

**NORTH BAY COOPERATIVE LIBRARY SYSTEM  
FINANCIAL STATEMENTS**

**June 30, 2006**

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Financial Statements**

**June 30, 2006**  
**Table of Contents**

	Page(s)
<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>2-6</b>
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets.....	7
Statement of Activities.....	8
<b>Fund Financial Statements:</b>	
Balance Sheet—Governmental Fund Type.....	9
Reconciliation of Governmental Fund Type Balance Sheet To The Statement Of Net Assets.....	10
Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Type.....	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund Types to the Statement of Activities.....	12
Statement of Fiduciary Net Assets .....	13
Statement of Changes in Fiduciary Net Assets.....	14
<b>Notes To Financial Statements.....</b>	<b>15-23</b>
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	24
Notes to Required Supplementary Information.....	25
<b>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 .....</b>	<b>26</b>
<b>Independent Auditor's Report On State Compliance.....</b>	<b>27</b>
<b>Report on Compliance with Requirements Applicable to Each Major Program And Internal Control Over Compliance in Accordance with OMB Circular A-133.....</b>	<b>28</b>
<b>Schedule of Expenditures of Federal Awards.....</b>	<b>29</b>
<b>Schedule of Audit Findings and Questioned Costs.....</b>	<b>30</b>

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, 2006, 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, 2006, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2006 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.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the North Bay Cooperative Library System taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

  
Larry D. Johnson  
Certified Public Accountant

October 31, 2006  
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, 2006. 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 \$533,037 as of June 30, 2006. Of this amount, \$9,338 represents its depreciated cost of Capital Assets. The remaining \$523,699 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 increased its net assets for the year by \$91,763 per its "Statement of Revenues, Expenditures and Changes in Fund Balances".
- The Library has continued its' management contract with North State Cooperative Library System for the period 7/1/05 to 6/30/06. The management of Mountain Valley Library System began in the 06/07 year.
- 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 15-23 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 25.

## **THE LIBRARY AS A WHOLE**

### **SUMMARIZED STATEMENT OF NET ASSETS**

	<u>6/30/2006</u>		<u>6/30/2005</u>	
<b>Assets:</b>				
Cash in County Treasury	\$ 569,831	96.5%	\$ 551,722	96.8%
Other Current Assets	11,576	2.0%	6,766	1.2%
Capital Assets (Net)	9,338	1.6%	11,511	2.0%
	<u>\$ 590,745</u>	<u>100.0%</u>	<u>\$ 569,999</u>	<u>100.0%</u>
<b>Liabilities:</b>				
Current Assets	\$ 38,789	67.2%	\$ 107,633	84.8%
Long Term Liabilities	18,919	32.8%	19,229	15.2%
	<u>\$ 57,708</u>	<u>100.0%</u>	<u>\$ 126,862</u>	<u>100.0%</u>
<b>Net Assets:</b>				
Invested in Capital Assets	\$ 9,338	1.8%	\$ 11,511	2.6%
Restricted	418,212	78.5%	424,887	95.9%
Unrestricted	105,487	19.8%	6,739	1.5%
	<u>\$ 533,037</u>	<u>100.0%</u>	<u>\$ 443,137</u>	<u>100.0%</u>

The Library's largest portion of net assets is our cash at 96.5% for the current year. 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 has a positive balance of \$105,487 which improved from \$6,739 last year.

### **SUMMARY STATEMENT OF ACTIVITIES**

	<u>6/30/2006</u>		<u>6/30/2005</u>	
<b>Program Revenues</b>	\$ 770,575	49.1%	\$ 722,793	43.3%
State Grants	207,721	13.2%	225,283	13.5%
Federal Grant	530,796	33.8%	668,257	40.0%
<b>General Revenues</b>				
Interest Income	47,031	3.0%	25,644	1.5%
Miscellaneous Revenue	14,042	0.9%	27,482	1.6%
Total Revenues	1,570,165	<u>100.0%</u>	1,669,459	<u>100.0%</u>
<b>Program Expenses</b>				
Salaries & Benefits	438,144	55.0%	413,320	55.0%
Services & Supplies	1,037,296	35.0%	1,219,932	35.0%
Depreciation	4,825	11.0%	5,163	11.0%
Total Expenses	1,480,265	<u>100.0%</u>	1,638,415	<u>100.0%</u>
<b>Increase in Net Assets</b>	89,900		31,044	
<b>Net Assets – Beginning of Year</b>	443,137		412,093	
<b>Net Assets – End of Year</b>	<u>\$ 533,037</u>		<u>\$ 443,137</u>	

