

Larry D. Johnson

Certified Public Accountant

November 18, 2009

Council of Librarians
Mountain Valley Library System
55 E Street
Santa Rosa, CA 95404

Dear Council of Librarians:

I am required to communicate to you the requirements of SAS 112 (Statement on Auditing Standards), which addresses internal control issues.

The attached letter identifies the fact that you have outsourced the year end adjustments, preparation of the financial statements and foot notes to me, as you have directed me to do in prior years.

The individuals who sit on the national accounting boards are accustomed to auditing large entities who have their own CPA's on staff. Since you do not, they have decided to call this outsourcing of the above as a material weakness.

I assure you that I did not make up the terminology required for this report. The information of most importance to you is at the bullet "•".

No action is required on your part; and our engagement can remain the same. Please let me know if you have any questions.

Sincerely,



Larry D. Johnson
Certified Public Accountant

Attachment

LDJ:mj

Larry D. Johnson

November 18, 2009

Certified Public Accountant

Council of Librarians
Mountain Valley Library System
55 E Street
Santa Rosa, CA 95404

In planning and performing my audit of the financial statements of Mountain Valley Library System, as of and for the year ended 6/30/09, in accordance with auditing standards generally accepted in the United States of America, I considered Mountain Valley Library System, internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I believe that the following deficiency constitutes a material weakness:

- The District does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles. As such, management requested me to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in entities of your size and is a result of management's cost benefit decision to use my accounting expertise rather than to incur internal resource costs (i.e. hire their own in-house CPA).

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



Larry D. Johnson
Certified Public Accountant

MOUNTAIN VALLEY LIBRARY SYSTEM
FINANCIAL STATEMENTS
June 30, 2009

**MOUNTAIN VALLEY LIBRARY SYSTEM
Financial Statements
For The Year Ended June 30, 2009**

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INDEPENDENT AUDITOR'S REPORT

Council of Librarians
Mountain Valley Library System

I have audited the accompanying financial statements of the governmental activities and major fund of the Mountain Valley Library System (Library) as of and for the year ended June 30, 2009, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Mountain Valley Library System as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, 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*, I have also issued my report dated November 18, 2009 on my consideration of Library's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and pages 20 through 21, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.



Larry D. Johnson
Certified Public Accountant

November 18, 2009
Santa Rosa, CA

MOUNTAIN VALLEY LIBRARY SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the Library's financial performance provides an overview of financial activities for the year ending June 30, 2009. Please read this in conjunction with the financial statements as listed in the Table of Contents.

FINANCIAL HIGHLIGHTS

- Assets exceeded liabilities by \$399,359 as of June 30, 2009. Of this amount, \$19,521 represents the depreciated cost of Capital Assets. The remaining \$379,838 may be used to meet the Library's ongoing obligations to its members.
- The Library increased its net assets for the year by \$15,109 per its "Statement of Activities". Since the "Statement of Revenues, Expenditures and Changes in Fund Balances" uses a different accounting method, there was a decrease in Fund Balances of \$(4,412).
- The Library has continued its' management contract with North Bay Cooperative Library System for the period 7/1/08 to 6/30/09. However, for the 2009/10 year, the Library has merged and will be part of the NorthNet Library System.
- The Library has no long term financing.
- Capital assets of \$20,548 were purchased during the year.
- Actual pooled cash increased \$4,899 from 6/30/08 to 6/30/09.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8-9) provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements start on page 10. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide statements by providing information about the Library's most financially significant funds. This Library, however, has only one fund, it's general fund.

REPORTING THE LIBRARY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

Our analysis of the Library as a whole begins on page 2. One of the most important questions asked about the Library's finances is, "Is the Library as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Library as a whole and about

its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's *net assets* and changes in them. You can think of the Library's net assets, the difference between assets, what the Library owns, and liabilities, what the Library owes, as one way to measure the Library's financial health, or *financial position*. Over time, *increases or decreases* in the Library's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Library's jurisdiction, the availability of capital projects, and continuing local government support to assess the *overall health* of the Library.

