

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
FINANCIAL STATEMENTS**

June 30, 2003

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FINANCIAL STATEMENTS**

June 30, 2003

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Larry D. Johnson

Certified Public Accountant

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the accompanying general-purpose financial statements of the North Bay Cooperative Library System as of and for the year then ended June 30, 2003, listed in the financial section of the foregoing table of contents. These financial statements and the supplemental information discussed below are the responsibility of the Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the combined general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Bay Cooperative Library System at June 30, 2003, and the results of its operation of the Library for the year then ended, in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 10, 2003 on my consideration of Library's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Also in accordance with *Government Auditing Standards*, I have also issued a report on compliance with laws and regulations and internal controls, as well as a report on State Compliance, both of which are dated October 10, 2003.



Larry D. Johnson
Certified Public Accountant

October 10, 2003
Santa Rosa, CA

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combined Balance Sheet - All Fund Types & Account Groups
June 30, 2003

	Governmental Fund Type	Fiduciary Fund Types Expendable Trusts	Account Groups		Total Memorandum Only	
	General Fund		General Fixed Assets	General Long Term Debt	6/30/2003	6/30/2002
ASSETS:						
Cash in County Treasury	\$ 401,034	\$ 390,683	\$ -	\$ -	\$ 791,717	\$ 935,841
Cash - Other	50	-	-	-	50	50
Receivable-Grants	-	130,154	-	-	130,154	96,918
Receivable-Other	7,869	-	-	-	7,869	-
Equipment	-	-	98,616	-	98,616	96,116
Amount to be Provided for the Payment of General Long Term Debt	-	-	-	17,774	17,774	18,049
TOTAL ASSETS	\$ 408,953	\$ 520,837	\$ 98,616	\$ 17,774	\$ 1,046,180	\$ 1,146,974
LIABILITIES & FUND BALANCES						
Liabilities:						
Deferred Revenue	\$ -	\$ 467,513	\$ -	\$ -	\$ 467,513	\$ 475,941
Accounts Payable	19,188	2,298	-	-	21,486	64,476
Compensated Absences	5,925	-	-	17,774	23,699	24,066
TOTAL LIABILITIES	25,113	469,811	-	17,774	512,698	564,483
Fund Equity:						
Investment in General Fixed Assets	-	-	98,616	-	98,616	96,116
Fund Balances:						
Reserve for Future Claims	-	43,283	-	-	43,283	73,115
Reserve for Equipment Replacement	-	7,743	-	-	7,743	7,497
Reserve for Encumbrances	-	-	-	-	-	1,725
Reserve for Future Commitments	377,838	-	-	-	377,838	377,838
Reserve for Future Retiree Benefits	150,000	-	-	-	150,000	150,000
Unreserved: Undesignated (Deficit)	(143,998)	-	-	-	(143,998)	(123,800)
Total Fund Balances	383,840	51,026	98,616	-	533,482	582,491
TOTAL LIABILITIES & FUND BALANCES	\$ 408,953	\$ 520,837	\$ 98,616	\$ 17,774	\$ 1,046,180	\$ 1,146,974

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combined Statement of Revenues, Expenditures and
Changes in Unreserved Fund Balances - Governmental Fund Types and Expendable Trusts
For The Years Ended June 30, 2003 and June 30, 2002

