

NORTH STATE COOPERATIVE LIBRARY SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

EXHIBIT THREE

	General (Miscellaneous)	System Admin. (CLSA)	System Refer. (CLSA)	System Comm. and Delivery (CLSA)	System ILL Listen In (REIMB)	SA/VC (LOCAL)	Rural Library Initiative Year Eight (LSTA)	Other Governmental Funds	TOTALS
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ASSETS									
Cash and Cash Equivalents	309,517	172	26,788	131	14,370	100,060	64,880	35,093	551,011
Intergovernmental Receivables	13,828								13,828
Other Assets	865								865
TOTAL ASSETS	324,210	172	26,788	131	14,370	100,060	64,880	35,093	565,704
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LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts Payable	27,758								27,758
Compensated Absences									0
TOTAL LIABILITIES	27,758	0	0	0	0	0	0	0	27,758
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Fund Equity:									
Unreserved, Reported In:									
General	296,452								296,452
Special Revenue		172	26,788	131	14,370	100,060	64,880	35,093	241,494
TOTAL FUND EQUITY	296,452	172	26,788	131	14,370	100,060	64,880	35,093	537,946
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TOTAL LIABILITIES AND FUND EQUITY	324,210	172	26,788	131	14,370	100,060	64,880	35,093	565,704
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The notes to financial statements are an integral part of this statement.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

EXHIBIT FOUR

	General (Miscellaneous)	System Admin. (CLSA)	System Refer. (CLSA)	System Comm. and Delivery (CLSA)	System ILL Listen In (REIMB)	SAVC (LOCAL)	Rural Library Initiative Year TEN (LSTA)	Other Governmental Funds	TOTALS
REVENUES									
Revenue from Other									
Government Agencies	54,211	42,558	67,400	97,733			208,890	27,648	498,440
Investment Income	20,777								20,777
Other Revenues	29,154		26,730						55,884
TOTAL REVENUES	104,142	42,558	94,130	97,733	0	0	208,890	27,648	575,101
EXPENDITURES									
Salaries & Benefits	(30,677)	21,652	712	47,472	30,658	45,185		17,881	132,883
Library Materials			48,904			305			49,209
Operating/ Other Expenses		6,060	496	30,851	1,723	38,875	144,010	111,794	333,809
Professional Services		42,179	17,287	39,901	1,188	20,091			120,646
Capital Outlay									0
TOTAL EXPENDITURES	(30,677)	69,891	67,399	118,224	33,569	104,456	144,010	129,675	636,547
Excess (Deficiency) of Revenues Over Expenditures	134,819	(27,333)	26,731	(20,491)	(33,569)	(104,456)	64,880	(102,027)	(61,446)
Other Financing Sources (Uses)									
Operating Transfers In		25,722		20,622		187,780		17,881	252,005
Operating Transfers Out	252,005								252,005
TOTAL OTHER FINANCING SOURCES (USED)	(252,005)	25,722	0	20,622	0	187,780	0	17,881	0
Net Change in Fund Balances	(117,186)	(1,611)	26,731	131	(33,569)	83,324	64,880	(84,146)	(61,446)
Fund Balance, July 1,	413,638	1,783	57		47,939	16,736		119,239	599,392
Fund Balance June 30,	296,452	172	26,788	131	14,370	100,060	64,880	35,093	537,946

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

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

North State Cooperative Library System (System) is a political entity founded in 1969 under the provisions of the California Library Services Act. The System applies to the State Librarian for allocations of funds to support various components of the California Library Services Act to provide various library services to the counties of Northern California.

The System complies with Generally Accepted Accounting Principles (GAAP). The System's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the System's financial activities for the fiscal year ended June 30, 2008.

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The Government Wide financial statements (ie: the statement of net assets and the statement of changes in net assets) report information on all of the non fiduciary activities of the primary government.

The Statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include intergovernmental revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1-Continued

C. 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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund and fiduciary fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Governmental Fund Types:

General Fund - The General (Miscellaneous) Fund is the general operating fund of the System. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds:

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Major revenue sources include, intergovernmental revenues and investment income.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1-Continued

D. BUDGET AND BUDGETING ACCOUNTING

Formal budgeting integration is employed as a management control devise. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Any revisions to the budget which alter the total expenditures of any fund must be approved by the Council. Budgets lapse at end of year. Budgetary information as presented in these financial statements is that approved by Council. A summary of the changes, by fund, is presented on Schedule One.

