenues	34,538,298	35,500,199	(961,901)
Change in net assets	158,239	2,795,196	(2,636,957)
Net assets, beginning of year	32,668,298	29,873,102	2,795,196
Net assets, end of year	<u>\$ 32,826,537</u>	<u>\$ 32,668,298</u>	<u>\$ 158,239</u>

The table above indicates that the Authority's changes in net assets for fiscal year ended June 30, 2010 decreased by \$2.6 million when compared to June 30, 2009. The decrease was due to the increase of program expenses by \$1.7 million, decrease of program revenues by \$0.6 million, and decrease of general revenues by \$0.4 million. The increase of program expenses was the result of the increase of expenses on services and supplies by \$1.0 million. Program revenues decreased because of the decrease of operating grants and contributions by \$0.3 million. The decrease of general revenues was mainly due to the decrease of property taxes by \$0.9 million as property assessed values declined in several of the communities in which the Authority serves.

Financial Analysis of the Authority's Governmental Fund

The analysis of the Authority's governmental fund is covered by the discussion of its government-wide statements above.

Capital Assets

The Authority's investment in capital assets (net of accumulated depreciation) as of June 30, 2010 was \$2.3 million. The investment in capital assets includes equipment and vehicles. For the year ended June 30, 2010, the Authority purchased capital assets of \$0.4 million and depreciation expense totaled to \$1.0 million. Additional information on the Authority's capital assets can be found in Note 4 of this report.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Economic Factors and Next Year's Budgets

The most significant issue confronting the Authority's fiscal standing is the decline in growth of property taxes due to the decline of property assessed values in several of the communities in which the Authority serves. Overall, property taxes are projected to remain nearly flat for fiscal year 2011. Property tax is the single most important revenue source to the Authority and was historically growing at an 8% annual rate as recent as fiscal year 2007. The current reduction in growth, however, will be offset by nearly zero growth in salary and benefit costs budgeted for fiscal year 2011.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Santa Clara County Joint Powers Authority, 14600 Winchester Boulevard, Los Gatos, CA 95032.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Statement of Net Assets - Governmental Activity
June 30, 2010

Assets

Unrestricted cash and investments	\$ 31,803,826
Securities lending collateral	382,404
Other receivables	61,288
Due from other governmental agencies	2,312,971
Capital assets:	
Equipment and vehicles, net of accumulated depreciation	2,252,018
Total assets	<u>36,812,507</u>

Liabilities

Accounts payable	460,832
Accrued salaries and benefits	967,252
Securities lending collateral - due to borrowers	382,404
Due to other governmental agencies	7,971
Accrued vacation and sick leave:	
Due within one year	246,298
Due beyond one year	1,921,213
Total liabilities	<u>3,985,970</u>

Net Assets

Invested in capital assets	2,252,018
Unrestricted	30,574,519
Total net assets	<u>\$ 32,826,537</u>

The notes to the basic financial statements are an integral part of this statement.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Statement of Activities - Governmental Activity
For the Fiscal Year Ended June 30, 2010

Program expenses:	
Education - Library operations	\$ 34,380,059
 Program revenues:	
Charges for service	748,720
Operating grants and contributions	3,132,093
	<hr/>
Total program revenues	3,880,813
	<hr/>
Net program expense	(30,499,246)
	<hr/>
 General revenues:	
Property taxes	23,505,988
Library benefit assessments taxes	5,769,172
Investment earnings	296,173
Securities lending activities:	
Securities lending income	1,479
Securities lending expenses	(942)
Other	1,085,615
	<hr/>
Total general revenues	30,657,485
	<hr/>
Change in net assets	158,239
Net assets, beginning of year	32,668,298
	<hr/>
Net assets, end of year	\$ 32,826,537
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The notes to the basic financial statements are an integral part of this statement.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Balance Sheet - General Fund
June 30, 2010

Assets

Unrestricted cash and investments	\$ 31,803,826
Securities lending collateral	382,404
Other receivables	61,288
Due from other governmental agencies	2,312,971
	2,312,971
Total assets	\$ 34,560,489

