

SAN JOAQUIN VALLEY LIBRARY SYSTEM

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statements of Net Position	8
Statements of Activities	9
Balance Sheets- Governmental Fund	11
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	12
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund	13
Notes to Financial Statements.....	15
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 <i>Government Auditing Standards</i>	23
Schedule of Findings and Responses	25



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, 2020 and 2019, the related notes to the financial statements, and the budgetary statements 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, 2020 and 2019, the respective changes in financial position, and the respective budgetary comparison statements 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 August 2, 2021, 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.

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

Fresno, California
August 2, 2021

**SAN JOAQUIN VALLEY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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, 2020 and 2019. 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 memberships, telecommunication, restricted grants, California State Library Act grant award, and unrestricted revenues to manage operations.
- The assets of the System exceeded its liabilities as of June 30, 2020 by \$4,997,321. Unrestricted net position of \$4,969,439 may be used to meet the System's ongoing obligations to fund a portion of Membership operations, customers, and creditors. As of June 30, 2019, assets exceeded liabilities by \$4,932,878 with unrestricted net position equaling \$4,913,553.
- Due to delays in broadband network upgrades, technology replacement plan and SJVLS Administrator vacancy, SJVLS has experienced an increase in net position in this reporting period. The total net position increased by \$64,443 for the year ended June 30, 2020. For comparison, the net position increased by \$723,588, which included a prior period adjustment, for the year ended June 30, 2019.
- Membership fee contributions increased in fiscal year 2019-20. The \$1,662,904 in membership fees funds approximately 49.3% of System operations.
- During the fiscal year, the System continued to utilize California Library Services Act (CLSA) funding at \$240,074 to support the System's delivery services, shared e-book collection Bibliotheca Cloud Library and Member's disconnects fee for telecommunication network update providing stable and equitable access throughout the System.
- The System continues to receive federal LSTA funding for Public Library Staff Education Program (PLSEP) at \$30,191 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 to improve library workforce. The award supported eleven participants in the Central Valley Library System for a total expended amount of \$27,428 and an administrative fee of \$2,763.
- Pre-Paid Tech Reserves (Tech Reserve Advances) held by the System as of June 30, 2020 at \$3,061,626, a 14.6% increase (\$390,101) from the prior year ended June 30, 2019, represents Member's contributions towards the System Technology Replacement plan for Nimble and Interlibrary System.
- Due to the California Library Grants program and other e-rate funding opportunities for the expansion of the High-Speed Broadband for California Libraries, the System successfully completed broadband upgrades, acquired new WIFI equipment, and replaced old network equipment under program year 4 and 5. The System utilized Network grant awards of \$50,521 of the year 3 award. The grant will continue to be used in the next fiscal year up to \$63,514.

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 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 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 Sheets and the governmental funds Statements of Revenue, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between the two.

The Notes to 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, 2020, the System's assets exceeded liabilities by \$4,997,321. Of that amount, \$27,882 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 the end of June 30, 2020, provides unrestricted net position of \$4,969,439, that may be used to meet the System's ongoing obligations to fund 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, 2020	June 30, 2019 as restated	June 30, 2018
Current assets	\$ 5,349,159	\$ 5,598,202	\$ 4,736,147
Other assets	3,089,508	2,690,850	2,487,142
Total assets	8,438,667	8,289,052	7,223,289
Current liabilities	3,441,346	3,356,174	3,013,999
Total liabilities	3,441,346	3,356,174	3,013,999
Net position	\$ 4,997,321	\$ 4,932,878	\$ 4,209,290

SJVLS Membership Fees. During fiscal year 2019-2020 the Administrative Council approved for membership fees to increase for a combined total of \$1,662,904. The Combined Statements of Activities reflects the increase in SJVLS Memberships Due.

