

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**

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**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED  
JUNE 30, 2018 AND 2017**

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## **INDEPENDENT AUDITORS' REPORT**

To the Administrative Council  
San Joaquin Valley Library System

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of the San Joaquin Valley Library System (the System) as of and for the years ended June 30, 2018 and 2017, the related notes to the financial statements, and the budgetary statement for the general fund which collectively comprise the System's financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the System, as of and for the years ended June 30, 2018 and 2017, and the respective changes in financial position, and the respective budgetary comparison statement for the General Fund, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
January 8, 2019

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

As management of the San Joaquin Valley Library System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

**FINANCIAL HIGHLIGHTS**

- The System receives revenues from restricted grants and unrestricted revenues to manage operations. The assets of the System exceeded its liabilities as of June 30, 2018 by \$3,175,192. Unrestricted net position of \$3,149,204 may be used to meet the System's ongoing obligations to funding a portion of Membership operations, customers and creditors. As of June 30, 2017, assets exceeded liabilities by \$3,178,493 with unrestricted net position equaling \$3,145,842.
- Due to delays in membership replacement plan costs and SJVLS Administrator vacancy, SJVLS has experienced a decrease in net position in this reporting period. The total net position decreased by \$3,301 for the year ended June 30, 2018. The unrestricted use increase in unrestricted net position is \$36,099 for the year ended June 30, 2017.
- The combined net position increases in net position over fiscal years ending June 30, 2018 and 2017 of \$32,798 from the net position beginning balance July 1, 2016 of \$3,142,394 has been strategically planned to be used to meet System's ongoing obligations and offset a portion of Membership Fees as a part of a five year plan through 2019-2020. Since June 30, 2016, no further Membership Fee increases occurred as the System transitioned to direct allocation cost for Telecommunications and investment in network systems to build infrastructure. Membership fee contributions will increase in FY2018-19 by 7%.
- During the fiscal year, the System continued to utilized California Library Services Act (CLSA) funding at \$240,952 to support the System's delivery, increase e-book collection and communication operations for Member's disconnects for telecommunication network update providing stable and equitable access throughout the System.
- The System continue to receive federal LSTA funding for Public Library Staff Education Program (PLSEP) at \$15,500 to provide tuition reimbursement for library staff to obtain a Master's degree in Library and Information Studies or to obtain their Library Support Staff Certification. The award supported two staff members expended at \$13,878 with unspent \$1,622.
- Pre-Paid Tech Reserves (Tech Reserve Advances) held by System as of June 30, 2018 were \$2,461,154, a 5% decrease (\$123,638) from the prior year ended June 30, 2017.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the System's finances, in a manner similar to a private-sector business. The assets, liabilities, revenues, and expenses are reported on a full-accrual basis.

- The **Statements of Net Position** presents information on the System's assets, deferred outflows, liabilities and deferred inflows; the difference between them representing net position, or equity.
- The **Statements of Activities** presents information showing total revenues versus total expenses and how the System's net position changed during the fiscal year. All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in the disbursement or collection of cash during future fiscal years (e.g., reimbursable ongoing project expenses).

**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 System, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the System can be divided into two categories: governmental funds and proprietary funds. The System has no proprietary funds and only one governmental fund, the General Fund.

**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 statements, 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 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 funds Balance Sheet and the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between the two.

**The Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of the System's operations and significant accounting policies as well as clarify unique financial information.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2018, the System's assets exceeded liabilities by \$3,175,192. Of that amount, \$25,988 of the System's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

The net position at end of June 30, 2018 provides unrestricted net position of \$3,149,204 that may be used to meet the System's ongoing obligations to funding a portion of Membership operations, customers and creditors. Capital assets are used to provide services to customers and they are not available for future spending.

The following represent summaries of the System's net position and changes in net position for the current and prior years:

**Combined Statements of Net Position**

	June 30, 2018	June 30, 2017	June 30, 2016
Current assets	\$ 3,702,049	\$ 3,442,577	\$ 3,216,079
Other assets	2,487,142	2,617,443	2,357,576
Total assets	6,189,191	6,060,020	5,573,655
Current liabilities	3,013,999	2,881,527	2,431,261
Total liabilities	3,013,999	2,881,527	2,431,261
Net position	\$ 3,175,192	\$ 3,178,493	3,142,394

**SJVLS Membership Fees.** During fiscal year 2017-2018 the Administrative Council approved for membership fees to remain at the same level established in fiscal year 2016-17 for a combined total of \$1,507,387. The Combined Statements of Revenues reflects the SJVLS Memberships Due with no change.