Liabilities

Accounts payable	\$ 460,832
Accrued salaries and benefits	967,252
Securities lending collateral - due to borrowers	382,404
Due to other governmental agencies	7,971
Deferred revenue	1,620,435
	1,620,435
Total liabilities	3,438,894

Fund Balance

Fund balance:	
Reserved for encumbrances	1,264,187
Unreserved:	
Designated for future expenditures	10,546,825
Undesignated	19,310,583
	19,310,583
Total fund balance	31,121,595
Total liabilities and fund balance	\$ 34,560,489

Fund balance	\$ 31,121,595
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Amounts reported for governmental activity in the statement of net assets are different because:

Capital assets used in governmental activity are not financial resources and therefore are not reported in the governmental funds.	2,252,018
Long-term receivables are not available to pay for current period expenditures and therefore are deferred in the governmental fund.	1,620,435
Accrued vacation and sick leave are not due and payable in the current period and therefore are not reported in the governmental funds.	(2,167,511)
	(2,167,511)
Net assets of governmental activity	\$ 32,826,537

The notes to the basic financial statements are an integral part of this statement.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**

(A Component Unit of the County of Santa Clara, California)

Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund
For the Fiscal Year Ended June 30, 2010

Revenues:

Taxes	\$ 21,885,553
Library benefit assessments taxes	5,769,172
Fines, forfeitures, and penalties	613,742
Interest and investment income	296,173
Securities lending activities:	
Securities lending income	1,479
Security lending expenditures	(942)
Intergovernmental revenues	3,132,093
Charges for services	134,978
Other revenue	1,085,615
	<u>32,917,863</u>
Total revenues	<u>32,917,863</u>

Expenditures:

Education - library operations:	
Salaries and benefits	21,018,975
Services and supplies	7,875,324
Books and materials	4,416,965
Capital outlay	417,649
	<u>33,728,913</u>
Total expenditures	<u>33,728,913</u>
Net change in fund balance	(811,050)
Fund balance, beginning of year	31,932,645
	<u>\$ 31,121,595</u>

Net change in fund balance \$ (811,050)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	417,649
Depreciation expense	(1,025,255)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund. 1,620,435

The net change in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (43,540)

Change in net assets of governmental activity \$ 158,239

The notes to the basic financial statements are an integral part of this statement.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Basic Financial Statements
June 30, 2010

NOTE 1 – REPORTING ENTITY

During 1994, the cities of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Milpitas, Monte Sereno, Morgan Hill, and Saratoga (the Cities), as well as the County of Santa Clara, a political subdivisions of the State of California (the County), created the Library Joint Powers Authority of Santa Clara County (the Authority) in accordance with the Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (commencing with Section 6500). The purpose of the Authority is to create a coordinated program among the entities to enhance and efficiently provide library services to the residents of the unincorporated areas of the County and the Cities.

The Authority is a separate legal entity that is an integral part of the County. The governing body of the Authority is the Governing Board which comprises one council member from each city and two County Board of Supervisors members designated by the County Manager. The County exercises significant financial and management control over the Authority. The County's Board of Supervisor adopts the Authority's budget as approved by its Governing Board and as recommended by the County Executive. Therefore, the Authority is considered a component unit of the County, and its financial activities are included into the County's basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority's fund financial statements are prepared using the current financial resources focus and the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, except for property taxes, the Authority considers revenues to be available if they are collected within 360 days of the end of the current year. During the year ended June 30, 2010, the Authority changed its availability period from 180 days to 360 days and the change has no material impact to the Authority's financial statements. Revenues meeting this availability criteria include fines, forfeitures, and penalties; intergovernmental revenues; charges for services; and others. The availability period for property taxes is 60 days. Revenues not considered available are recorded as deferred revenues. Expenditures are generally recorded when the fund liability is incurred. Liabilities expected to be paid after one year are recorded in the government-wide financial statements as a noncurrent liability due more than one year.