	Combined Statements of Activities		
	Year Ended June 30, 2020	Year Ended June 30, 2019 as restated	Year Ended June 30, 2018
Program Revenues			
Charges for services	\$ 2,825,741	\$ 3,253,156	\$ 2,964,216
Operating grants and contributions	320,786	446,828	452,361
Total program revenues	3,146,527	3,699,984	3,416,577
Expense			
Library services	3,448,166	3,166,273	3,421,360
Total expense	3,448,166	3,166,273	3,421,360
Net (Expense) Revenue and Changes in Net Position	(301,639)	533,711	(4,783)
General Revenues			
Refunds and abatements	128	-	147,576
Investment earnings	365,954	189,877	15,153
Total general revenues	366,082	189,877	162,729
Change in net position	64,443	723,588	157,946
Net Position, Beginning of Year	4,932,878	4,209,290	4,051,344
Net Position, End of Year	\$ 4,997,321	\$ 4,932,878	\$ 4,209,290

Revenue

Revenues collected are grouped by charges for services and operating grants and contributions. Charges for services (\$2,825,741) consists of collected membership fees of \$1,662,904, direct billing charges of \$276,176, and telecommunication charges of \$886,661. Operating grants and contributions revenue of \$320,786 consist of California Library Services Act grant award of \$240,074, Network grant award of \$50,521 and PLSEP award of \$30,191.

Budget Year	Portion of Total Budget:		Partial Funding		% of Increase Membership Fee
	Shared Membership Operations	Fund Balance (Shared Costs)	Membership Fees		
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%	
FY 2018-19	2,326,854	35%	1,507,387	0%	
FY 2019-20	2,709,980	39%	1,662,904	10%	

Membership Fees: Budgeted Operations, Funding, and Percentage Increase. Membership operational costs have been streamlined for consistency each year, maximizing the use of unrestricted funding and setting membership fees strategically. Operational costs exclude telecommunications, network projects and technology replacement plans. Membership fees were increased in fiscal year 2020 by 10% or \$155,517. Operations costs continue to be funded by California Library Services Act (CLSA) and interest earned with the remainder offsetting funding from unrestricted net position. The System's major source of revenues is membership fee contributions. Membership fee contributions increased by 7% to a total of \$1,612,904 plus an adjustment to Fresno's membership of \$50,000 for total membership fees of \$1,662,904.

Governmental activities. The System's major expenditures are personnel costs, interlibrary system, telecommunications, and network maintenance.

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, 2020, the System's governmental fund reported an ending fund balance of \$4,969,439, an increase of \$55,886 in comparison to the prior year. Of the ending fund balance, \$4,966,550 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, 2020, amounted to \$27,882 (net of allowance for depreciation).

Debt administration. The System did not have any debt outstanding as of June 30, 2020 and 2019.

Economic Factors and Next Year's Budgets and Rates

The San Joaquin Valley Library System is continuing with its transition to its new network model with CENIC in an effort to increase bandwidth and decrease costs through fiscal year 2022. This is an ongoing, multiyear transition due to the cost required for installation and other fees involved. To carry out this effort, we have leveraged opportunities with grants and e-rate funding. Our priorities for the network are to grow the network into sustainable robust infrastructure with the flexibility to change with technology and time or membership. As a result, the San Joaquin Valley Library System will have a 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. In addition, SJVLS continues to improve its existing digital collections platform.

The fiscal year 2020-21 upcoming budget will include a System operation upgrade of Horizon operating software to the newest version (7.5.5) and the use of restricted use of grant funds in the amount of \$63,514 for CENIC Year 6 and the remainder of Category 2 funding in the amount of \$235,045. Traditionally the System budgets high to be inclusive of all anticipated projects, telecommunication installation costs, and non-discounted telecommunication.

It is important to note that SJVLS is in its second year without a fully dedicated SJVLS Administrative Librarian. While current efforts focus on maintaining a strong system of services for the members, the expectation is that once a dedicated, permanent Administrative Librarian is in place, moving forward with new goals and Information Technology Plan strategic planning will be a top priority.