E. COMPENSATED ABSENCES (CTO)

The System's policy allows employees to accumulate sick leave on an unlimited basis, vacation leave up to 300 hours, and (for those it is available to) administrative leave time up to 30 hours. Upon termination, the employee is entitled to be paid the unused vacation and administrative leave. Unused sick leave will not be reimbursed. As of June 30, 2008, the System had no employees and all accumulated CTO had been paid. Eligible employees elected to have their accrued sick leave applied to their PERS account. The System had not provided a reserve for accrued compensated absences.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 CHANGES IN GENERAL FIXED ASSETS

A summary of Changes in General Fixed Assets is as follows:

	<u>Vehicles/ Equipment</u>	<u>Accumulated Depreciation</u>
July 1, 2007	\$ 88,013	\$ 61,352
Additions	-0-	7,857
Deletions: Surplus Property Sold	< 30,390>	<27,344>
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June 30, 2008	<u>\$ 57,623</u>	<u>\$ 41,865</u>

The System provides for depreciation of fixed assets using the straight line method over estimated useful lives of five to fifteen years. Accumulated depreciation is reported on the government wide statement of net assets.

NOTE 3 CASH AND INVESTMENTS

The System considers highly liquid investments with maturities of three months or less when purchased, to be cash equivalents. The System follows the practice of pooling cash and investments of all funds.

State of California,	
Local Agency Investment Fund	\$ 449,597
Cash with County of Sonoma	100,000
Savings	<u>1,414</u>
Cash and Cash Equivalents	<u>\$ 551,011</u>
Tri Counties Bank:	
Checking-General and Payroll	
Deficit balance is included in	
"Accounts Payable"	<u>\$< 27,456></u>

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3, Continued:

Depository Accounts

The System has the following depository accounts. All deposits are carried at cost plus accrued interest. As a matter of policy, the System limits its cash and investments to FDIC insured banks which maintain required collateral and the Local Agency Investment Fund through the State of California.

Insured	\$ 1,414
Collateralized: Collateral held by pledging Entity's trust department in the System's Name	549,597
Uninsured	-0-
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Total Deposits	\$ <u>551,011</u>

Collateral for Deposits

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the System's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110 percent of the System's deposits. It is the System's policy not to waive the collateral requirements.

California Local Agency Investment Fund:

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The System may invest up to \$30,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3, Continued:

Cash with the County of Sonoma:

Some of the System's cash is pooled with the Sonoma County Treasurer. The fair value of the System's Investment in this pool is reported in the accompanying financial statements at amounts based on the System's pro-rata share of the fair value provided by the Treasury Pool. At June 30, there was no material difference between pool participant's share valued on an amortized cost basis compared to fair value. Interest earned on investments pooled with the County is allocated to the appropriate fund based on its respective average balance.

NOTE 4 PENSION PLAN

A. PLAN DESCRIPTION

The System contributes to the California Public Employee's Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and the System. Copies of the PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

B. FUNDING POLICY

System participants are required to contribute 6.75% of their annual covered salary. The System makes the contribution required of the System employees on their behalf and for their account. The System is required to contribute at an actuarially determined rate; the current rate is 8.338% for non-safety employees of annual covered payroll. The contribution requirements of plan members and the System are established and may be amended by PERS.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4, Continued

ANNUAL PENSION COSTS

For 2007/08 the System's annual pension costs of \$8,469 for PERS was equal to the Systems required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.75% projected annual salary increases that may vary by duration of service, and (c) 3.50% per year cost-of-living adjustments. Both (A) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was four years for prior service unfunded, and 15 years for remaining unfunded.

Three year trend information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage Of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/05	\$15,744	100%	--
6/30/06	\$20,427	100%	--
6/30/07	\$14,269	100%	--

As of June 30, 2008, the System and no eligible employees and any liability for previous employees had been paid.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5 INTERFUND OPERATING TRANSFERS

Individual fund operating transfers for the year ended June 30, 2008 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
System Administration - CLSA	25,722	
System Reference - CLSA	-0-	
System Comm. /Delivery - CLSA	20,622	
ILL-Listen In	-0-	
Children's' Services Programs (Misc)	-0-	
I.L.L. Access (Misc)	-0-	
Systems Administration/ Video Center (Misc)	187,780	
Retiree's Health Insurance Fund	17,881	
General Fund (Misc.)	<u> </u>	<u>202,005</u>
TOTALS	<u>\$202,005</u>	<u>\$ 202,005</u>

Fiscal agent fees, collected by the System, for the administration of the grants are included, as revenues, in the general fund.

