

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
FINANCIAL STATEMENTS**

June 30, 2004

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Financial Statements
June 30, 2004

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Larry D. Johnson

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the accompanying financial statements of the governmental activities and major fund of the North Bay Cooperative Library System (Library) as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. My responsibility is to express opinions on these financial statements based on my audit.


I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the North Bay Cooperative Library System as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, the Library adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments – Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2004.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 4, 2004 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.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and pages 20 through 21, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.


Larry D. Johnson
Certified Public Accountant

November 4, 2004
Santa Rosa, CA

North Bay Cooperative Library System

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the Library's financial performance provides an overview of financial activities for the year ending June 30, 2004. Please read this in conjunction with the financial statements as listed in the Table of Contents.

FINANCIAL HIGHLIGHTS

Based upon our Government-wide Financial Statements:

- Assets exceeded liabilities by \$412,093 as of June 30, 2004. Of this amount, \$16,674 represents its depreciated cost of Capital Assets. The remaining \$395,419 may be used to meet the Library's ongoing obligations to its members.

Based upon our Governmental Fund Financial Statements (General Fund Only):

- The Library decreased its net assets for the year by \$20,635 per its "Statement of Revenues, Expenditures and Changes in Fund Balances".
- The Library has entered into a management contract with North State Cooperative Library System for the period 7/1/04 to 6/30/05.
- The Library has no long term financing. Our only long term debt is our compensated absence liability due beyond one year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 7-8) provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements start on page 9. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide statements by providing information about the Library's most financially significant funds.

REPORTING THE LIBRARY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

Our analysis of the Library as a whole begins on page 3. One of the most important questions asked about the Library's finances is, "Is the Library as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Library as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the

accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Library's *net assets* and changes in them. You can think of the Library's net assets, the difference between assets, what the Library owns, and liabilities, what the Library owes, as one way to measure the Library's financial health, or *financial position*. Over time, *increases or decreases* in the Library's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as availability of grant funding and the strength of its membership base to assess the *overall health* of the Library.

REPORTING THE LIBRARY'S ONLY MAJOR FUND (FUND FINANCIAL STATEMENTS)

Government Funds:

The Library's services are reported primarily in its general fund. This fund will focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Library's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in separate statements.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 15-21 of this report.

Other Information:

We also report on "Required Supplementary Information". This consists of a budget to actual comparison. Notes on budgetary procedures are provided for this report. This information begins on page 23.

THE LIBRARY AS A WHOLE

SUMMARIZED STATEMENT OF NET ASSETS

	<u>6/30/04</u>	
ASSETS		
Cash in County Treasury	\$ 400,286	87.50 %
Other Current Assets	40,252	8.80 %
Capital Assets (Net)	16,674	3.70 %
	<u>\$ 457,212</u>	<u>100.00 %</u>
LIABILITIES		
Current Assets	\$ 27,620	62.00 %
Long Term Liabilities	17,499	38.00 %
	<u>\$ 45,119</u>	<u>100.00 %</u>
NET ASSETS		
Invested in Capital Assets	\$ 16,674	4.04 %
Restricted	433,562	105.20 %
Unrestricted	(38,143)	(9.24) %
	<u>\$ 412,093</u>	<u>100.00 %</u>

The Library's largest portion of net assets is our cash at 87.5%. Therefore, we have a highly liquid financial status as most of our assets are available for future use.

The Library has a minimal amount of liabilities compared to its assets. Our only long term liabilities is our estimated compensated absences due beyond one year.

The unrestricted net assets of (\$38,143) is a deficit balance and means we have over-restricted our available assets.

A comparative (current 6/30/04 and 6/30/03) is not available because this is our first year of GASB 34 reporting. Future information will be on comparative format.

SUMMARY STATEMENT OF ACTIVITIES

Program Revenues	\$ 650,761	63%
State Grants	225,280	22%
Federal Grants	134,340	13%
General Revenues		
Interest Income	<u>19,739</u>	<u>2%</u>
Total Revenues	\$ 1,030,120	<u>100%</u>
Program Expenses		
Salaries & Benefits	364,332	55%
Services & Supplies	687,462	35%
Depreciation	<u>5,462</u>	<u>11%</u>
Total Expenses	1,057,256	<u>100%</u>
 Increase in Net Assets	 \$ (27,136)	
 Net Assets – Beginning of Year	 <u>439,229</u>	
Net Assets – End of Year	<u>\$ 412,093</u>	

The vast majority of the Library's revenues comes from user charges, membership dues and member reimbursements as reported above as "Program Revenues" at 63%.