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. MVLS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MVLS has one fund, which is a governmental-type fund.

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating MVLS' 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 the general fund with similar information presented for governmental activities. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and change in fund balance provide a column detailing the differences (adjustments) between the general fund and governmental activities. These adjustments are discussed in further detail in Note 1 to the basic financial statements.

NOTES TO THE 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 financial statements can be found on pages 14 through 19 of this report.

OTHER INFORMATION

We also report on "Required Supplementary Information". This consists of a budget to actual comparison. Notes on budgetary procedures are provided for this report. This information begins on page 20.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements provide long-term and short-term information about MVLS' overall financial condition. This analysis addresses the financial statements of MVLS as a whole.

SUMMARIZED STATEMENT OF NET ASSETS

ASSETS	<u>6/30/09</u>		<u>6/30/08</u>	
Pooled Cash & Investments	\$ 399,135	94%	\$ 394,236	100%
Federal Grant Receivable	3,425	1%	-	0%
Capital Assets (Net)	<u>19,521</u>	<u>5%</u>	<u>-</u>	<u>0%</u>
	<u>\$ 422,081</u>	<u>100%</u>	<u>\$ 394,236</u>	<u>100%</u>
LIABILITIES				
Accounts Payable	<u>\$ 22,722</u>	<u>100%</u>	<u>\$ 9,986</u>	<u>100%</u>
	<u>\$ 22,722</u>	<u>100%</u>	<u>\$ 9,986</u>	<u>100%</u>
NET ASSETS				
Invested in Capital Assets	\$ 19,521	5%	\$ -	0%
Unrestricted	<u>379,838</u>	<u>95%</u>	<u>384,250</u>	<u>100%</u>
	<u>\$ 399,359</u>	<u>100%</u>	<u>\$ 384,250</u>	<u>100%</u>

The Library's largest portion of net assets is our cash at 94% for the current year. Therefore, we have a highly liquid financial status as most of our assets are available for future use.

The Library has a minimal amount of liabilities compared to its assets.

The unrestricted net assets have a positive balance of \$379,838 which decreased \$(4,412) from last year.

A summarization of the General Fund Balance Sheet has not been presented due to the fact that they are now both the same.

SUMMARY STATEMENT OF ACTIVITIES

	<u>6/30/09</u>		<u>6/30/08</u>	
PROGRAM REVENUES				
Membership Fees	\$ 52,316	16%	\$ 52,315	18%
GRANTS				
State CLSA Grants	213,850	66%	212,800	74%
Federal LSTA Grant	46,639	14%	-	0%
GENERAL REVENUES				
Interest Income	10,230	3%	20,187	7%
Other General Revenues	<u>3,328</u>	<u>1%</u>	<u>2,860</u>	<u>1%</u>
Total Revenues	<u>\$ 326,363</u>	<u>100%</u>	<u>\$ 288,162</u>	<u>100%</u>
PROGRAM EXPENSES				
Final Salary Benefits	-	0%	2,181	1%
Operating Expenses	310,227	100%	278,953	99%
Depreciation	<u>1,027</u>	<u>0%</u>	<u>-</u>	<u>0%</u>
Total Expenses	<u>311,254</u>	<u>100%</u>	<u>281,134</u>	<u>100%</u>
Increase (Deficit) in Net Assets	\$ 15,109		\$ 7,028	
Net Assets – Beginning of Year	<u>384,250</u>		<u>377,222</u>	
Net Assets – End of Year	<u>\$ 399,359</u>		<u>\$ 384,250</u>	

The majority of revenue came from the State CLSA grants at 66%. The increase in net assets of \$15,109 has improved from the prior year at \$7,028.