In fiscal year 2106-2017 the Administrative Council approved for Membership Fees to remain at \$1,507,387 for three fiscal years through FY 2018-2019, to transition to direct allocation for telecommunications based on actual jurisdiction costs and Membership increase by seven percent beginning in FY 2019-2020.

### Combined Statements of Activities

	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016
Program Revenues			
Charges for services	\$ 2,802,969	\$ 2,296,514	\$ 1,603,208
Operating grants and contributions	452,361	478,444	130,587
Total revenue	3,255,330	2,774,958	1,733,795
Expense			
Library services	3,421,360	3,300,098	3,489,129
Total expense	3,421,360	3,300,098	3,489,129
Increase/(decrease) in net position before general revenue	(166,030)	(525,140)	(1,755,334)
General Revenue			
Refunds and abatements	147,576	68,695	1,110,723
Other revenue	-	397,784	645,794
Investment earnings	15,153	94,760	89,280
Total general revenue	162,729	561,239	1,845,797
Change in net position	(3,301)	36,099	90,463
Beginning net position	3,178,493	3,142,394	3,051,931
Ending net position	\$ 3,175,192	\$ 3,178,493	\$ 3,142,394

Budget Year	Portion of Total Budget: Shared Membership Operations	Partial Funding Fund Balance (Shared Costs)	Membership Fees	% of Increase Membership Fee
FY 2014-15	\$ 2,463,943	41%	\$1,452,289	7%
FY 2015-16	2,729,785	43%	1,549,474	7%
FY 2016-17	2,197,807	31%	1,507,387	-3%
FY 2017-18	2,244,496	33%	1,507,387	0%

**Membership Operational Costs.** Membership operational costs have been streamline for consistency each year, maximizing the use of unrestricted funding and setting membership due strategically. The initial five-year strategic plan for Membership Fee seeks to set rates initially at 41-43 percent and then gradually reduce to 30% with the remainder offset funding from unrestricted net position.

**Membership Fees: Budgeted Operations, Funding, and Percentage Increase.** The System's major expenditures are by function as follows:

Computer operations and staffing costs	\$1,554,801
Telecommunications	\$889,681
Grant related telecommunication upgrades	\$397,125

**Governmental activities.** Governmental activities decrease the System's net position by 1% (\$3,301) for the year ended June 30, 2018. The System's major expenditures are personnel costs, telecommunications, and network maintenance. Network infrastructure projects were completed by May 2018 for State funded CNIN Headquarter and Y2B branches.

### **Financial Analysis of the System's Funds**

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

**Governmental Funds.** The purpose of the System's governmental fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the System's financing requirements. In particular, unassigned 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 June 30, 2018, the System's governmental fund reported an ending fund balance of \$3,149,204, an increase of \$3,362 in comparison to the prior year. Of the ending fund balance, \$3,149,204 is unassigned and is available for spending at the System's discretion.

### **Capital Asset and Debt Administration**

**Capital assets.** The System's investment in capital assets for its governmental activities as of June 30, 2018 amounted to \$25,988 (net of allowance for depreciation).

**Debt administration.** The System did not have any debt outstanding as of June 30, 2018 and 2017.

### **Economic Factors and Next Year's Budgets and Rates**

The San Joaquin Valley Library System is transitioning to a new network model with CENIC since fiscal year 2016-17 through 2019-2020 in an effort to increase our bandwidth and infrastructure equipment which will result in Member's recognizing a decrease in telecommunication and access points contact services expenditures. As a result, the San Joaquin Valley Library System will have a very robust infrastructure that should be able to sustain the System need for many years to come. To fulfill this effort, we are trying to leverage opportunities with grants and e-rate funding. Our priorities for the network are to improve planning for future technology upgrades, support member libraries' technology needs and improve collective strength for joint-consortium grant projects.