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
JUNE 30, 2020 AND 2019**

	2020	2019 As Restated
ASSETS		
Current assets		
Cash and investments	\$ 4,627,128	\$ 4,420,842
Interest receivable	39,074	36,356
Due from other governments	4,432	58,219
E-Rate receivable	675,636	1,082,785
Prepaid expenses	2,889	-
	5,349,159	5,598,202
Total current assets		
Non-current assets		
Restricted cash - tech reserve	3,061,626	2,671,525
Capital assets, net	27,882	19,325
	3,089,508	2,690,850
Total non-current assets		
Total assets	8,438,667	8,289,052
LIABILITIES		
Current liabilities		
Accounts payable	286,383	557,838
Due to member agencies	29,823	12,777
Advances from grantors	-	114,034
Tech reserve advances	3,061,626	2,671,525
Unearned revenues	63,514	-
	3,441,346	3,356,174
Total liabilities		
NET POSITION		
Net investment in capital assets	27,882	19,325
Unrestricted	4,966,550	4,913,553
	4,994,432	4,932,878
Total net position	\$ 4,997,321	\$ 4,932,878

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, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Library system	\$ 3,448,166	\$ 2,825,741	\$ 320,786	\$ (301,639)
Total	<u>\$ 3,448,166</u>	<u>\$ 2,825,741</u>	<u>\$ 320,786</u>	<u>(301,639)</u>
General Revenues:				
Refunds and abatements				128
Investment earnings				<u>365,954</u>
Total General Revenues				<u>366,082</u>
Change in Net Position				64,443
Net Position, Beginning of Year				<u>4,932,878</u>
Net Position, End of Year				<u>\$ 4,997,321</u>

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, 2019 (restated)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Library system	\$ 3,166,273	\$ 3,253,156	\$ 446,828	\$ 533,711
Total	<u>\$ 3,166,273</u>	<u>\$ 3,253,156</u>	<u>\$ 446,828</u>	<u>533,711</u>
General Revenues:				
Investment earnings				<u>189,877</u>
Total General Revenues				<u>189,877</u>
Change in Net Position				723,588
Net Position, Beginning of Year				<u>4,209,290</u>
Net Position, End of Year				<u>\$ 4,932,878</u>

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

**SAN JOAQUIN VALLEY LIBRARY SYSTEM
BALANCE SHEETS
GOVERNMENTAL FUND
JUNE 30, 2020 AND 2019**

	2020	2019 As Restated
ASSETS		
Cash and investments	\$ 4,627,128	\$ 4,420,842
Restricted cash - tech reserve	3,061,626	2,671,525
Interest receivable	39,074	36,356
Due from other governments	4,432	58,219
E-Rate receivable	675,636	1,082,785
Prepaid expenses	2,889	-
	<u>\$ 8,410,785</u>	<u>\$ 8,269,727</u>
Total Assets	\$ 8,410,785	\$ 8,269,727
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 286,383	\$ 557,838
Due to member agencies	29,823	12,777
Advances from grantors	-	114,034
Tech reserve advances	3,061,626	2,671,525
Unearned revenues	63,514	-
	<u>3,441,346</u>	<u>3,356,174</u>
Total Liabilities	3,441,346	3,356,174
Fund balance		
Nonspendable	2,889	-
Unassigned	4,966,550	4,913,553
	<u>4,969,439</u>	<u>4,913,553</u>
Total Fund Balance	4,969,439	4,913,553
Total Liabilities and Fund Balance	\$ 8,410,785	\$ 8,269,727
Reconciliation of the Balance Sheets of the Governmental Fund to the Statements of Net Position:		
Total fund balance - Governmental Fund	\$ 4,969,439	\$ 4,913,553
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements	<u>27,882</u>	<u>19,325</u>
Total net position - Governmental Activities	\$ 4,997,321	\$ 4,932,878