The Authority reports only one fund, which is the Authority's operating fund that accounts for all financial resources of the Authority.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Basic Financial Statements (Continued)
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority receives funding for specific programs that is restricted to the operation of these programs. The Authority also receives unrestricted revenues from different funding sources. When restricted program expenses are incurred, it is the Authority's policy to first apply revenues from the restricted sources to these programs and then apply unrestricted general revenues.

Cash and Investments

Cash and investments are managed by the County Treasurer in a commingled pool in accordance with the County Investment Policy. The County Treasury Oversight Committee is responsible for the regulatory oversight of the commingled pool. The County reports all of its investments, including the investments of its commingled pool, at fair value. The County Treasurer determines the fair value of the pool on a monthly basis based on quoted market prices. The net appreciation (depreciation) in the fair value of investments is included in investment income. The value of the pooled shares that may be withdrawn is based upon amortized cost, which may be different from fair value. Realized earnings and losses are allocated quarterly to commingled investment pool participants based on the participants' average daily cash balance relative to the entire pool. A negative average cash balance results in an earnings charge that is netted against investment income.

The County's commingled pool consists of cash in bank, U.S. government and agency securities, corporate bonds, negotiable certificates of deposit, commercial paper, securities lending collateral, municipal bonds, money market mutual funds, asset backed securities, and deposits in the State's Local Agency Investment Fund. At June 30, 2010, the County Treasurer's pool has a weighted average to maturity of 326 days and is unrated.

State statutes and the County's investment policy permit the use of a securities lending program. The loaned securities, as of June 30, 2010, consisted of U.S. government and agency securities. In return, the County received collateral in the form of cash equal to at least 102% of the transferred securities plus accrued interest for reinvestment. Collateral received was allocated to pool participants based on their share in the pool. As of June 30, 2010, the Authority's share of collateral was \$382,404 and was reported as assets as well as liabilities in its statement of net assets.

Additional information regarding deposit and investment custodial credit, interest rate and credit risks, concentration of credit risk, and security lending transactions of the County's commingled pool can be found in the notes to the County's basic financial statements.

Property Tax

The reported lien date is January for secured and unsecured property taxes. In accordance with Government Code Section 29100, on or before September 1, the County's Board shall adopt the rates of taxes on the secured roll. The County's Tax Collector then completes the tax bill processing by the end of September. The Revenues and Taxation Code specifics that the Tax collector shall issue secured tax bill by November 1.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Basic Financial Statements (Continued)
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The due dates and delinquency dates for secured taxes are as follows:

- Due date for the first installment is November 1 and delinquent after December 10.
- Due Date for the second installment is February 1 and delinquent after April 10.

In fiscal year 1994, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County distributes 100% of the secured tax levy to participating jurisdictions regardless of collections. To cover losses on delinquent tax sales, the County maintains a Tax Losses Reserve Fund. In return, the County receives all future delinquent tax payments otherwise due to the Authority.

Capital Assets

Capital assets, which include equipment and vehicles, are valued at historical cost. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements. The estimated useful lives for equipment and vehicles are between 5 to 15 years.

Accrued Vacation and Sick Leave

Accrued unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year-end. This liability is recorded in the government-wide statement of net assets to reflect the Authority's obligation to fund such costs from future operations. The Authority includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. The Authority does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination. At June 30, 2010, the Authority recorded accrued vacation and sick leave liability in the amount of \$2,167,511, which was an increase of \$43,540 from the June 30, 2009 liability.

Fund Balance/Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets and unrestricted.

Net assets of the Authority are comprised of the following:

Invested in Capital Assets represents the equity interest in the Authority's capital assets. Accumulated depreciation reduces the balance in this category.

Unrestricted Net Assets represents that portion of net assets that do not meet the definition of invested in capital assets and are not restricted for any project or purpose.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Basic Financial Statements (Continued)
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental funds report fund balance reserves for amounts that are not appropriable for expenditure or legally or contractually segregated for a specific future use. Fund balance designations result from Board action. Such designations are at the discretion of the Board and may be changed by future Board action.

Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – RECEIVABLE - BORROWING OF PROPERTY TAX REVENUES

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislative on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislative may consider one additional borrowing within a ten-year period.

The borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10). The amount of this borrowing pertaining to the Authority was \$1,620,435.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2010 follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2010</u>
<i>Capital assets being depreciated:</i>			
Equipment and vehicles	\$ 5,524,548	\$ 417,649	\$ 5,942,197
<i>Less accumulated depreciation for:</i>			
Equipment and vehicles	<u>(2,664,924)</u>	<u>(1,025,255)</u>	<u>(3,690,179)</u>
Total capital assets being depreciated, net	<u>\$ 2,859,624</u>	<u>\$ (607,606)</u>	<u>\$ 2,252,018</u>

Depreciation expense for the current year amounted to \$1,025,255 was charged to the education - Library operations function.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Basic Financial Statements (Continued)
June 30, 2010

NOTE 5 - EMPLOYEE BENEFIT PLANS

California Public Employees' Retirement System

Plan Description

All eligible County employees, including those of the Authority, participate in the State's Public Employees' Retirement System (PERS). PERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within California. The Authority participates in the County's plan on a cost sharing basis. PERS provides retirement, disability, and death benefits based on the employees' years of service, age and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5 years of PERS-credited service. These provisions and all other requirements are established by State statute and County resolutions. Copies of PERS' annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95814. A separate report for the County's plan in PERS is not available.

Funding Policy

The Authority through the County participates in the miscellaneous plan with PERS. For the year ended June 30, 2010, all County miscellaneous employee participants including the Authority's participants are required to contribute 8% of its covered payroll. The County made 74.5% of the employees' required payroll contributions for fiscal year 2010. The County is also required to contribute at an actuarially determined rate. The County's fiscal year 2010 required contributions as a percentage of annual covered payroll were based on the June 30, 2007 actuarial report and were 12.9% for miscellaneous employees. The contribution requirements of plan members and the County are established and may be amended by PERS. The Authority's annual contributions for the fiscal years 2010, 2009, and 2008 were \$2,244,936, \$2,367,227, and \$2,170,657 respectively. The Authority made these contributions as required.

Information regarding PERS contribution requirements, funding status and progress can be found in the County's basic financial statements. Copies of the CAFR may be obtained from County's Finance Agency, Controller-Treasurer Department, 70 West Hedding Street, 2nd Floor, East Wing, San Jose, CA 95110.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Basic Financial Statements (Continued)
June 30, 2010

NOTE 5- EMPLOYEE BENEFIT PLANS (Continued)

Postemployment Healthcare Plan

Plan Description

The County's defined benefit postemployment healthcare plan provides healthcare benefits to eligible employees and their surviving spouse. All County employees hired prior to August 12, 1996, with at least five years of service and attaining age 50 are covered under the County's Retiree Health Care Program upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased requiring employees to attain a minimum of eight years of service and be at least 50 years of age. For employees hired after June 19, 2006, the eligibility requirements were increased to a minimum of ten years after attaining age 50. For all of the above, employees must retire from PERS directly from the County. As a component unit of the County, the Authority shares in the risks, rewards and costs including benefit costs with the County. The Authority presents the related postemployment healthcare benefit disclosures as a participant in a cost-sharing arrangement with the County.

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by the County's Board of Supervisors. The County's policy is to contribute at an actuarially determined rate. The County's fiscal year 2010 required contribution based on the County's June 30, 2009 actuarial report was \$128.0 million and the required contribution as a percentage of annual covered payroll was 9.5%. For the fiscal year ended June 30, 2010, 2009, and 2008, the Authority paid \$582,424, \$547,562, and \$806,953, respectively, to the County.

Information regarding the County's Retiree Health Care Program contribution requirements, funding status and progress can be found in the County's basic financial statements.