The fiscal year 2018-2019 budget will include a System operations upgrade of Horizon operating software to the newest version (7.5.5), the use of restricted use of grant funds in the amount of \$315,000 for CENIC Year 3. Traditionally the System budgets high to be inclusive of all anticipated projects, telecommunication installation costs, and non-discounted telecommunication. The System's major source of revenues is Member Fee contributions. Membership Fee contribution will increase by 7% at \$1,612,904 plus an adjustment to Fresno's membership \$50,000 for total membership fee of \$1,662,904. Funding for SJVLS System is primarily provided through membership contributions, direct billing charges and a Tech Reserve fund. SJVLS members budgeted for full costs of the equipment necessary for Telecommunications in their own jurisdiction's budget. The system intends to take advantage of e-rate discounts and Califa discounts to purchase and install the infrastructure necessary to implement CENIC Year 3 and 4 along with E-rate Category 2 equipment related work.

In addition, pending factors System's development of Disaster Recovery Plan for Equipment and discussion of premium billing rates and policies.

### **Requests for Information**

This financial report is designed to provide a general overview of the San Joaquin Valley Library System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Library Business Manager, San Joaquin Valley Library System, 2420 Mariposa, Street, Fresno California, 93721.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
STATEMENTS OF NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current assets		
Cash and investments	\$3,661,742	\$3,417,702
Interest receivable	30,839	24,875
Due from other governments	<u>9,468</u>	<u>-</u>
Total current assets	<u>3,702,049</u>	<u>3,442,577</u>
Other assets		
Restricted cash- Tech reserve	2,461,154	2,584,792
Capital assets, net	<u>25,988</u>	<u>32,651</u>
Total other assets	<u>2,487,142</u>	<u>2,617,443</u>
Total assets	<u>6,189,191</u>	<u>6,060,020</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	176,211	27,276
Due to member agencies	61,634	77,307
Advances from grantors	315,000	192,152
Tech reserve advances	<u>2,461,154</u>	<u>2,584,792</u>
Total liabilities	<u>3,013,999</u>	<u>2,881,527</u>
<b>NET POSITION</b>		
Net investment in capital assets	25,988	32,651
Unrestricted	<u>3,149,204</u>	<u>3,145,842</u>
Total net position	<u><u>\$3,175,192</u></u>	<u><u>\$3,178,493</u></u>

The accompanying notes are an integral part of the financial statements.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Library system	\$ 3,421,360	\$2,802,969	\$ 452,361	\$ (166,030)
Total	\$ 3,421,360	\$2,802,969	\$ 452,361	\$ (166,030)
General Revenues:				
Refunds and abatements				147,576
Investment earnings				15,153
Total General Revenues				162,729
Change in Net Position				(3,301)
Net Position, Beginning of Year				3,178,493
Net Position, End of Year				\$ 3,175,192

The accompanying notes are an integral part of the financial statements.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
STATEMENTS OF ACTIVITIES (continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Library system	\$ 3,300,098	\$ 2,296,514	\$ 478,444	\$ (525,140)
Total	\$ 3,300,098	\$ 2,296,514	\$ 478,444	\$ (525,140)
General Revenues:				
Refunds and abatements				68,695
Other revenue				397,784
Investment earnings				94,760
Total General Revenues				561,239
Change in Net Position				36,099
Net Position, Beginning of Year				3,142,394
Net Position, End of Year				\$ 3,178,493

The accompanying notes are an integral part of the financial statements.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
BALANCE SHEETS  
GOVERNMENTAL FUND  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and investments	\$ 3,661,742	\$ 3,417,702
Restricted cash- Tech reserve	2,461,154	2,584,792
Interest receivable	30,839	24,875
Due from other governments	9,468	-
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 6,163,203</u>	<u>\$ 6,027,369</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 176,211	\$ 27,276
Due to member agencies	61,634	77,307
Advances from grantors	315,000	192,152
Tech reserve advances	2,461,154	2,584,792
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>3,013,999</u>	<u>2,881,527</u>
Fund balance		
Unassigned	<u>3,149,204</u>	<u>3,145,842</u>
Total fund balance	<u>3,149,204</u>	<u>3,145,842</u>
Total liabilities and fund balance	<u>\$ 6,163,203</u>	<u>\$ 6,027,369</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:		
Total fund balance - Governmental Fund	\$ 3,149,204	\$ 3,145,842
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements	<u>25,988</u>	<u>32,651</u>
Total net position - Governmental Activities	<u>\$ 3,175,192</u>	<u>\$ 3,178,493</u>