Program expenses include depreciation in this statement which totals \$5,462 (similar to a profit making entity).

GOVERNMENTAL FUNDS

The Library has one major governmental fund; its' General Fund. The focus on governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is helpful in assessing the Library's financing requirements. The unreserved fund balance may serve as a useful measure of a government's net resources available for spending in the future. These financial statements are very similar to our prior year (non-GASB 34) statements.

SUMMARIZED GENERAL FUND BALANCE SHEET

	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>Difference</u>
Assets			
Cash in County Treasury	\$ 350,573	\$ 401,034	\$ (50,461)
Other Assets	<u>40,252</u>	<u>7,919</u>	<u>32,333</u>
Total Assets	<u>\$ 390,825</u>	<u>\$ 408,953</u>	<u>\$ (18,128)</u>
Liabilities & Fund Balances			
Liabilities	\$ 27,620	\$ 25,113	\$ 2,507
	<u>27,620</u>	<u>25,113</u>	<u>2,507</u>
Fund Equity			
Unreserved Fund Balance	(32,971)	(143,998)	111,027
Reserved Fund Balance	<u>396,176</u>	<u>527,838</u>	<u>(131,662)</u>
	<u>363,205</u>	<u>383,840</u>	<u>(20,635)</u>
Total Liabilities & Fund Equity	<u>\$ 390,825</u>	<u>\$ 408,953</u>	<u>\$ (18,128)</u>

SUMMARIZED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GENERAL FUND

	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>Difference</u>
Revenues			
User Charges	\$ 243,708	\$ 161,114	\$ 82,594
Membership Fees	113,490	122,574	(9,084)
Federal Operating Grants	134,340	-	134,340
State Operating Grants	225,280	286,016	(60,736)
Interest Income	18,680	25,572	(6,892)
Member Reimbursements	293,563	264,174	29,389
Other	-	29,817	(29,817)
	<u>1,029,061</u>	<u>889,267</u>	<u>139,794</u>
Expenditures			
Salaries & Benefits	362,234	365,620	(3,386)
Operating Expenses	687,462	539,402	148,060
Equipment Purchases	-	2,500	-
	<u>1,049,696</u>	<u>907,522</u>	<u>142,174</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ (20,635)</u>	<u>\$ (18,255)</u>	<u>\$ (2,380)</u>

These financial statements use the same accounting methods as last year, thus allowing comparative analysis. The increases in Excess (Deficit) of Revenues over Expenditures were negative which shows a general decline in financial condition over the two years.

The state and federal grants are "operating" in nature and tend to vary from year-to-year. These are for our various programs and are not spent on "capital" assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration

The Library has no debt outstanding such as bond issuance or capital leases. The estimated compensated absence liability due beyond one year was \$17,499 for 6/30/04 and \$17,774 for 6/30/03.

Capital Assets

The Library purchased no material fixed assets during the year.

ECONOMIC FACTORS AND 04/05 BUDGET

1. The State Library awarded a \$10,100 augmentation to our LSTA grant specifically for the "Website For Small Business" project. Expenditures must have been completed by 10/31/04.
2. We have entered into a management contract in the amount of \$54,920 with North State Cooperative Library System. The term of the contract is 7/1/04 – 6/30/05.
3. Our 04/05 budgeted revenues of \$968,907 and expenditures of \$1,024,684 projects a deficit of \$55,777 which will reduce our available resources.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens and taxpayers with a general overview of our finances and to show the accountability for the money received. If you have any questions about this report or need additional financial information, contact the Library's office at (707) 544-0142.

Annette Milliron Debacker
System Administrator

NORTH BAY COOPERATIVE LIBRARY SYSTEM
STATEMENT OF NET ASSETS
6/30/2004

ASSETS:

Cash in County Treasury	\$	400,286
Petty Cash		50
Accounts Receivable		40,202

Capital Assets:

Computer Equipment		68,099
		68,099

Less: Accumulated Depreciation		(51,425)
Total Capital Assets, net of accumulated Depreciation		16,674

Total Assets	\$	457,212
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LIABILITIES

Accounts Payable	\$	21,787
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Non-Current Liabilities:

Compensated Absences- Due within one year		5,833
Compensated Absences- Due beyond one year		17,499

Total Liabilities	\$	45,119
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NET ASSETS

Invested in Capital Assets, net of Related Debt	\$	16,674
Restricted for Equipment Replacement		7,909
Restricted for Future Claims		41,803
Restricted for Retirement Benefits		150,000
Restricted for Future Commitments		233,850
Unrestricted		(38,143)
Total Net Assets	\$	412,093

