MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Library System is a group of 22 cooperating library jurisdictions located in nine counties surrounding, and including, Sacramento County. Participants included fourteen city and county libraries, six college and university libraries and two special libraries 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.

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.

F. **Capital Assets**

The Library System donated or junked all of its assets last year and does not maintain a physical office. All administrative and operational functions are now contracted out to North Bay Cooperative Library System.

G. **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).

H. **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 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. Long term Debt

MVLS has no long term debt.

NOTE 2 —ACCOUNTS PAYABLE

Accounts payable at year end are as follows:

Vendor Payable	$ 9,986

NOTE 3—RECONCILIATION OF STATEMENT OF NET ASSETS TO THE BALANCE SHEET

The Library System does not have any capital assets or long term liabilities. As such, the only difference noted is simply the different terminology for fund equity.

NOTE 4—RECONCILIATION OF DIFFERENCES BETWEEN STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE STATEMENT OF ACTIVITIES

Net Change in Fund Balance	$ 7,028
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds.	
No Differences	0
Change in Net Assets	$ 7,028

NOTE 5—UNFUNDED PERS LIABILITY

At the time of joining the PERS risk pool, a "side fund" was created to account for the difference between the funded status of the pool and the funded status of the local (MVLS) plan Since the Library System does not have employees any longer, the unfunded PERS liability was paid off last year (6/30/07). That total payment was $116,197.

NOTE 6—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, 2008, 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 it's 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, 2008, approximately 66 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 2.66 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.

NOTE 6— 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 7—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.

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, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
State CLSA Grants	$ 217,717	$ 214,890	$ 212,800	$ (2,090)
Member Fees	55,215	51,558	52,315	757
Miscellaneous Revenues	-	-	2,860	2,860
Interest Income	12,000	14,000	20,187	6,187
Total Revenues	284,932	280,448	288,162	7,714
EXPENDITURES				
Final Salary Benefits	-	10,000	2,181	7,819
Services & Supplies	312,352	295,448	278,953	16,495
Total Expenditures	312,352	305,448	281,134	24,314
Excess (Deficiency) of Revenues Over Expenditures	$ (27,420)	$ (25,000)	7,028	32,028
Fund Balance, Beginning of Year			377,222	
Fund Balance, End of Year			$ 384,250	

MOUNTAIN VALLEY LIBRARY SYSTEM
Notes to Required Supplementary Information

June 30, 2008

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 14.

Larry D. Johnson
Certified Public Accountant

REPORT ON INTERNAL CONTROL OVER FINANCIALREPORTING 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, 2008, which collectively comprise the Mountain Valley Library System's basic financial statements and have issued my report thereon dated September 30, 2008. 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

3402 Mendocino Avenue / Santa Rosa, CA 95403 / (707) 571-8078

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 September 30, 2008.

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 CPA

Larry D. Johnson
Certified Public Accountant

September 30, 2008
Santa Rosa, CA