The accompanying notes are an integral part of the financial statements.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUND  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>REVENUES</b>		
Membership dues	\$1,507,387	\$1,507,387
Tech reserves charges	1,295,582	1,186,911
State Y2B and CVIN grants	452,361	478,444
Refunds and abatements	147,576	68,695
Interest income	<u>15,153</u>	<u>94,760</u>
Total Revenues	<u>3,418,059</u>	<u>3,336,197</u>
<b>EXPENDITURES</b>		
Telephone charges	889,681	1,103,935
Peoplesoft charges	10,771	8,133
Professional services	1,482,817	1,194,700
Maintenance equipment	763,528	778,071
Office expense	12,384	15,469
Insurance	4,089	4,079
Memberships	3,340	3,340
Postage	32,903	30,289
Utilities	12,800	12,756
Travel and conference	202,384	148,661
Capital outlay	<u>-</u>	<u>33,316</u>
Total Expenditures	<u>3,414,697</u>	<u>3,332,749</u>
Net Change in Fund Balance	3,362	3,448
Fund Balance, Beginning of Year	<u>3,145,842</u>	<u>3,142,394</u>
Fund Balance, End of Year	<u><u>\$3,149,204</u></u>	<u><u>\$3,145,842</u></u>
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities:		
Net change in Fund Balance - Governmental Fund	\$ 3,362	\$ 3,448
Governmental funds report capital outlay as expenditures However, in the Statements of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay was greater or less than depreciation in the current period.	<u>(6,663)</u>	<u>32,651</u>
Change in Net Position - Governmental Activities	<u><u>\$ (3,301)</u></u>	<u><u>\$ 36,099</u></u>

The accompanying notes are an integral part of the financial statements.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-**  
**BUDGET TO ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RESOURCES (INFLOWS)</b>				
Member revenue	\$ 1,507,387	\$ 1,507,387	\$ 1,507,387	\$ -
Tech reserves charges	1,430,008	1,430,008	1,295,582	(134,426)
Grant revenue	536,202	536,202	452,361	(83,841)
Other revenue	-	-	147,576	147,576
Interest income	70,000	70,000	15,153	(54,847)
Total Resources (Inflows)	<u>3,543,597</u>	<u>3,543,597</u>	<u>3,418,059</u>	<u>(125,538)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Telephone charges	892,281	892,281	889,681	2,600
Peoplesoft charges	5,141	5,141	10,771	(5,630)
Professional services	1,447,393	1,447,393	1,482,817	(35,424)
Maintenance equipment	763,862	763,862	763,528	334
Office expense	15,300	15,300	12,384	2,916
Insurance	4,000	4,000	4,089	(89)
Memberships	3,700	3,700	3,340	360
Postage	36,000	36,000	32,903	3,097
Utilities	12,756	12,756	12,800	(44)
Travel and conference	208,640	208,640	202,384	6,256
Total Charges to Appropriations (Outflows)	<u>3,389,073</u>	<u>3,389,073</u>	<u>3,414,697</u>	<u>(25,624)</u>
Net Change in Fund Balance	<u>\$ 154,524</u>	<u>\$ 154,524</u>	3,362	<u>\$ (151,162)</u>
Fund Balance, Beginning of Year			<u>3,145,842</u>	
Fund Balance, End of Year			<u>\$ 3,149,204</u>	

The accompanying notes are an integral part of the financial statements.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-**  
**BUDGET TO ACTUAL**  
**GENERAL FUND (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RESOURCES (INFLOWS)</b>				
Member revenue	\$ 2,244,595	\$ 2,244,595	\$ 1,507,387	\$ (737,208)
Tech reserves charges	1,610,914	1,610,914	789,127	(821,787)
Grant revenue	124,790	124,790	478,444	353,654
Other revenue	-	-	466,479	466,479
Interest income	70,000	70,000	94,760	24,760
Total Resources (Inflows)	<u>4,050,299</u>	<u>4,050,299</u>	<u>3,336,197</u>	<u>(714,102)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Telephone charges	954,256	954,256	1,103,935	(149,679)
Peoplesoft charges	5,141	5,141	8,133	(2,992)
Professional services	2,075,746	2,075,746	1,194,700	881,046
Maintenance equipment	1,106,540	1,106,540	778,071	328,469
Special departmental expense	131,700	131,700	-	131,700
Office expense	13,750	13,750	15,469	(1,719)
Insurance	4,700	4,700	4,079	621
Memberships	3,700	3,700	3,340	360
Postage	36,000	36,000	30,289	5,711
Utilities	12,756	12,756	12,756	-
Travel and conference	201,640	201,640	148,661	52,979
Capital outlay	-	-	33,316	(33,316)
Total Charges to Appropriations (Outflows)	<u>4,545,929</u>	<u>4,545,929</u>	<u>3,332,749</u>	<u>1,213,180</u>
Net Change in Fund Balance	<u>\$ (495,630)</u>	<u>\$ (495,630)</u>	3,448	<u>\$ 499,078</u>
Fund Balance, Beginning of Year			<u>3,142,394</u>	
Fund Balance, End of Year			<u>\$ 3,145,842</u>	

The accompanying notes are an integral part of the financial statements.