	Governmental Fund Types General Fund	Expendable Trusts	Totals (Memorandum Only)	
			6/30/2003	6/30/2002
REVENUES				
Revenue from State Sources	\$ 286,016	\$ 372,844	\$ 658,860	\$ 534,663
Local Revenue:				
User Charges	161,114	-	161,114	140,364
Membership Fees	122,574	-	122,574	71,667
Reimbursement/Donations	264,174	-	264,174	203,094
Other Local Sources	143	22,474	22,617	9,179
Interest	25,572	3,128	28,700	35,272
Total Revenues	<u>859,593</u>	<u>398,446</u>	<u>1,258,039</u>	<u>994,239</u>
EXPENDITURES				
Salaries & Benefits	365,620	-	365,620	351,861
Operating Expenses	539,402	406,138	945,540	509,715
Equipment Purchases	2,500	-	2,500	249,784
Total Expenditures	<u>907,522</u>	<u>406,138</u>	<u>1,313,660</u>	<u>1,111,360</u>
Excess of Revenues Over Expenditures (Deficit)	(47,929)	(7,692)	(55,621)	(117,121)
Other Financing Sources (Uses):				
Sale of Fixed Assets	4,113	-	4,113	3,530
Transfers In (out)	25,561	(25,561)	-	-
Total Other Sources	<u>29,674</u>	<u>(25,561)</u>	<u>4,113</u>	<u>3,530</u>
Excess of Revenues Over Expenditures & Other Financing Sources	(18,255)	(33,253)	(51,508)	(113,591)
Unreserved Fund Balance, Beginning of Year	(127,468)	3,668	(123,800)	(39,240)
Changes in Reserves	1,725	29,585	31,310	29,031
Unreserved Fund Balance, End of Year (Deficit)	<u>\$ (143,998)</u>	<u>\$ -</u>	<u>\$ (143,998)</u>	<u>\$ (123,800)</u>

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

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combined Statement of Revenues, Expenditures & Encumbrances and
Changes in Unreserved Fund Balances
Budget and Actual - General Fund
For The Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
REVENUES			
Revenue from State Sources:			-
CLSA - (Ref)	\$ 134,955	\$ 134,999	\$ 44
CLSA - (Sab)	1,275	1,249	(26)
CLSA - (Reimb)	6,400	3,920	(2,480)
CLSA - (Data Base)	5,500	5,500	-
CLSA - (Comm)	89,352	89,336	(16)
LCA	12	12	-
State-GGLN	51,000	51,000	-
Revenue From Local Sources			
User Charges	204,180	161,114	(43,066)
Membership Fees	91,833	122,574	30,741
Reimbursement/Donations	269,159	264,174	(4,985)
Other Local Sources	1,609	143	(1,466)
Interest	42,814	25,572	(17,242)
Total Revenues	<u>898,089</u>	<u>859,593</u>	<u>(38,496)</u>
EXPENDITURES & ENCUMBRANCES			
Salaries & Benefits	374,829	365,620	(9,209)
Operating Expenses	610,182	540,177	(70,005)
Equipment Purchases	2,500	-	(2,500)
Total Expenditures	<u>987,511</u>	<u>905,797</u>	<u>81,714</u>
 Excess of Revenues Over (Under) Expenditures & Encumbrances	 (89,422)	 (46,204)	 43,218
 Other Financing Sources (Uses):			
Sale of Fixed Assets	-	4,113	4,113
Transfers In (Out)	25,561	25,561	-
Total Other Financing Sources (Uses)	<u>25,561</u>	<u>29,674</u>	<u>4,113</u>
 Excess of Revenues Over (Under) Expenditures, Encumbrances and Other Financing Uses	 <u>\$ (63,861)</u>	 (16,530)	 <u>\$ 47,331</u>
 Unreserved Fund Balance, Beginning of Year		<u>(127,468)</u>	
 Unreserved Fund Balance, End of Year (Deficit)		<u><u>\$ (143,998)</u></u>	

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2003

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Cooperative was formed under the Joint Powers section of the California Governmental Code and is, therefore, considered a political subdivision that is exempt from income taxes.

The Accounting Policies—The Cooperative's accounting policies conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. FUND ACCOUNTING

The accounts of the J.P.A. are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. J.P.A. resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The J.P.A. accounts are organized into four broad categories that, in aggregate, include three funds types and one account group, as follows:

Governmental Funds:

General Fund—The General 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.

Fiduciary Funds:

Trust and Agency Funds—Trust and Agency Funds are used to account for assets held by the North Bay Cooperative Library System in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds.

Account Groups:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the fixed assets and long-term liabilities associated with Governmental Funds are accounted for in the Account Groups of the District.