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, 2020 AND 2019**

	2020	2019 As Restated
REVENUES		
Membership dues	\$ 1,662,904	\$ 1,507,387
Tech reserves charges	276,176	533,783
Telephone services	886,661	1,211,986
State Y2B and CVIN grants	320,786	446,828
Refunds and abatements	128	-
Interest income	365,954	189,877
	<u>3,512,609</u>	<u>3,889,861</u>
EXPENDITURES		
Telephone charges	811,653	649,489
Peoplesoft charges	4,749	6,228
Professional services	1,568,883	1,418,616
Maintenance equipment	315,633	285,744
Grant project maintenance equipment	449,184	535,357
Office expense	4,724	16,090
Insurance	3,786	4,912
Memberships	3,340	3,340
Postage and notice services	23,507	27,998
Utilities	27,000	16,401
Travel and conference	34,242	31,909
System delivery	182,345	163,526
Capital outlay	17,820	-
Bad debt expense	9,857	-
	<u>3,456,723</u>	<u>3,159,610</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>55,886</u>	<u>730,251</u>
Net Change in Fund Balance	55,886	730,251
Fund Balance, Beginning of Year	4,913,553	4,183,302
Fund Balance, End of Year	<u>\$ 4,969,439</u>	<u>\$ 4,913,553</u>
 Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statements of Activities:		
Net change in Fund Balance - Governmental Fund	\$ 55,886	\$ 730,251
 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>8,557</u>	<u>(6,663)</u>
Change in Net Position - Governmental Activities	<u>\$ 64,443</u>	<u>\$ 723,588</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, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		
RESOURCES (INFLOWS)				
Membership dues	\$ 1,662,904	\$ 1,662,904	\$ 1,662,904	\$ -
Tech reserves charges	1,484,948	1,484,948	276,176	(1,208,772)
Telephone services	-	-	886,661	886,661
State Y2B and CVIN grants	378,550	378,550	320,786	(57,764)
Refunds and abatements	-	-	128	128
Interest income	70,000	70,000	365,954	295,954
	<u>3,596,402</u>	<u>3,596,402</u>	<u>3,512,609</u>	<u>(83,793)</u>
Total Resources (Inflows)				
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Telephone charges	1,045,000	1,045,000	811,653	233,347
Peoplesoft charges	11,688	11,688	4,749	6,939
Professional services	2,064,811	2,064,811	1,568,883	495,928
Maintenance equipment	370,324	370,324	315,633	54,691
Grant project maintenance equipment	675,576	675,576	449,184	226,392
Office expense	17,840	17,840	4,724	13,116
Insurance	4,700	4,700	3,786	914
Memberships	3,700	3,700	3,340	360
Postage and notice services	36,500	36,500	23,507	12,993
Utilities	27,000	27,000	27,000	-
Travel and conference	63,398	63,398	34,242	29,156
System delivery	203,400	203,400	182,345	21,055
Capital outlay	17,820	17,820	17,820	-
Bad debt expense	-	-	9,857	(9,857)
	<u>4,541,757</u>	<u>4,541,757</u>	<u>3,456,723</u>	<u>1,085,034</u>
Total Charges to Appropriations (Outflows)				
Net Change in Fund Balance	<u>\$ (945,355)</u>	<u>\$ (945,355)</u>	55,886	<u>\$ 1,001,241</u>
Fund Balance, Beginning of Year			<u>4,913,553</u>	
Fund Balance, End of Year			<u>\$ 4,969,439</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, 2019 (restated)

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		
RESOURCES (INFLOWS)				
Membership dues	\$ 1,507,387	\$ 1,507,387	\$ 1,507,387	\$ -
Tech reserves charges	2,028,117	2,028,117	533,783	(1,494,334)
Telephone services	-	-	1,211,986	1,211,986
State Y2B and CVIN grants	570,362	570,362	446,828	(123,534)
Interest income	70,000	70,000	189,877	119,877
	<u>4,175,866</u>	<u>4,175,866</u>	<u>3,889,861</u>	<u>(286,005)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Telephone charges	1,116,945	1,116,945	649,489	467,456
Peoplesoft charges	6,000	6,000	6,228	(228)
Professional services	1,473,700	1,473,700	1,418,616	55,084
Maintenance equipment	1,305,597	1,305,597	285,744	1,019,853
Grant project maintenance equipment	443,120	443,120	535,357	(92,237)
Office expense	15,800	15,800	16,090	(290)
Insurance	6,200	6,200	4,912	1,288
Memberships	3,700	3,700	3,340	360
Postage and notice services	36,000	36,000	27,998	8,002
Utilities	12,800	12,800	16,401	(3,601)
Travel and conference	44,800	44,800	31,909	12,891
System delivery	161,740	161,740	163,526	(1,786)
	<u>4,626,402</u>	<u>4,626,402</u>	<u>3,159,610</u>	<u>1,466,792</u>
Net Change in Fund Balance	<u>\$ (450,536)</u>	<u>\$ (450,536)</u>	730,251	<u>\$ 1,180,787</u>
Fund Balance, Beginning of Year			<u>4,183,302</u>	
Fund Balance, End of Year			<u>\$ 4,913,553</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.