## **SAN JOAQUIN VALLEY LIBRARY SYSTEM NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: San Joaquin Valley Library System (the System) is a joint powers authority agency, established in November 1979 under the California Library Services Act (CLSA) to improve library services through cooperation by public libraries within the State. Current membership, includes:

- Coalinga-Huron Library District
- Fresno County Library
- Kern County Library
- Kings County Library
- Madera County Library
- Mariposa County Library
- Merced County Library
- Porterville Public Library
- Tulare County Library
- Tulare Public Library

As set forth in the joint powers agreement, the System is governed by an Administrative Council made up of the 10 directors. The Administrative Council is supported by the Automation Committee and Electronic Resources Committee. Funding for the System comes from member library contributions and the State of California through CLSA.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements (i.e., the Statements of Net Position and the Statements of Activities) report information on all of the System's activities. The Statements of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

- Government-Wide Financial Statements

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. 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 are met.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued):

- Governmental Fund Financial Statements

Governmental fund financial statements (i.e., Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balance) 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.

Revenues susceptible to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. A one-year availability period is used for all other revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures are recorded only when payment is due. 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 Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The System reports one major governmental fund:

The **General Fund** is the primary operating fund and accounts for all financial resources of the System.

The System adopts annual appropriated budgets for its general fund which is a major fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budgets.

Cash and Investments: The System maintains its cash account with the County of Fresno Auditor-Controller/Treasurer as part of the common investment pool. The County of Fresno is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

State statutes and the County of Fresno's investment policy authorize the County Treasurer to invest in U.S. Government Treasury and Agency Securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements, and the State Treasurer's Local Agency Investment Fund (LAIF).

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Cash and Investments (continued): In accordance with GASB Statement No. 43, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held by the County Treasurer are stated at fair value. The fair value of pooled investments is determined quarterly and is based on current market prices received from the securities custodian. The balance available for withdrawal is based on the accounting records maintained by the County of Fresno Auditor-Controller/Treasurer.

Credit quality ratings are not available for the System’s investments as they are invested as part of the common investment pool of the County of Fresno Auditor- Controller/Treasurer. Cash in the County Treasury is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form.

Accounts Receivable: The “direct write-off” method for accounts receivable was applied for accounts that had been established as uncollectible. A deduction of revenue is recognized when an account is referred to the Revenue Reimbursement Division of the Auditor-Controller/Treasurer-Tax Collector and a Discharge of Accountability is received. The “direct write-off” method is not in compliance with generally accepted accounting principles. Any write-offs would be deemed immaterial to the financial statements as a whole. The System wrote off \$0 and \$0 during the years ended June 30, 2018 and 2017, respectively.

Capital Assets: Capital assets acquired are recorded at cost or estimated cost where cost is not available. Donated or contributed capital assets are recorded at estimated fair value on the date received. Capital assets are defined by the System as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method applied over the estimated useful lives of the assets as follows:

Computer Equipment:	3-5 Years
Office Equipment:	3-5 Years

Accounts Payable: Certain costs are incurred by the System during the current reporting period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements. The System’s account payable balances as of June 30, 2018 and 2017 are \$40,623 and \$0, respectively.

Fund Balance: In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable* – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- *Restricted* – Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fund Balance (continued):

- *Committed* - Amounts constrained to specific purposes by the System itself, using the System's highest level of decision-making authority (the administrative council). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned* - Amounts the System *intends* to use for a specific purpose. Intent can be expressed by the System at either the highest level of decision-making or by an official or body to which the System delegates the authority.
- *Unassigned* - The residual classification for the System that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The System establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption or amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the System through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, followed by the committed, assigned, and unassigned resources as they are needed.

Net Position: Net position represents the residual interest in the System's assets after liabilities are deducted. In accordance with GASB Statement No. 63, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- Net investment in capital assets – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- Unrestricted – Amount consists of all net position that does not meet the definition "net investment in capital assets" or "restricted" net position.