The majority of the Library's revenues came from user charges, membership dues and member reimbursements as reported above as "Program Revenues" at 49.1%. Federal funding is now 33.8% of total revenue.

Program expenses include depreciation in this statement which totals \$4,825 at 6/30/06 and \$5,163 for 6/30/05 (similar to a profit making entity). A substantial increase in expenses this year is as a result of the new federal grants activity.

### **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 pre GASB 34 statements.

### SUMMARIZED GENERAL FUND BALANCE SHEET

<b>Assets:</b>	<b>6/30/2006</b>	<b>6/30/2005</b>	<b>Difference</b>
Cash in County Treasury	\$ 569,831	\$ 510,685	\$ 59,146
Other Assets	11,576	6,766	4,810
Total Assets	<u>\$ 581,407</u>	<u>\$ 517,451</u>	<u>\$ 63,956</u>
<b>Liabilities &amp; Fund Balances:</b>			
Liabilities	\$ 38,789	\$ 107,633	\$ (68,844)
	\$ 38,789	\$ 107,633	\$ (68,844)
<b>Fund Equity:</b>			
Unreserved Fund Balance	\$ 124,406	\$ 25,968	\$ 98,438
Reserved Fund Balances	418,212	383,850	34,362
	<u>\$ 542,618</u>	<u>\$ 409,818</u>	<u>\$ 132,800</u>
<b>Total Liabilities &amp; Fund Equity</b>	<u>\$ 581,407</u>	<u>\$ 517,451</u>	<u>\$ 63,956</u>

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

<b>Revenues:</b>	<b>6/30/2006</b>	<b>6/30/2005</b>	<b>Difference</b>
User Charges	\$ 288,400	\$ 263,860	\$ 24,540
Membership Fees	199,000	157,354	41,646
Federal Operating Grants	530,796	668,257	(137,461)
State Operating Grants	207,721	225,283	( 17,562)
Interest Income	47,031	25,462	21,569
Member Reimbursements	283,175	301,579	( 18,404)
Other	14,042	36,340	( 22,298)
	<u>1,570,165</u>	<u>1,678,135</u>	<u>(107,970)</u>
<b>Expenditures:</b>			
Salaries & Benefits	438,454	411,590	26,864
Operating Expenses	1,037,296	1,219,932	(182,636)
Equipment Purchases	2,652	-	2,652
	<u>1,478,402</u>	<u>1,631,522</u>	<u>(153,120)</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>\$ 91,763</u>	<u>\$ 46,613</u>	<u>\$ 45,150</u>

These financial statements use the same accounting methods as last year, thus allowing comparative analysis. The increase in Excess (Deficit) of Revenues over Expenditures was positive which shows a general improvement 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 \$18,919 for 6/30/06 and \$19,229 for 6/30/05.

## **Capital Assets**

The Library purchased a computer for \$2,652 during the year.

## **ECONOMIC FACTORS AND 06/07 BUDGET**

1. Our 06/07 budgeted revenues of \$1,610,775 and expenditures of \$1,716,069 projects a deficit of \$105,294 which will decrease our available resources.

Federal revenue is projected to be \$605,000 and now includes four programs. Three new programs focus on literacy and health issues.