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2004

Program Expenses

Library Services

Salaries & Benefits	\$ 364,332
Services & Supplies	687,462
Depreciation	<u>5,462</u>
Total Program Expenses	1,057,256

Program Revenues

Library Services	243,708
Membership Dues	113,490
Member Reimbursements	<u>293,563</u>
Total Program Revenues	650,761

Net Program Expenses before Operating Grants

406,495

Federal LSTA Grant	134,340
State CLSA Grants	<u>225,280</u>
Total Operating Grants	359,620

Net Program expenses 46,875

General Revenues

Interest Income	<u>19,739</u>
Total General Revenues	19,739

Increase (Decrease) in Net Assets (27,136)

Net Assets, Beginning of Year 439,229

Net Assets, End of Year \$ 412,093

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
BALANCE SHEET- GOVERNMENTAL FUND TYPES
6/30/2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash in County Treasury	\$ 350,573	\$ 49,712	\$ 400,285
Cash - Other	50	-	50
Accounts Receivable	40,202	-	40,202
Total Assets	<u>\$ 390,825</u>	<u>\$ 49,712</u>	<u>\$ 440,537</u>
LIABILITIES & FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 21,787	\$ -	21,787
Compensated Absences	5,833	-	5,833
Total Liabilities	<u>27,620</u>	<u>-</u>	<u>27,620</u>
Fund Equity:			
Reserved for Equipment Replacement	-	7,909	7,909
Reserved for Future Claims	-	41,803	41,803
Reserved for Future Commitments	233,850	-	233,850
Reserved for Encumbrances	12,326	-	12,326
Reserved for Retirement Benefits	150,000	-	150,000
Unreserved	(32,971)	-	(32,971)
Total Fund Balances	<u>363,205</u>	<u>49,712</u>	<u>412,917</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 390,825</u>	<u>\$ 49,712</u>	<u>\$ 440,537</u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Reconciliation of Governmental Fund Type Fund Balance to the Statement of Net Assets
6/30/2004

TOTAL FUND BALANCES- GOVERNMENTAL FUNDS \$ 412,917

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in the operation of governmental funds are not financial resources and, therefore, are not reported in the general fund. These assets consist of:

Capital Assets:

Computer Equipment

\$	68,099
	<u>68,099</u>

Less: Accumulated Depreciation

<u>(51,425)</u>

Total Capital Assets, net of accumulated Depreciation

<u>\$</u>	<u>16,674</u>
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16,674

Long- Term liabilities are not due and payable in the Current period and, therefore, are not reported in the general fund. This consists of:

Compensated Absences- Due beyond one year

(17,498)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>\$</u>	<u>412,093</u>
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The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Fund Type
For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
User Charges	243,708	-	243,708
Membership Fees	113,490	-	113,490
Federal Operating Grants	134,340	-	134,340
State Operating Grants	225,280	-	225,280
Interest Income	18,680	1,058	19,738
Member Reimbursements	293,563	-	293,563
Total Revenues	<u>1,029,061</u>	<u>1,058</u>	<u>1,030,119</u>
EXPENDITURES			
Salaries & Benefits	362,234	-	362,234
Operating Expenses	687,462	2,372	689,834
Equipment Purchases	-	-	-
Total Expenditures	<u>1,049,696</u>	<u>2,372</u>	<u>1,052,068</u>
Excess (Deficiency) of Revenues Over Expenditures	(20,635)	(1,314)	(21,949)
Other Financing Sources (Uses):			
Sale of Fixed Assets	-	-	-
Total Other Sources	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of Revenues Over Expenditures & Other Financing Sources	(20,635)	(1,314)	(21,949)
Fund Balance, Beginning of Year	<u>383,840</u>	<u>51,026</u>	<u>434,866</u>
Fund Balance, End of Year	<u><u>\$ 363,205</u></u>	<u><u>\$ 49,712</u></u>	<u><u>\$ 412,917</u></u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Reconciliation of Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Fund Types
To The Statement of Activities
For The Year Ended June 30, 2004

NET CHANGE IN FUND BALANCES- GOVERNMENTAL FUND TYPE	\$ (21,949)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Differences are as follows:

Current year depreciation expense	(5,462)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds, as follows:

Change in long term compensated absences	275
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (27,136)</u></u>
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The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Statement of Fiduciary Net Assets
6/30/2004