SUMMARIZED GENERAL FUND BALANCE SHEET

ASSETS	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>Difference</u>
Cash in County Treasury	\$ 399,135	\$ 394,236	\$ 4,899
Federal Grant Receivable	3,425	-	3,425
Total Assets	<u>\$ 402,560</u>	<u>\$ 394,236</u>	<u>\$ 8,324</u>
LIABILITIES & FUND BALANCES			
Liabilities	\$ 22,722	\$ 9,986	\$ 12,736
	22,722	9,986	12,736
FUND EQUITY			
Unreserved Fund Balance	3,690	8,102	(4,412)
Designated Fund Balances	376,148	376,148	-
	<u>379,838</u>	<u>384,250</u>	<u>(4,412)</u>
Total Liabilities & Fund Equity	<u>\$ 402,560</u>	<u>\$ 394,236</u>	<u>\$ 8,324</u>

SUMMARIZED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND

REVENUES	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>Difference</u>
Membership Fees	\$ 52,316	\$ 52,315	\$ 1
Federal Operating Grant	46,639	-	46,639
State Operating Grant	213,850	212,800	1,050
Interest Income	10,230	20,187	(9,957)
Miscellaneous Income	3,328	2,860	468
	<u>\$ 326,363</u>	<u>\$ 288,162</u>	<u>\$ 38,201</u>
EXPENDITURES			
Final Salary Benefits	-	2,181	(2,181)
Operating Expenses	310,227	278,953	31,274
Equipment Purchases	20,548	-	20,548
	<u>330,775</u>	<u>281,134</u>	<u>49,641</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ (4,412)</u>	<u>\$ 7,028</u>	<u>\$ (11,440)</u>

The decrease in Excess of Revenues over Expenditures for 6/30/09 was negative which shows a general decline in financial condition over the two years.

GENERAL FUND BUDGETARY HIGHLIGHTS

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State CLSA Grants	\$ 213,163	\$ 213,927	\$ 213,850	\$ (77)
Federal LSTA Grant	-	48,015	46,639	(1,376)
Member Fees	51,558	52,316	52,316	-
Miscellaneous Revenues	16,306	14,725	3,328	(11,397)
Interest Income	14,000	14,000	10,230	(3,770)
Total Revenues	<u>295,027</u>	<u>342,983</u>	<u>326,363</u>	<u>(16,620)</u>
EXPENDITURES				
Communications	100	833	2,198	(1,365)
Telephone Service Chgs.	300	300	116	184
Office Expense	2,138	3,005	3,318	(313)
Postage	4,000	4,000	2,647	1,353
Supplies	30,211	30,356	33,827	(3,471)
Professional/Special	7,200	21,006	24,531	(3,525)
County Services	5,000	5,000	3,354	1,646
Contract Svs	210,141	210,141	213,761	(3,620)
Public/Legal Notices	200	1,400	4,154	(2,754)
Special Dept.	637	612	-	612
Training-in-Service	30,000	32,775	20,117	12,658
Travel	1,700	4,462	1,337	3,125
Private Car Exp	3,400	2,550	867	1,683
Equipment	-	24,000	20,548	3,452
Total Expenditures	<u>295,027</u>	<u>340,440</u>	<u>330,775</u>	<u>6,213</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ 2,543</u>	<u>\$ (4,412)</u>	<u>\$ (10,407)</u>

The Library makes budgetary adjustments during the year to reflect changing conditions. The primary change was due to the \$48,015 Federal LSTA Grant and its related expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration

The Library has no long term debt outstanding such as bond issuance or capital leases.

Capital Assets

The Library purchased \$20,548 in office equipment.

ECONOMIC FACTORS AND FUTURE EVENTS

No budgetary information solely for the Library is available due to its merger into NorthNet Library System effective 7/1/09. See the applicable footnotes entitled, "Subsequent Events".

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens and taxpayers with a general overview of our finances and to show the accountability for the money received. If you have any questions about this report or need additional financial information, contact the Library's office at (707) 544-0142.