NOTE 6 – LIBRARY BENEFIT ASSESSMENTS TAXES

The Authority levied and the County collected Library Benefit Assessments Taxes revenues within its jurisdictions for library services. During the current year, Library Benefit Assessments revenues in the amount of \$5,769,712 was received and recorded by the Authority for the year ended June 30, 2010.

NOTE 7 – OVERHEAD ALLOCATION

The Authority is allocated a portion of indirect expenses from the County for services provided by central service departments to all County departments. Central service departments include the Controller's Office, County Counsel, General Services Agency and Employee Services Agency. For the year ended June 30, 2010, indirect expenses allocated to the Authority amounted to \$665,643 and were recorded as a component of services and supplies in the Statement of Revenues, Expenditures, and Changes in Fund Balance.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Budgetary fund balances, beginning of year	\$ 28,962,124	\$ 28,962,124	\$ 28,962,124	\$ -
Resources (inflows):				
Taxes	23,143,000	23,143,000	21,885,553	(1,257,447)
Library benefit assessments taxes	5,600,000	5,600,000	5,769,172	169,172
Fines, forfeitures, and penalties	680,000	680,000	613,742	(66,258)
Interest and investment income	610,000	610,000	296,710	(313,290)
Intergovernmental revenues	3,149,419	3,158,298	3,132,093	(26,205)
Charges for services	185,000	185,000	134,978	(50,022)
Other revenue	45,000	466,309	1,085,615	619,306
Total resources (inflows) available for appropriation	<u>33,412,419</u>	<u>33,842,607</u>	<u>32,917,863</u>	<u>(924,744)</u>
Charges to appropriations (outflows):				
Education				
Salaries and benefits	22,353,513	22,362,563	21,018,975	1,343,588
Services and supplies	13,459,671	14,489,025	13,112,186	1,376,839
Capital assets	993,335	1,085,335	861,939	223,396
Reserves	6,088,967	6,088,967	-	6,088,967
Total charges to appropriations	<u>42,895,486</u>	<u>44,025,890</u>	<u>34,993,100</u>	<u>9,032,790</u>
Budgetary fund balances, end of year	<u>\$ 19,479,057</u>	<u>\$ 18,778,841</u>	<u>\$ 26,886,887</u>	<u>\$ 8,108,046</u>

Explanation of Differences between Budgetary Outflows and GAAP Expenditures:

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 34,993,100
Differences - budget to GAAP:	
Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or supplies received for financial reporting purposes	<u>(1,264,187)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance	<u>\$ 33,728,913</u>

See accompanying note to required supplementary information.

**LIBRARY JOINT POWERS AUTHORITY OF
SANTA CLARA COUNTY**
(A Component Unit of the County of Santa Clara, California)
Notes to Required Supplementary Information
June 30, 2010

Budgets and Budgetary Accounting

The Authority proposes a budget that is approved by its Governing Board and adopted by the County Board of Supervisors during the year. This budget is based on anticipated revenues and expenditures for the current year.

Budgeted revenues and expenditures in the budgetary comparison schedule represent the original budget and the final budget modified by authorized adjustments during the year. Budget amounts include reappropriated amounts for prior year encumbrances. The Authority has been granted spending authority by the County Board of Supervisors and may not exceed budgeted expenditures in total for the Authority.

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 accounting. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities

Budgetary Results of Operations Reconciled to Results of Operations in Accordance with GAAP

The Authority's budget is based upon accounting for certain transactions on a budget basis rather than accounting principles generally accepted in the United States of America (GAAP) basis. The results of operations on a budget basis differ from operations on a GAAP basis due to the inclusion of year-end encumbrances as expenditures on a budget basis.

Governing Board of the
Library Joint Powers Authority of Santa Clara County
Los Gatos, California

**Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the governmental activity and major fund of the Library Joint Powers Authority of Santa Clara County (the Authority), a component unit of the County of Santa Clara, California (the County), as of and for the year ended June 30, 2010, and have issued our report thereon dated February 9, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Authority’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Governing Board of Library Joint Powers Authority of Santa Clara County and the Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Certified Public Accountants
Walnut Creek, California

February 9, 2011