2. We have continued our management contract in the amount of \$66,920 with North State Cooperative Library System. The term of the contract is 7/1/06 – 6/30/07.
3. We have entered into a new management contract in the amount of \$93,100 with the Mountain Valley Library System. The term of the contract is 7/1/06 – 6/30/07.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens and members 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**  
6/30/2006

**ASSETS:**

Cash in County Treasury	\$ 569,831
Petty Cash	50
Accounts Receivable	11,526

Capital Assets:

Computer Equipment	70,751
	70,751

Less: Accumulated Depreciation

Total Capital Assets, net of accumulated Depreciation	(61,413)
	9,338

Total Assets	\$ 590,745
--------------	------------

**LIABILITIES**

Accounts Payable	\$ 32,483
------------------	-----------

Non-Current Liabilities:

Compensated Absences- Due within one year	6,306
Compensated Absences- Due beyond one year	18,919

<b>Total Liabilities</b>	<b>\$ 57,708</b>
--------------------------	------------------

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	\$ 9,338
Restricted for Equipment Replacement	8,299
Restricted for Future Claims	26,063
Restricted for Retirement Benefits	150,000
Restricted for Future Commitments	233,850
Unrestricted	105,487
Total Net Assets	\$ 533,037

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, 2006**

**Program Expenses**

**Library Services**

Salaries & Benefits	\$ 438,144
Services & Supplies	1,037,296
Depreciation	4,825
Total Program Expenses	<u>1,480,265</u>

**Program Revenues**

Library Services	288,400
Membership Dues	199,000
Member Reimbursements	283,175
Total Program Revenues	<u>770,575</u>

**Net Program Expenses before Operating Grants** 709,690

Federal LSTA Grant	530,796
State CLSA Grants	207,721
Total Operating Grants	<u>738,517</u>

**Net Program expenses** (28,827)

**General Revenues**

Interest Income	47,031
Miscellaneous Revenues	14,042
Total General Revenues	<u>61,073</u>

**Increase (Decrease) in Net Assets** 89,900

**Net Assets, Beginning of Year** 443,137

**Net Assets, End of Year** \$ 533,037

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**BALANCE SHEET- GOVERNMENTAL FUND TYPES**  
6/30/2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>			
Cash in County Treasury	\$ 535,469	\$ 34,362	\$ 569,831
Cash - Other	50	-	50
Accounts Receivable	11,526	-	11,526
<b>Total Assets</b>	<u>\$ 547,045</u>	<u>\$ 34,362</u>	<u>\$ 581,407</u>
<b>LIABILITIES &amp; FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 32,483	\$ -	32,483
Compensated Absences	6,306	-	6,306
<b>Total Liabilities</b>	<u>38,789</u>	<u>-</u>	<u>38,789</u>
<b>Fund Equity:</b>			
Reserved for Equipment Replacement	-	8,299	8,299
Reserved for Future Claims	-	26,063	26,063
Reserved for Future Commitments	233,850	-	233,850
Reserved for Retirement Benefits	150,000	-	150,000
Unreserved	124,406	-	124,406
<b>Total Fund Balances</b>	<u>508,256</u>	<u>34,362</u>	<u>542,618</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u>\$ 547,045</u>	<u>\$ 34,362</u>	<u>\$ 581,407</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**  
**6/30/2006**

**TOTAL FUND BALANCES- GOVERNMENTAL FUNDS** **\$ 542,618**

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

\$	70,751
	<u>70,751</u>

Less: Accumulated Depreciation

(61,413)
----------

Total Capital Assets, net of accumulated Depreciation

\$	<u>9,338</u>
----	--------------

9,338

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

(18,919)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**

<u>\$</u>	<u>533,037</u>
-----------	----------------

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, 2006**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
User Charges	288,400	-	288,400
Membership Fees	199,000	-	199,000
Federal Operating Grants	530,796	-	530,796
State Operating Grants	207,721	-	207,721
Interest Income	45,009	2,022	47,031
Member Reimbursements	283,175	-	283,175
Miscellaneous Income	14,042	-	14,042
<b>Total Revenues</b>	<u>1,568,143</u>	<u>2,022</u>	<u>1,570,165</u>
<b>EXPENDITURES</b>			
Salaries & Benefits	438,454	-	438,454
Operating Expenses	1,037,296	-	1,037,296
Equipment Purchases	2,652	-	2,652
<b>Total Expenditures</b>	<u>1,478,402</u>	<u>-</u>	<u>1,478,402</u>
 Excess (Deficiency) of Revenues Over Expenditures	 89,741	 2,022	 91,763
 Other Financing Sources (Uses):			
Transfers	8,697	(8,697)	-
Sale of Fixed Assets	-	-	-
<b>Total Other Sources</b>	<u>8,697</u>	<u>(8,697)</u>	<u>-</u>
 Excess (Deficiency) of Revenues Over Expenditures & Other Financing Sources	 98,438	 (6,675)	 91,763
 <b>Fund Balance, Beginning of Year</b>	 <u>409,818</u>	 <u>41,037</u>	 <u>450,855</u>
 <b>Fund Balance, End of Year</b>	 <u><u>\$ 508,256</u></u>	 <u><u>\$ 34,362</u></u>	 <u><u>\$ 542,618</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, 2006**