Annette Milliron Debacker
System Administrator

MOUNTAIN VALLEY LIBRARY SYSTEM
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS:	
Cash in County Treasury	\$ 399,135
Federal Grant Receivable	3,425
Capital Assets:	
Office Equipment	20,548
	<u>20,548</u>
Less: Accumulated Depreciation	<u>(1,027)</u>
Total Capital Assets, Net of accumulated Depreciation	19,521
Total Assets	<u><u>\$ 422,081</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 22,722</u>
Total Liabilities	<u><u>\$ 22,722</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	19,521
Unrestricted	<u>379,838</u>
Total Net Assets	<u><u>\$ 399,359</u></u>

The accompanying notes are an integral part of the financial statements

MOUNTAIN VALLEY LIBRARY SYSTEM
STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For The Year Ended June 30, 2009

Program Expenses	
Library Services	
Operating Expenses	\$ 310,227
Depreciation	1,027
Total Program Expenses	<u>311,254</u>
 Program Revenues	
Member Fees	52,316
Total Program Revenues	<u>52,316</u>
 Net Program Expenses before	
Operating Grants	258,938
 Federal Operating Grants	46,639
State Operating Grants	213,850
Total Operating Grants	<u>260,489</u>
 Net Program expenses	(1,551)
 General Revenues	
Interest Income	10,230
Miscellaneous Revenues	3,328
Total General Revenues	<u>13,558</u>
 Increase (Decrease) in Net Assets	15,109
 Fund Balance / Net Assets, Beginning of Year	<u>384,250</u>
 Fund Balance / Net Assets, End of Year	<u><u>\$ 399,359</u></u>

The accompanying notes are an integral part of the financial statements

**MOUNTAIN VALLEY LIBRARY SYSTEM
BALANCE SHEET- GOVERNMENTAL FUND TYPE
June 30, 2009**

	General Fund
ASSETS:	
Cash in County Treasury	\$ 399,135
Federal Grant Receivable	3,425
Total Assets	\$ 402,560
 LIABILITIES & FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 22,722
Total Liabilities	22,722
 Fund Equity:	
Unreserved, undesignated	3,690
Unreserved, designated	376,148
Total Fund Balances	379,838
 TOTAL LIABILITIES & FUND BALANCES	 \$ 402,560

The accompanying notes are an integral part of the financial statements

**MOUNTAIN VALLEY LIBRARY SYSTEM
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009**

TOTAL FUND BALANCES- GOVERNMENTAL FUND **\$ 379,838**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in the operation of governmental funds are not financial resources and, therefore, are not reported in the general fund. These assets consist of:

Capital Assets:

Other Equipment	20,548	
	20,548	
Less: Accumulated Depreciation	(1,027)	
Total Capital Assets, net of accumulated Depreciation	\$ 19,521	19,521

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 399,359**

The accompanying notes are an integral part of the financial statements

MOUNTAIN VALLEY LIBRARY SYSTEM
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Fund Type
For The Year Ended June 30, 2009

	<u>General Fund</u>
REVENUES	
Membership Fees	\$ 52,316
Federal Operating Grants	46,639
State Operating Grants	213,850
Interest Income	10,230
Miscellaneous Income	3,328
Total Revenues	<u>326,363</u>
EXPENDITURES	
Operating Expenses	310,227
Equipment Purchases	20,548
Total Expenditures	<u>330,775</u>
Excess (Deficiency) of Revenues Over Expenditures	(4,412)
Fund Balance, Beginning of Year	<u>384,250</u>
Fund Balance, End of Year	<u><u>\$ 379,838</u></u>

The accompanying notes are an integral part of the financial statements

**MOUNTAIN VALLEY LIBRARY SYSTEM
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND TYPES
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2009**

NET CHANGE IN FUND BALANCES- GOVERNMENTAL FUND TYPE **\$ (4,412)**

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

Governmental funds report capital outlays as expenditures. In the statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Differences are as follows:

Expenditures for capital assets	20,548
Current year depreciation expense	(1,027)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 15,109**

The accompanying notes are an integral part of the financial statements

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements

June 30, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Library System is a group of 18 cooperating library jurisdictions located in nine counties surrounding, and including, Sacramento County. Participants included fourteen city and county libraries, three college and university libraries and one special library. The purpose of MVLS is to provide a framework so that any library in the system may use the materials and services of the other system libraries for the benefit of their clientele.