	Agency Funds	
	TBR Trust Fund	Member Library Trust Fund
ASSETS:		
Cash in County Treasury	\$ 404,596	\$ 30,623
Total Assets	<u>\$ 404,596</u>	<u>\$ 30,623</u>
LIABILITIES		
Accounts Payable	\$ 624	\$ -
Total Liabilities	<u>\$ 624</u>	<u>\$ -</u>
NET ASSETS		
Held for Member Libraries	\$ 403,972	\$ 30,623
Total Net Assets	<u>\$ 403,972</u>	<u>\$ 30,623</u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Assets
6/30/2004

	Agency Funds	
	TBR Trust Fund	Member Library Trust Fund
ADDITIONS		
State Grant Revenues	\$ 416,936	\$ -
Member Reimbursements	-	8,580
Other Revenues	-	1,700
Total Additions	416,936	10,280
DEDUCTIONS		
Payments on behalf of members	314,726	15,254
Total Deductions	314,726	15,254
Changes in Net Assets	102,210	(4,974)
Net Assets, beginning of Year	301,762	35,597
Net Assets, end of Year	<u>\$ 403,972</u>	<u>\$ 30,623</u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements

June 30, 2004

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. Significant Accounting Policies

The basic financial statements of the North Bay Cooperative Library System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

1. Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary fund and fiduciary fund financial statements. 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 imposed by the grantor have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use unrestricted resources first, then restricted resources as they are needed.

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements

June 30, 2004

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for its major governmental fund. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide financial statements. The Library's General Fund is its only major governmental fund.

Governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Library, are property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach.

3. Types of Funds

- a) The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library except those required to be accounted for in another fund.
- b) The Library has two other non-major funds that are reported as "Other Governmental Funds" in the Fund Financial Statements. These are the "Equipment Replacement Trust" and "Employee Benefit Trust".
- c) Fiduciary Fund Financial Statements include a Statement of Net Assets. The Library's Fiduciary Funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting as are the governmental funds explained above. These funds include the "TBR Trust Fund" and the "Member Library Trust Fund". These funds are not included in either the Government-wide Financial Statements or the Government Fund Financial Statements.

4. Capital Assets

Capital assets, which include primarily computer equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements

JUNE 30, 2004

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Buildings and improvements and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Computer Equipment	5-10

5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Deposits and Investments

As authorized by Health and Safety Code Section 13854(a), the Library maintains its operating cash in accounts with the Sonoma County Treasurer, who acts as a disbursing agent. Consequently, the Library benefits from the Treasurer's practice of pooling cash and investments of certain funds. Interest earned on these pooled investments is allocated and apportioned quarterly to the Library, based on the average daily balance for each quarter.

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.

7. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements

JUNE 30, 2004

NOTE 2—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A summary reconciliation of the difference between total fund balances as reflected on the Governmental Funds Balance Sheet and total net deficit of governmental activities as shown on the Government-wide Statement of Net Assets is presented in an accompanying schedule to the Governmental Funds Balance Sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the Government-wide Financial Statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances as reflected on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Change in Net Assets of Governmental Activities as shown on the Government-wide Statement of Activities is presented in an accompanying schedule to the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the Government-wide Financial Statements use the economic resources measurement focus and the accrual basis of accounting.

NOTE 3—CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance 7/1/2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2004</u>
Capital Assets, Being Depreciated				
Computer Equipment	\$ 68,099	\$ -	\$ -	\$ 68,099
Total Capital Assets, Being Depreciated	68,099	-	-	68,099
Less: Accumulated Depreciation	(45,963)	(5,462)	-	(51,425)
Total Capital Assets, Being Depreciated, Net	22,136	(5,462)	-	16,674
Governmental Activities, Capital Assets, Net	\$ 22,136	\$ (5,462)	\$ -	\$ 16,674

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Library Services	\$ 5,462
Total Depreciation Expense – Governmental Activities	<u>\$ 5,462</u>

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2004

NOTE 4—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.

Future minimum lease payments of the copier are as follows:

7/1/04 – 6/30/05	\$ 5,538
7/1/05 – 6/30/06	5,538
7/1/06 – 6/30/07	<u>4,155</u>
	<u>\$ 15,231</u>

NOTE 5—IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

In fiscal year 2004, the Library adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.
- Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No 34 is a new financial reporting requirement for State and Local Governments in the United States. The Library has implemented this pronouncement and has restructured much of the information that it has presented in the past. The main goal is to make the reports more comprehensive and easier to understand and use.