General Long-term Debt Account Group—Accounts for long-term liabilities expected to be financed from Governmental Funds. The Cooperative's only long-term debt is compensated absences.

General Fixed Assets Account Group—The acquisition of fixed assets is recorded as an expenditure when payment is made. Such assets are capitalized in a separate fund or separate account. Assets are recorded at cost or, for donated assets, at fair market value at the time of receipt.

B. BASIS OF ACCOUNTING

Basis of accounting refers to revenues and expenditures or expenses being recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2003

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF ACCOUNTING (continued)

Government Funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures for the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Trust assets and liabilities also are accounted for on the modified accrual basis.

C. BUDGETARY PRINCIPLES

The Board of Directors adopts the budget by passage of a resolution prior to July 1. The Director is authorized to transfer budgeted amounts within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Board of Directors.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in all funds.

The financial statements, in which comparisons between budget and actual are made, present encumbrances as expenditures. In all other statements, encumbrances are presented in accordance with generally accepted accounting principles.

E. FUND BALANCE RESERVES

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date.

F. MEMORANDUM TOTALS

In the Combined Statements, the column captioned "Total—Memorandum Only" represents the aggregate of the columnar statements by fund type and account groups. The column does not present consolidated financial information.

NOTE 2—FIXED ASSETS

Changes in the Fixed Asset Account Group are set forth below:

Balance at July 1, 2002	\$ 96,116
Additions for the Year Ended June 30, 2003	2,500
Retirements at Cost	-0-
Balance at June 30, 2003	<u>\$ 98,616</u>

Detail of Fixed Assets is as follows:

Vehicles	\$ -0-
Furnishings and Equipment	98,616
	<u>\$ 98,616</u>

Assets are recorded at cost or, for donated assets, at fair market value at the time of receipt.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2003

NOTE 3—ACCUMULATED VACATION AND SICK LEAVE

Accumulated sick leave benefits may convert to cash or compensatory time to a maximum of three days. Terminated employees may receive payment of the monetary equivalent of 25% of unused sick leave. For the fiscal year ended June 30, 2003, 25% of the total amount of sick leave is \$5,260.

Accumulated vacation benefits can be accrued by no more than 240 hours per employee. Terminated employees are entitled to full payment of unused vacation. A vacation buy-back may be requested in some cases to reimburse current employees for unused time. The total liability of unused vacation pay for the fiscal year ended June 30, 2003 is \$18,439.

An estimate of 25% of the total was used as the liability to be paid from current financial resources. The balance is recorded in the general long-term debt account group.

NOTE 4—CASH IN COUNTY TREASURY

The County's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer. The objectives of this policy are, in order of priority, preservation of capital, liquidity, and yield. 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, and the percentage of the portfolio that may be invested in certain instruments with longer terms of maturity.

A detailed breakdown of cash and investments, along with a categorization of risk factors involved, can be reviewed in the County of Sonoma Independent Audit Report.

NOTE 5—BUDGETARY DATA

A reconciliation of results of "actual" operations on a Budget basis is reconciled to the results of operations on a GAAP basis as follows:

	<u>General Fund</u>
Excess of revenues and other sources over expenditures, encumbrances, and other uses— Budget basis	\$ (16,530)
Increase (decrease) in current year's encumbrances	<u>(1,725)</u>
Excess (deficiency) of revenues and other resources over (under) expenditures and other uses—GAAP basis	<u>\$ (18,255)</u>

NOTE 6—OPERATING LEASES

The library is leasing a mita copier with a minimum lease payment \$461.50. Additional copies cost 3.40 cents (over 10,000 copies).