- 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 14 months thereafter to pay liabilities of the current period.

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):

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 Sheets and the governmental fund Statements 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).

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 \$9,857 and \$0 during the years ended June 30, 2020 and 2019, respectively.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and Software:	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, 2020 and 2019 are \$286,383 and \$557,838, 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.
- *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 System 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Statements 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.

Fair Value of Financial Instruments: Financial instruments include cash and investments, interest receivable, due from other governments, E-rate receivable, prepaid expenses, accounts payable, due to member agencies, advances from grantors, and unearned revenues 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, 2020 and 2019, the System had \$0 held with financial institutions that exceeded the FDIC limit and were uninsured.

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, 2020 and 2019, were \$3,061,626 and \$2,671,525, 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, 2020 and 2019 was \$29,823 and \$12,777, respectively.

Governmental Accounting Standards Update: During the years ending June 30, 2020 and 2019, the System implemented the following standards with no financial impact on the financial statements:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The adoption of GASB No. 83 had no impact on the System’s financial statements.

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. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The adoption of GASB No. 84 had no impact on the System’s financial statements.

GASB Statement No. 88 – *Certain Disclosures 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. 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 to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2019.

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this statement are effective as of May 2020.

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

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to June 15, 2021.

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. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to December 15, 2020.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to December 15, 2021.

GASB Statement No. 92 – *Omnibus 2020*. The requirements of this statement are effective for reporting periods beginning after June 15, 2020. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to June 15, 2021.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 August 2, 2021, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2020 and 2019, are classified in the accompanying financial statements as follows:

	2020	2019
Cash in treasury	\$ 7,683,241	\$ 7,079,678
Cash with fiscal agent	<u>5,513</u>	<u>12,689</u>
Total cash and investments	<u><u>\$ 7,688,754</u></u>	<u><u>\$ 7,092,367</u></u>

Cash and investments consists of the following as of June 30, 2020 and 2019:

	2020	2019
Cash and investments	\$ 4,627,128	\$ 4,420,842
Restricted cash- tech reserve	<u>3,061,626</u>	<u>2,671,525</u>
Total cash and investments	<u><u>\$ 7,688,754</u></u>	<u><u>\$ 7,092,367</u></u>

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2020 and 2019, were as follows:

	Balances July 01, 2019	Additions	Deletions & Adjustments	Balances June 30, 2020
Computer equipment and software	\$ 137,645	\$ 17,820	\$ -	\$ 155,465
Office equipment	6,581	-	-	6,581
Capital assets - gross	<u>144,226</u>	<u>17,820</u>	<u>-</u>	<u>162,046</u>
Less: accumulated depreciation	<u>(124,901)</u>	<u>(9,263)</u>	<u>-</u>	<u>(134,164)</u>
Capital assets - net	<u><u>\$ 19,325</u></u>	<u><u>\$ 8,557</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,882</u></u>
	Balances July 01, 2018	Additions	Deletions & Adjustments	Balances June 30, 2019
Computer equipment and software	\$ 137,645	\$ -	\$ -	\$ 137,645
Office equipment	6,581	-	-	6,581
Capital assets - gross	<u>144,226</u>	<u>-</u>	<u>-</u>	<u>144,226</u>
Less: accumulated depreciation	<u>(118,238)</u>	<u>(6,663)</u>	<u>-</u>	<u>(124,901)</u>
Capital assets - net	<u><u>\$ 25,988</u></u>	<u><u>\$ (6,663)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,325</u></u>

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

NOTE 3 – CAPITAL ASSETS (continued)

Depreciation expense for the years ended June 30, 2020 and 2019 was \$9,263 and \$6,663, respectively.

NOTE 4 – ADVANCES FROM GRANTORS AND UNEARNED REVENUES

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 and unearned revenue. The balance of advances from grantors as of June 30, 2020 and 2019 were \$0, and \$114,034, respectively. The balance of unearned revenues as of June 30, 2020 and 2019 were \$63,514 and \$0, respectively.