GASB Statement No. 37 addresses selected issues and amends GASB Statements No. 21, *Accounting for Escheat Property*, And No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These Statements make selective changes including accounting for Escheat Property, Management's Discussion and Analysis, Capitalization of Construction-Period Interest, Modified Approach for Reporting Infrastructure, Program Revenues and Major Fund Criteria.

GASB Statement No. 38 establishes and modifies disclosure requirements related to Summary of Significant Accounting Policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements

June 30, 2004

NOTE 6—COMPENSATED ABSENCES

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, 2004, 25% of the total amount of sick leave is \$5,410.

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, 2004 is \$17,922.

An estimate of 25% of the total was used as the liability to be paid from current financial resources and is recorded on the Fund Financial Statements. The Government-wide Financial Statement reports both current and long term liabilities.

NOTE 7—EMPLOYEES' RETIREMENT PLAN

A. 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.

B. 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.

C. Annual Pension Cost

For 2004, 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, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% 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 3.5%. 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.

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

June 30, 2004

NOTE 7—EMPLOYEES' RETIREMENT PLAN (Continued)

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ -0-	100	\$ -0-
6/30/03	-0-	100	-0-
6/30/04	-0-	100	-0-

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

D. 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
6/30/01	\$ 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)%
6/30/03	\$ 1,498,578	\$ 1,606,749	\$ (108,171)	107.2%	\$ 321,380	(33.700)%

Information for the year ended June 30, 2004 has not yet been provided.

NOTE 8—SUBSEQUENT EVENTS

The Library has several events which occurred subsequent to year end as follows:

- a) The State Library awarded \$10,100 as an augmentation to the LSTA grant. Funds will be used for a "Website For Small Business" project and must be completed by 10/31/04.
- b) The Library has entered into a one year management services contract (7/1/04-6/30/05) with North State Cooperative Library System. The total compensation for the year is \$54,920.

Supplemental Information

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Fund Type
For The Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
User Charges	\$ 250,891	\$ 251,716	\$ 243,708	\$ 8,008
Membership Fees	109,124	108,679	113,490	(4,811)
Federal Operating Grants	101,632	134,340	134,340	-
State Operating Grants	220,226	224,897	225,280	(383)
Interest Income	26,000	21,300	18,680	2,620
Member Reimbursements	208,017	289,611	293,563	(3,952)
Miscellaneous Revenues	2,268	37,539	-	37,539
Total Revenues	<u>918,158</u>	<u>1,068,082</u>	<u>1,029,061</u>	<u>39,021</u>
EXPENDITURES				
Salaries & Benefits	355,625	369,955	362,234	7,721
Operating Expenses	620,522	740,178	687,462	52,716
Equipment Purchases	1,932	1,400	-	1,400
Total Expenditures	<u>978,079</u>	<u>1,111,533</u>	<u>1,049,696</u>	<u>61,837</u>
Excess (Deficiency) of Revenues Over Expenditures:	(59,921)	(43,451)	(20,635)	(22,816)
Other Financing Sources (Uses):				
Sale of Fixed Assets	-	-	-	-
Total Other Sources	-	-	-	-
Excess (deficiency) of Revenues Over Expenditures & Other Financing Sources	<u>(59,921)</u>	<u>\$ (43,451)</u>	<u>(20,635)</u>	<u>\$ (22,816)</u>
Fund Balance, Beginning of Year			<u>383,840</u>	
Fund Balance, End of Year			<u>\$ 363,205</u>	

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Required Supplementary Information

June 30, 2004

NOTE 1—BUDGETARY INFORMATION

Annual budgets are adopted on a non-GAAP basis for all governmental funds. All annual appropriations lapse at fiscal year-end.

Before October 31, the proposed budget is presented to the board of directors for review. The board holds public hearings and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by character and subobject. Transfers of appropriations between characters require the approval of the board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the character level. The board made several supplemental budgetary appropriations throughout the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. The Library had no encumbrances outstanding at June 30.

Larry D. Johnson

Certified Public Accountant

**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, 2004, and have issued my report thereon, dated November 4, 2004. 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

November 4, 2004
Santa Rosa, CA

Larry D. Johnson

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

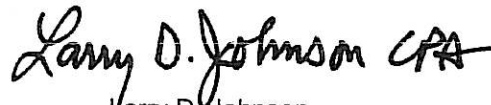
Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the financial statements of the North Bay Cooperative Library System as of June 30, 2004, and have issued my report thereon dated November 4, 2004. 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

November 4, 2004
Santa Rosa, CA