In the month of August 2002, the office lease expired and the library continues to be on a month-to-month rental basis.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2003

NOTE 6—OPERATING LEASES (continued)

Future minimum lease payments of the copier are as follows:

7/1/03-6/30/04	\$ 5,538
7/1/04-6/30/05	5,538
7/1/05-6/30/06	5,538
7/1/06-6/30/07	4,155
	<u>\$ 20,769</u>

NOTE 7—EMPLOYEES' RETIREMENT PLAN

Plan Description—The Library contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public 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 participation public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from its Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy—Participants are required to contribute 7.0% of their annual covered salary. The Library makes the contributions required of Library employees on their behalf and for their account. The Library is required to contribute at an actuarially determined rate; the current rate is 0% of annual covered payroll. The contributions requirements of the plan members and the Library are established and may be amended by PERS.

Annual Pension Cost—For 2003, the Library's annual pension cost of \$-0- for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) a payroll growth rate of 3.75%. 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.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$ -0-	100	\$ -0-
6/30/02	-0-	100	-0-
6/30/03	-0-	100	-0-

The Library is "superfunded" as determined by PERS; therefore, no employer contributions were necessary for the years above.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS**

June 30, 2003

NOTE 7—EMPLOYEES' RETIREMENT PLAN (continued)

Funded Status of the Plan

The table below displays a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability or (Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated Annual Covered Payroll, and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of that covered payroll. For those plans that include first or second level 1959 survivor benefit, the liabilities and assets below include the assets and liabilities for current beneficiaries of the 1959 survivor benefit program. For all other plans, the assets and liabilities below are without regard to the 1959 Survivor Benefit program.

Funded Status of the Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability Excess Assets	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/00	\$ 1,071,576	\$ 1,650,358	\$ (578,782)	154.0%	\$ 274,844	(210.586%)
6/30/01	\$ 1,305,140	\$ 1,695,531	\$ (390,391)	129.9%	\$ 262,561	(148.700%)
6/30/02	\$ 1,344,570	\$ 1,571,515	\$ (226,945)	116.9%	\$ 320,717	(70.800%)

Information for the year ended June 30, 2003 has not yet been provided.

NOTE 8—DEFICITS

The library incurred an excess of expenditures, encumbrances and other financing uses over revenue in the amount of (\$16,530) (budget basis per page four). The library now has a deficit unreserved fund balance of (\$143,998) (page 2). This has resulted in more funds that have been reserved compared to the available fund balance.

NOTE 9—IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

The Library applies the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB No. 31, the Library has stated certain Treasury Pool investments at fair value.

Supplemental Information

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combining Balance Sheet - Expendable Trust Funds
June 30, 2003

	Employee Benefit Fund	Equipment Replacement Fund	TBR Trust Fund	Member Library Trust Fund	Total
ASSETS:					
Cash in County Treasury	\$ 45,510	\$ 7,743	\$ 301,833	\$ 35,597	\$ 390,683
Receivable-Grants	-	-	130,154	-	130,154
TOTAL ASSETS	<u>\$ 45,510</u>	<u>\$ 7,743</u>	<u>\$ 431,987</u>	<u>\$ 35,597</u>	<u>\$ 520,837</u>
LIABILITIES & FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 2,227	-	\$ 71	-	\$ 2,298
Deferred Revenue	-	-	431,916	35,597	467,513
TOTAL LIABILITIES	<u>2,227</u>	<u>-</u>	<u>431,987</u>	<u>35,597</u>	<u>469,811</u>
Fund Balances:					
Reserve for Future Claims	43,283	-	-	-	43,283
Reserve for Equipment Replacement	-	7,743	-	-	7,743
Unreserved	-	-	-	-	-
Total Fund Balances	<u>43,283</u>	<u>7,743</u>	<u>-</u>	<u>-</u>	<u>51,026</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 45,510</u>	<u>\$ 7,743</u>	<u>\$ 431,987</u>	<u>\$ 35,597</u>	<u>\$ 520,837</u>

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combining Statement of Revenues, Expenditures and
Changes in Unreserved Fund Balances - and Expendable Trust Funds
For The Year Ended June 30, 2003