<b>NET CHANGE IN FUND BALANCES- GOVERNMENTAL FUND TYPE</b>	<b>\$ 91,763</b>
------------------------------------------------------------	------------------

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	(4,825)
Fixed Asset Purchases	2,652

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	310
------------------------------------------	-----

<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 89,900</u></b>
--------------------------------------------------------	-------------------------

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Statement of Fiduciary Net Assets**  
**6/30/2006**

	Agency Funds	
	TBR Trust Fund	Member Library Trust Fund
<b>ASSETS:</b>		
Cash in County Treasury	\$ 393,683	\$ 25,330
<b>Total Assets</b>	<u>\$ 393,683</u>	<u>\$ 25,330</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ -	\$ -
<b>Total Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>
<b>NET ASSETS</b>		
Held for Member Libraries	\$ 393,683	\$ 25,330
<b>Total Net Assets</b>	<u>\$ 393,683</u>	<u>\$ 25,330</u>

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Statement of Changes in Fiduciary Net Assets**  
**6/30/2006**

	Agency Funds	
	TBR Trust Fund	Member Library Trust Fund
<b>ADDITIONS</b>		
State Grant Revenues	\$ 350,633	\$ -
Member Reimbursements	-	12,305
Total Additions	<u>350,633</u>	<u>12,305</u>
<b>DEDUCTIONS</b>		
Payments on behalf of members	<u>548,195</u>	<u>3,010</u>
Total Deductions	548,195	3,010
Changes in Net Assets	(197,562)	9,295
Net Assets, Beginning of Year	<u>591,245</u>	<u>16,035</u>
Net Assets, End of Year	<u><u>\$ 393,683</u></u>	<u><u>\$ 25,330</u></u>

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2006**

**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, 2006

**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, 2006**

**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. Net Assets**

In the government-wide financial statements, net assets are classified into two components – invested in capital assets and unrestricted. These classifications are defined as follows:

- Invested in capital assets – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".
- Restricted assets – This component of net assets that are restricted for future equipment replacement or payroll claims.

**7. Allowance for Doubtful Accounts**

The Library anticipates 100% collection of their accounts receivable because the receivables are all due from member libraries.

**8. 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, 2006**

**NOTE 2—CASH AND INVESTMENTS**

Investment in the Sonoma County Treasurer's Investment Pool

The District's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the District. If material, the fair value of the District's investment in this pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

As of June 30, 2006, the District's share of the decrease in fair value of investments was not material.

Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2005, approximately 60 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 2 percent had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.



**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Financial Statements**

**JUNE 30, 2006**

**NOTE 2—CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- ⇒ The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- ⇒ The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 6/30/05 Sonoma County CAFR.

**NOTE 3—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.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 4—CAPITAL ASSET ACTIVITY**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2006</u>
<b>Capital Assets, Being Depreciated:</b>				
Computer Equipment	\$ 68,099	\$ 2,652	\$ -	\$ 70,751
<b>Total Capital Assets, Being Depreciated</b>		-	-	
Less: Accumulated Depreciation	(56,588)	(4,825)	-	(61,413)
<b>Total Capital Assets, Being Depreciated Net</b>	<u>11,511</u>	<u>(2,173)</u>	<u>-</u>	<u>9,338</u>
<b>Governmental Activities, Capital Assets, Net</b>	<u>\$ 11,511</u>	<u>\$ (2,173)</u>	<u>\$ -</u>	<u>\$ 9,338</u>

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

**Governmental Activities:**

Library Services	\$ 4,825
Total Depreciation Expense – Governmental Activities	<u>\$ 4,825</u>

**NOTE 5—OPERATING LEASES**

- A. The Library is leasing a mita copier with a minimum lease payment \$461.50. Additional copies cost 3.40 cents (over 10,000 copies).
- B. The Library executed a 3 year building lease effective January 1, 2005. The terms are \$1,780 but include an annual cost-of-living adjustment.