NOTE 6 LITIGATION

In the opinion of the System management, the potential loss on any claims or lawsuits will not be significant to the System's financial statements.

NOTE 7 OTHER REQUIRED FUND DISCLOSURES

Excesses of Expenditures over Appropriations in Individual Funds:

The following Fund's expenditures exceeded their appropriations:

Tribal Library Training, Northern California. Expenditures of \$1752 exceeded appropriations of \$-0-.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 DEFERRED COMPENSATION PLANS

The System has established a deferred compensation plan in accordance with IRC Section 457. The plan is administrated by an independent plan administrator. The plan is available to all eligible System employees. Employees defer a portion of their salary until future years. Deferred compensation is not available until termination, retirement, death, or financial hardship. The System does not make contributions to this plan. As of June 30, 2008, the System had no eligible employees.

NOTE 9 OTHER POST-EMPLOYEMENT RETIREMENT BENEFITS (OPEB)

In addition to pension benefits described above, the System provided post-employment benefit options for health insurance to retirees and their dependents. The benefits are provided in accordance agreements with System employees. The criteria to determine eligibility include: years of service, employee age, disability due to line of duty, and employment as a full time equivalent. The System funds the benefits on a pay as you go basis. Eligible employees are required to pay the amount due on the insurance plan of their choice once the following employer contribution is deducted. NSCLS pays up to 80% of the cost of the lowest cost plan with respect to an employee or annuitant enrolled for self alone plus 60% of the additional premiums required for enrollment of family members plus administrative fees and contingency reserve fund assessments. During the physical year ending June 30, 2008, expenses totaling \$17,881 were recognized for post-employment benefits.

There are currently seven retirees participants enrolled for self alone and no current employees as self alone and no current employees with dependents. The Governmental Accounting Standards Board has issued two new standards relating to OPEB, which the system has not implemented nor are they required to. Management has contacted an actuarial firm to assist in evaluating the impact of these new standards on the System and is planning for implementation. Preliminary future OPEB liabilities are estimated in excess of \$5,500,000.

NORTH STATE COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 Future Events

Budgetary changes on the State level has created uncertainty pertaining to the future of the System. The Library of California (LoC) Board has agreed to hold all the merging CLSA Systems harmless from financial damage through the reduction of funding unless the entire CLSA program is reduced. The Board reversed a previous position that would have reduced funding to merging Systems. By July 1, 2009 ten of the fifteen CLSA Systems will be merging into three. North Bay , North State and MVLS will become one system, three systems in the LA Basin will merge and four Bay area systems will merge. The LoC Board agreed to hold the merged systems harmless until such time as there is a major change in funding to program through an increase or decrease. The funding formula will be reviewed should that action take place.

The North State Council has three representatives on the ten member Consolidation Task Force. The CTF is charged with recommending a legal structure, a governance structure, a budget, a dues/fees schedule and program and services proposal to the each of the governing MVLS and NSCLS Councils and NBCLS Board by early 2009. The Councils and Board will then need to approve and implement the recommendations. It has been suggested that the CTF could serve as the governing "executive committee" for the first year until officers are elected and committee structures are developed .

It is unknown exactly how the "new mega-system" will be funded as a vote has not been taken yet. It may be that both MVLS and North State will vote as JRAs to join the North Bay JPA on behalf of the their respective members. The State Library has assured the system that it will receive full funding for supporting the newly added libraries. The newly enlarged North Bay JPA could then rename itself to reflect the larger service area. The two JRAs could remain as shells and they may keep their reserves. Or they may assign their assets and legal obligations such as retiree health insurance and CalPERS future contributions as required to the JPA and transfer the reserve funds to be held for funding those liabilities. The system is still researching the best approach to combining funds and obligations. The System is using a JPA specialist attorney for advice on best practices. A dues/fees structure and joint reserve fund are under discussion.