	Employee Benefit Fund	Equipment Replacement Fund	TBR Trust Fund	Member Library Trust Fund	Total
REVENUES					
Interest Income	\$ 1,804	\$ 246	\$ -	\$ 1,078	\$ 3,128
Revenue from State Sources	-	-	303,259	69,585	372,844
Other Revenues	474	-	-	22,000	22,474
Total Revenues	2,278	246	303,259	92,663	398,446
EXPENDITURES					
Equipment Purchases	-	-	-	-	-
Operating Expenses	6,548	-	303,259	96,331	406,138
Total Expenditures	6,548	-	303,259	96,331	406,138
Excess of Revenues Over Expenditures	(4,270)	246	-	(3,668)	(7,692)
Other Financing Sources (Uses):					
Transfers In (Out)	(25,561)	-	-	-	(25,561)
Total Other Sources	(25,561)	-	-	-	(25,561)
Excess of Revenues Over Expenditures & Other Financing Sources	(29,831)	246	-	(3,668)	(33,253)
Unreserved Fund Balance, Beginning of Year	-	-	-	3,668	3,668
Changes in Reserves	29,831	(246)	-	-	29,585
Unreserved Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -	\$ -

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Detailed Statement of Expenditures & Encumbrances - General Fund
For The Year Ended June 30, 2003

	Budget	Expenditures and Encumbrances	Favorable (Unfavorable)
Salaries	\$ 315,342	\$ 307,954	\$ 7,388
Employee Benefits	59,487	57,666	1,821
	<u>374,829</u>	<u>365,620</u>	<u>9,209</u>
Communications	1,640	1,554	86
Telephone Service Charges	17,036	16,282	754
Janitorial Services	3,190	3,143	47
Insurance	3,184	3,326	(142)
Maintenance - Equipment	1,127	397	730
Memberships	-	80	(80)
Office Expense	4,274	4,080	194
Postage	2,554	2,493	61
Books/Periodicals	3,010	890	2,120
Supplies/Expenses	262,308	254,639	7,669
Professional/Special	193,528	194,178	(650)
Data Processing Services	2,700	2,629	71
Data Processing Assessment Program	376	115	261
County Services	5,397	5,397	-
Public / Legal Notices	6,945	7,118	(173)
Rents / Leases - Bldgs / Improvements	20,400	19,432	968
Special Department	61,655	2,565	59,090
Professional/Admin/Mgmt	4,651	2,246	2,405
Travel Expenses	8,432	8,385	47
Private Car Expense	5,988	4,965	1,023
Utilities	4,287	3,763	524
	<u>612,682</u>	<u>537,677</u>	<u>75,005</u>
Equipment Purchases	-	2,500	(2,500)
	<u>-</u>	<u>-</u>	<u>-</u>
SubTotal	<u>987,511</u>	<u>905,797</u>	<u>81,714</u>
Transfers	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Grand Total	<u><u>\$ 987,511</u></u>	<u><u>\$ 905,797</u></u>	<u><u>\$ 81,714</u></u>

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the financial statements of the North Bay Cooperative Library System as of and for the fiscal year ended June 30, 2003, and have issued my report thereon, dated October 10, 2003. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the North Bay Cooperative Library System financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws and regulations, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered the internal control over the North Bay Cooperative Library System financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited might occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

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



Larry D. Johnson
Certified Public Accountant

October 10, 2003
Santa Rosa, CA

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the financial statements of the North Bay Cooperative Library System as of June 30, 2003, and have issued my report thereon dated October 10, 2003. My audit was made in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The North Bay Cooperative Library System's management is responsible for compliance with laws and regulations. In connection with the audit referred to above, I selected and tested transactions and records to determine the Library's compliance with the laws and regulations of the following state program:

California State Library

Based on my audit, I found that, for the items tested, the North Bay Cooperative Library System complied with the laws and regulations of the state program referred to above. Further, based on my audit, for items not tested, nothing came to my attention to indicate that the North Bay Cooperative Library System had not complied with the laws and regulations of the state program and its requirements.



Larry D. Johnson
Certified Public Accountant

October 10, 2003
Santa Rosa, CA