Future minimum lease payments of the copier are as follows:

	<u>Copier</u>	<u>Building Lease</u>
7/1/06 – 6/30/07	\$ 4,155	\$ 21,360
7/1/07 – 6/30/08	-	10,680
	<u>\$ 4,155</u>	<u>\$ 32,040</u>

**NOTE 6—FUTURE GASB PRONOUNCEMENTS (No. 43 and 45)**

These pronouncements are applicable for "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions". The Library currently pays approximately \$1,022 per month for 3 retired employees' health insurance benefits on a pay-as-you-go basis.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 6—FUTURE GASB PRONOUNCEMENTS (No. 43 and 45) (Continued)**

The implementation date for the Library is based upon the "Phase 3" governments of the GASB 34 implementation procedures. That is, since gross reserves are less than \$10 million the required implementation date is 12/15/2008. Although earlier implementation is encouraged, it has been the Library's policy to wait for the required year to begin implementation of new pronouncements.

**NOTE 7—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, 2006, 25% of the total amount of sick leave is \$5,045.

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, 2006 is \$20,180.

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 8—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 at 05/06 was 7.967% 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 2005, the Library's annual pension cost of \$22,174 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%

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Financial Statements**

June 30, 2006

**NOTE 8—EMPLOYEES' RETIREMENT PLAN (Continued)**

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 3.25%. 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**

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/04	\$ -0-	100	\$ -0-
6/30/05	\$ 22,174	100	\$ 22,174
6/30/06	\$ 25,242	100	\$ 25,242

The Library was "superfunded" as determined by PERS for the year 6/30/04; therefore, no employer contributions were necessary for that year.

**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.

With the implementation of risk pooling, stand alone valuation reports for the District are not available. The following information reports the funding progress of the entire state system. Information for 6/30/05 will be available next year and 3 years of information will be provided at that time.

Required supplementary information is as follows:

**FUNDED STATUS OF THE PLAN – (MISCELLANEOUS PLAN) - STATEWIDE**

<b>Valuation Date</b>	<b>Accrued Liabilities</b>	<b>Actuarial Assets</b>	<b>Unfunded Liabilities (UL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UL As A % of Payroll</b>
6/30/03	\$430,371,544	\$429,814,105	\$ 557,439	99.9%	\$159,238,690	0.4%
6/30/04	\$437,494,341	\$428,025,075	\$9,469,266	97.8%	\$159,135,314	6.0%

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Financial Statements**

June 30, 2006

**NOTE 8—EMPLOYEES' RETIREMENT PLAN (Continued)**

**FUNDED STATUS OF THE PLAN – (SAFETY PLAN) - STATEWIDE**

Valuation Date	Accrued Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL As A % of Payroll
6/30/03	\$1,218,082,935	\$1,083,690,137	\$134,392,798	89.0%	\$184,098,257	73.0%
6/30/04	\$ 996,203,370	\$ 885,549,650	\$110,653,720	88.9%	\$149,407,703	74.1%

The period ended 6/30/04 represents the last available information made available by PERS.

**NOTE 9—LONG TERM DEBT**

Activity of Long Term Debt for the year ended 6/30/06 was as follows:

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006
Compensated Absences	\$ 19,229	\$ -	\$ 310	\$ 18,919
Total Long Term Liabilities	\$ 19,229	\$ -	\$ 310	\$ 18,919