B. Funding

MVLS' programs are funded from four primary sources: State funds (California Library Services Act); Federal funds (Library Services and Technology Act); membership fees from library members; and service fees for services performed for member and non-member libraries.

C. Administration

Effective June 30, 2006, MVLS transferred its administrative operations (including accounting) from the City of Sacramento to the North Bay Cooperative Library System in Santa Rosa, California.

D. Governing Authority

MVLS' policies and financial matters are controlled by an Administrative Council, which consists of the head librarian of each member library. These librarians govern MVLS, as authorized by resolutions passed by their governing jurisdictions.

E. Significant Accounting Policies

The basic financial statements of the Mountain Valley Library System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

1. Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of MVLS.

The accounts of MVLS are maintained in the general fund. A fund is a separate accounting entity with a self-balancing set of accounts. The fund is established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations.

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements

June 30, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported 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. Grants are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, MVLS considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Investment income, contributions and grants associated with the current fiscal period are considered to be susceptible to accrual, and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by MVLS.

MVLS reports the following major governmental fund:

General Fund – this fund is established to account for resources devoted to administration of the activities of MVLS.

Amounts reported as program revenues include: 1) charges to customers for services provided to member libraries, 2) federal and state operating grants and 3) membership contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. When both restricted and unrestricted resources are available for use, it is MVLS' policy to use restricted resources first, then unrestricted resources as needed.

Reconciliation of the fund financial Statements to the government-wide financial Statements is provided to explain the differences created by the integrated approach.

3. Capital Assets

Capital assets, which include land, buildings and improvements, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings and improvements and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office Equipment	10

F. Use of Estimates

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

G. Long Term Debt

MVLS has no long term debt.

H. Service Fees

MVLS receives Transaction Based Reimbursement (TBR) from the State Department of Finance. TBR money is received for loaning items from one jurisdiction to another per the California Library Services Act (CLSA).

I. Member Contributions

MVLS collected contributions from its members based on a member share formula. The formula determines contribution rates based on each library's percentage of volume share and reference questions.

NOTE 2 —ACCOUNTS PAYABLE

Accounts payable at year end are as follows:

Vendor Payable	<u>\$ 22,722</u>
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NOTE 3—FEDERAL GRANT RECEIVABLE

At year end, the retention was unpaid, however, not all funds were expended. The receivable is as follows:

10% Retention Not Received	\$ 4,801
Grant Funds Unexpended	<u>(1,376)</u>
Receivable at Year End	<u>\$ 3,425</u>

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements

June 30, 2009

NOTE 4—CASH AND INVESTMENTS

Investment in the Sonoma County Treasurer's Investment Pool

The Library's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for MVLS. If material, the fair value of the Library's investment in this pool is reported in the financial statements at amounts based upon the Library's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

As of June 30, 2009, the Library's share of the decrease in fair value of investments was not material.

Investment Guidelines

The Library's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2009, approximately 83.45 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 1.9 percent had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2009

NOTE 4— CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- ➔ The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- ➔ The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2008 Sonoma County CAFR.

NOTE 5—AGREEMENT WITH NORTH BAY COOPERATIVE LIBRARY SYSTEM

Effective at 7/1/2006, MVLS transferred its administrative and operational duties to North Bay Cooperative Library System. There is no longer a physical address nor are there any employees. Also provided, are fiscal services through the County of Sonoma. Separate records are maintained such that no funds become commingled.

NOTE 6—SUBSEQUENT EVENT

- A. MV Library System has merged with two other similar entities as noted below beginning 7/1/09. The entity itself will cease activity except that the entity will retain its PERS liability. It has not yet been determined that it is in the best interest of the Library to transfer its PERS liability to the new NorthNet Library System. Therefore, the Library will continue with minimal activity related to its retirement system only.