When both restricted and unrestricted net position are available, restricted resources are used first before unrestricted resources are used.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value of Financial Instruments: Financial instruments include cash and investments, interest receivable, due from other governments, accounts payable and advances from grantors, none of which are held for trading purposes. The fair values of all financial instruments do not differ materially from the aggregate carrying values of the financial instruments recorded in the accompanying Statements of Net Position. The carrying amounts of these financial instruments approximate fair value because of the short-term maturities of those instruments.

Concentrations of Credit Risk: The System maintains cash balances in one financial institution. Cash balances in interest-bearing transaction accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. For the years ending June 30, 2018, the System had \$0 held with financial institutions that exceeded the FDIC limit and were uninsured. Management considers this to be a normal business risk.

Tech reserve advances: Tech reserve advances consist of monies advanced to the System from member agencies to be used for future equipment and network infrastructure upgrades. The balances for the years ended June 30, 2018 and 2017 was \$2,461,154 and \$2,584,792, respectively.

Due to member agencies: The System maintains a cash account for the collection of library fees on behalf of member agency libraries. The System distributes these revenues to member agencies throughout the year. The balance for the years ended June 30, 2018 and 2017 was \$61,634 and \$77,307, respectively.

Governmental Accounting Standards Update: During the years ending June 30, 2018 and June 30, 2017, the System implemented the following standards with no financial impact on the financial statements:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 85 – *Omnibus 2017*. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM  
NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Governmental Accounting Standards Update (continued):

GASB Statement No. 88 – *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through January xx, 2019, which is the date the financial statements were available to be issued.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	<b>2018</b>	<b>2017</b>
Cash and investments	\$3,661,742	\$ 3,417,702
Restricted cash- Tech reserve	<u>2,461,154</u>	<u>2,584,792</u>
Total cash and investments	<u>\$6,122,896</u>	<u>\$ 6,002,494</u>

Cash and investments consists of the following as of June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Cash in treasury	\$6,061,262	5,925,137
Cash in bank	-	77,307
Cash with fiscal agent	<u>61,634</u>	<u>50</u>
Total cash and investments	<u>\$6,122,896</u>	<u>\$ 6,002,494</u>

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2018 and 2017, were as follows:

	Balances July 1, 2018	Additions	Deletions & Adjustments	Balances June 30, 2018
Computer equipment and software	\$ 137,645	\$ -	\$ -	\$ 137,645
Office equipment	6,581	-	-	6,581
Property and equipment- gross	144,226	-	-	144,226
Less: accumulated depreciation	(111,575)	(6,663)		(118,238)
Capital assets- net	<u>\$ 32,651</u>	<u>\$ (6,663)</u>	<u>\$ -</u>	<u>\$ 25,988</u>

	Balances July 1, 2017	Additions	Deletions & Adjustments	Balances June 30, 2017
Computer equipment and software	\$ 110,910	\$ 26,735	\$ -	\$ 137,645
Office equipment	-	6,581	-	6,581
Property and equipment- gross	110,910	33,316	-	144,226
Less: accumulated depreciation	(110,910)	(665)	-	(111,575)
Capital assets- net	<u>\$ -</u>	<u>\$ 32,651</u>	<u>\$ -</u>	<u>\$ 32,651</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$6,663 and \$665, respectively.

**NOTE 4 – ADVANCES FROM GRANTORS**

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when earned. Therefore, the government-wide Statements of Net Position as well as the governmental fund Balance Sheets defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. Assets recognized in connection with a transaction before the earnings process is complete are offset by a corresponding liability for advances from grantors. The balance of advances from grantors as of June 30, 2018 and 2017 were \$315,000, and \$192,152, respectively.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 5 – DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2018, expenditures exceeded appropriations as follows:

<u>Expenditures</u>	<u>Amount</u>
Professional services	(35,424)
Peoplesoft charges	(5,630)
Insurance	(89)
Utilities	(44)

For the year ended June 30, 2017, expenditures exceeded appropriations as follows:

<u>Expenditures</u>	<u>Amount</u>
Telephone charges	(149,679)
Peoplesoft charges	(2,992)
Office expense	(1,719)
Capital outlay	(33,316)



**INDEPENDENT AUDITORS' 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**

To the Administrative Council  
San Joaquin Valley Library System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund information of the San Joaquin Valley Library System (the System) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements and budget statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 8, 2019.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California  
January 8, 2019