## Supplemental Information

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual-General Fund**  
**For The Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
User Charges	\$ 279,198	\$ 290,920	\$ 288,400	\$ 2,520
Membership Fees	199,574	206,574	199,000	7,574
Federal Operating Grants	278,565	530,289	530,796	(507)
State Operating Grants	210,016	210,144	207,721	2,423
Interest Income	15,500	44,725	45,009	(284)
Member Reimbursements	250,000	285,500	283,175	2,325
Miscellaneous Revenues	9,107	25,291	14,042	11,249
<b>Total Revenues</b>	<u>1,241,960</u>	<u>1,593,443</u>	<u>1,568,143</u>	<u>25,300</u>
<b>EXPENDITURES</b>				
Salaries & Benefits	429,853	448,377	438,454	9,923
Operating Expenses	869,367	1,234,962	1,037,296	197,666
Equipment Purchases	5,652	2,652	2,652	-
<b>Total Expenditures</b>	<u>1,304,872</u>	<u>1,685,991</u>	<u>1,478,402</u>	<u>207,589</u>
Excess (Deficiency) of Revenues Over Expenditures	(62,912)	(92,548)	89,741	(182,289)
Other Financing Sources (Uses):				-
Transfers	-	-	8,697	(8,697)
Total Other Sources	-	-	8,697	(8,697)
Excess (deficiency) of Revenues Over Expenditures & Other Financing Sources	<u>(62,912)</u>	<u>\$ (92,548)</u>	98,438	<u>\$ (190,986)</u>
<b>Fund Balance, Beginning of Year</b>			<u>409,818</u>	
<b>Fund Balance, End of Year</b>			<u>\$ 508,256</u>	

The accompanying notes are an integral part of the financial statements

**NORTH BAY COOPERATIVE LIBRARY SYSTEM**  
**Notes to Required Supplementary Information**

**June 30, 2006**

**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.



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, 2006, and have issued my report thereon, dated October 31, 2006. 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 31, 2006  
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, 2006, and have issued my report thereon dated October 31, 2006. 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 31, 2006  
Santa Rosa, CA

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

***Compliance***

I have audited the compliance of the North Bay Cooperative Library System with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The North Bay Cooperative Library System's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the North Bay Cooperative Library System's management. My responsibility is to express an opinion on the North Bay Cooperative Library System's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Bay Cooperative Library System's compliance with those requirements and performing other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the North Bay Cooperative Library System's compliance with those requirements.

In my opinion, North Bay Cooperative Library System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

***Internal Control over Compliance***

The management of the North Bay Cooperative Library System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the North Bay Cooperative Library System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may 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 compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Library and its management, federal awarding agencies and others within these organizations 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 31, 2006  
Santa Rosa, California

**NORTHBAY COOPERATIVE LIBRARY SYSTEM**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Program Amount</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
<b>Major Programs:</b>				
Library Services				
Small Business in a Box Year 2	45.310	\$ 907,280	\$ 413,264	\$ 413,264
Small Business in a Box Year 3	45.310	\$ 6,750	3,169	3,169
Reach Out & Read	45.310	\$ 114,363	114,363	114,363
<b>Total Major Programs</b>			<u>\$ 530,796</u>	<u>\$ 530,796</u>

The significant accounting principles used are the same as the financial audit.

**NORTH BAY COOPERATIVE LIBRARY SYSTEM  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

**June 30, 2006**

**I. Summary of Auditor's Results**

- a) An unqualified opinion was issued on October 31, 2006 regarding the financial statements.
- b) No reportable conditions in internal controls over a major program was noted.
- c) A qualified opinion was issued on October 31, 2006 regarding compliance for major programs.
- d) There are no audit findings required to be reported under Section 510 (a).
- e) Major programs are as listed in the schedule of expenditures of Federal Awards and as follows:
  - 1. Library Services  
Catalog # 45.310
- f) The dollar threshold for Type A programs is \$300,000.

**II Findings Relating to the Financial Statements Audited in Accordance with Government Auditing Standards**

None noted.

**III Findings and Questioned Costs for Federal Awards**

- a) Questioned Costs: None
- b) Findings:

**IV Summary Schedule of Prior Audit Findings**

Finding #1: The Library needs to develop a better system of tracking federal grant related expenses by grant, not in aggregate. This system will enable more accurate reporting of quarterly financial reports to the State.

Corrective Action: Using Excel software, an adequate system has been established to track activity by individual grant.