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2009

NOTE 6—SUBSEQUENT EVENT (Continued)

New Entity:
NorthNet Library System

Merged Entities:
North Bay Cooperative Library System
Mountain Valley Library System
North State Cooperative Library System

B. On August 28, 2009, the Library transferred \$100,000 to the new merged entity, "NorthNet Library System". As of August 31, 2009, the Library still retained \$266,147 in cash.

NOTE 7—CAPITAL ASSET ACTIVITY

Capital Asset activity for the year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2009</u>
Capital Assets, Being Depreciated:				
Office Equipment	\$ -	\$ 20,548	\$ -	\$ 20,548
Total Capital Assets, Being Depreciated:	-	20,548	-	20,548
Less: Accumulated Depreciation	-	(1,027)	-	(1,027)
Total Capital Assets, Being Depreciated, Net	-	<u>19,521</u>	-	<u>19,521</u>
Governmental Activities, Capital Assets, Net	<u>\$ -</u>	<u>\$ 19,521</u>	<u>\$ -</u>	<u>\$ 19,521</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Library Services	\$ 1,079
Total Depreciation Expense – Governmental Activities	<u>\$ 1,079</u>

SUPPLEMENTAL INFORMATION

MOUNTAIN VALLEY LIBRARY SYSTEM
GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Budget and Actual- General Fund
For The Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Membership Fees	\$ 51,558	\$ 52,316	\$ 52,316	\$ -
Federal Operating Grants	-	48,015	46,639	(1,376)
State Operating Grants	213,163	213,927	213,850	
Interest Income	14,000	14,000	10,230	
Miscellaneous Income	16,306	14,725	3,328	
Total Revenues	<u>295,027</u>	<u>342,983</u>	<u>326,363</u>	<u>(1,376)</u>
EXPENDITURES				
Services & Supplies	-	316,440	310,227	6,213
Equipment Purchases	-	24,000	20,548	3,452
Total Expenditures	<u>-</u>	<u>340,440</u>	<u>330,775</u>	<u>9,665</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 295,027</u>	<u>\$ 2,543</u>	(4,412)	<u>8,289</u>
Fund Balance, Beginning of Year			384,250	
Fund Balance, End of Year			<u>\$ 379,838</u>	

The accompanying notes are an integral part of the financial statements

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Required Supplementary Information

June 30, 2009

NOTE 1—BUDGETARY INFORMATION

MVLS provides for budgetary control over general fund fiscal operations. Each year, MVLS submits to the governing board a proposed budget containing detailed estimates of the amount of funding available for the operation of MVLS. The budget is controlled at the fund level. The governing board of MVLS adopts the original budget by May 31 of each preceding fiscal year. The budget, prepared on the modified accrual basis in accordance with accounting principles generally accepted in the United States of America, is presented on page 20.

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

Council of Librarians
Mountain Valley Library System

I have audited the financial statements of the governmental activities, and the major fund of the Mountain Valley Library System as of and for the fiscal year ended June 30, 2009, which collectively comprise the Mountain Valley Library System's basic financial statements and have issued my report thereon dated September 30, 2009. I conducted my 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 my audit, I considered Mountain Valley Library System's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Valley Library System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Mountain Valley Library System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mountain Valley Library System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mountain Valley Library System's statements that is more than inconsequential will not be prevented or detected by Mountain Valley Library System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mountain Valley Library System's internal control.

My 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 that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Valley Library System's financial statements are free of material misstatement, I 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

Larry D. Johnson

Certified Public Accountant

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain other matters that I reported to management of Mountain Valley Library System in a separate letter dated November 18, 2009.

This report is intended solely for the information and use of the Mountain Valley Library System management, others within the organization, and the board and is not intended to be and should not be used by anyone other than these specified parties.



Larry D. Johnson
Certified Public Accountant

November 18, 2009
Santa Rosa, CA