NOTE 5 – DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2020, expenditures exceeded appropriations as follows:

2020	
Expenditures	Amount
Bad Debt Expense	\$ (9,857)

For the year ended June 30, 2019, expenditures exceeded appropriations as follows:

2019	
Expenditures	Amount
Peoplesoft Charges	\$ (228)
Grant Project Maintenance Equipment	(92,237)
Office Expense	(290)
Utilities	(3,601)
System Delivery	(1,786)

NOTE 6 – PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

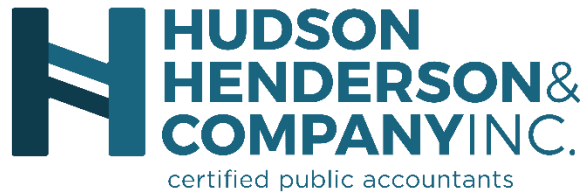
The System recorded during the current fiscal year a total adjustment of \$231,377 that resulted in a restatement of the prior year and a prior period adjustment to the beginning fund balance and net position for the fiscal year ended June 30, 2019. The adjustment of \$231,377 was made to the fiscal year 2019 General Fund balance and net position of the System to properly account for the System's liabilities.

	Restated 2019	As Previously Recorded 2019	Change
Total Assets	\$ 8,269,727	\$ 8,269,727	\$ -
Total Liabilities	\$ 3,356,174	\$ 3,587,551	\$ (231,377)
Total Revenues	\$ 3,889,861	\$ 3,889,861	\$ -
Total Expenditures	\$ 3,159,610	\$ 3,390,987	\$ (231,377)
Net Change in Fund Balance	\$ 730,251	\$ 498,874	\$ 231,377
Fund Balance, Beginning of Year	\$ 4,183,302	\$ 4,183,302	\$ -
Fund Balance, End of Year	\$ 4,913,553	\$ 4,682,176	\$ 231,377

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

NOTE 7 – COVID-19 PANDEMIC

Management has determined the events regarding the novel coronavirus require disclosure in accordance with accounting standards. On March 4, 2020, Governor Newsom issued an emergency proclamation declaring a State of emergency in California due to the novel coronavirus (COVID-19). The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the Organization is unknown.



**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 of the San Joaquin Valley Library System (the System) as of and for the years ended June 30, 2020 and 2019, the related notes to the financial statements and budget statements for the general fund, which collectively comprise the System's financial statements, and have issued our report thereon dated August 2, 2021.

Internal Control over Financial Reporting

In planning and performing our audits 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. During our audit we did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness: 2020-001.

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*.

System's Response to Findings

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
August 2, 2021

**SAN JOAQUIN VALLEY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-001 – Material Weakness
Financial Closing & Reporting**

Condition:

During the audit of the System’s financial statements, we identified material misstatements in the System’s general ledger account balances which required material audit adjustments. Additionally, the System required an excessive number of year-end closing journal entries to complete the financial closing process.

Criteria:

In accordance with accounting principles generally accepted in the United States of America, adequate internal controls should be implemented to ensure that all assets, liabilities, revenues, and expenses are properly recorded and reported. Furthermore, proper accounting principles should be applied to all financial closing accounts and processes, thus resulting in the proper presentation of all System activities and/or funds.

Cause:

The System did not have an adequate financial close process in place. The System made significant changes to the accounting records throughout the audit process and did not post the adjusting journal entries from the prior fiscal year.

Effect:

Material adjustments were identified through the beginning reconciliation process and audit procedures performed. Additionally, as the System made significant changes to the accounting records, the audit was not completed in a timely manner.

Recommendation:

We recommend the System further enhances their accounting process to ensure that all accounting records are properly reflected in the financial statements prior to the commencement of the audit.

Management Response:

Due to the COVID-19 pandemic and a System accountant who was unable to return to the office prior to his retirement date in March 2020, there were a significant number of entries not performed. We agree with the auditor recommendation and will implement a stronger financial close process. In June 2021, the Fresno County Auditor-Controller and County Counsel approved to proceed with outsourcing the Controller and accounting services to a local CPA firm per California Government Code 6505.5, no later than December 2021.

**SAN JOAQUIN VALLEY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

There were no prior year financial statement findings reported in accordance with *Government Auditing Standards*.