

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
FINANCIAL STATEMENTS**

June 30, 2009

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Financial Statements
June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Council of Librarians
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, 2009, 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, 2009, 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 November 28, 2009 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 7 and pages 24 through 25, 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 28, 2009
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, 2009. 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 \$553,357 as of June 30, 2009. Of this amount, \$2,211 represents its depreciated cost of Capital Assets. The remaining \$551,146 may be used to meet the Library's ongoing obligations to its members, although part of this amount is already restricted.

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

- The Library increased its net assets for the year by \$76,457 per its "Statement of Revenues, Expenditures and Changes in Fund Balances".
- The Library has continued its' management contract with both North State Cooperative Library System and Mountain Valley Library System through June 30, 2009.
- The Library has no long term financing. Our only long term debt is our compensated absence liability due beyond one year.
- Effective 7/1/09, the Library has merged with two similar entities to create "NorthNet Library System".

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 8-9) 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 10. 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

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 16-23 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>6/30/2009</u>		<u>6/30/2008</u>	
Assets:				
Cash in County Treasury	\$ 678,495	99.7%	\$ 623,779	99.4%
Capital Assets (Net)	2,211	0.3%	3,996	0.6%
	<u>\$ 680,706</u>	<u>100.0%</u>	<u>\$ 627,775</u>	<u>100.0%</u>
Liabilities:				
Current Assets	\$ 85,804	67.4%	\$ 117,097	77.6%
Long Term Liabilities	41,545	32.6%	33,778	22.4%
	<u>\$ 127,349</u>	<u>100.0%</u>	<u>\$ 150,875</u>	<u>100.0%</u>
Net Assets:				
Invested in Capital Assets	\$ 2,211	0.4%	\$ 3,996	0.8%
Restricted	427,658	77.28%	435,333	91.3%
Unrestricted	123,488	22.3%	37,571	7.9%
	<u>\$ 553,357</u>	<u>100.0%</u>	<u>\$ 476,900</u>	<u>100.0%</u>

The Library's largest portion of net assets is our cash at 99.7% 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 have a positive balance of \$123,488 which increased from \$85,917 last year.

SUMMARY STATEMENT OF ACTIVITIES

	6/30/2009		6/30/2008	
Program Revenues	\$	912,572 66.5%	\$	897,706 56.0%
State Grants		195,116 14.2%		194,847 12.2%
Federal Grant		235,989 17.2%		426,391 26.6%
General Revenues:				
Interest Income		28,022 2.0%		52,911 3.3%
Miscellaneous Revenue		590 0.1%		31,675 1.9%
Total Revenues		1,372,289 100.0%		1,603,530 100.0%
Program Expenses:				
Salaries & Benefits		608,662 55.0%		694,372 55.0%
Services & Supplies		685,385 35.0%		1,047,860 35.0%
Depreciation		1,785 10.0%		2,494 10.0%
Total Expenses		1,295,832 100.0%		1,744,726 100.0%
Increase in Net Assets		76,457		(141,196)
Net Assets – Beginning of Year		476,900		618,096
Net Assets – End of Year	\$	553,357	\$	476,900

The majority of the Library's revenues came from user charges, membership dues and member reimbursements as reported above as "Program Revenues" at 66.5%. Federal funding is now 17.2% of total revenue.

Program expenses include depreciation in this statement which totals \$1,785 at 6/30/09 and \$2,494 for 6/30/08 (similar to a profit making entity). The increase in expenses this year is as a result of the 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

Assets:	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>Difference</u>
Cash in County Treasury	\$ 634,687	\$ 573,296	\$ 61,391
Other Assets	-	-	-
Total Assets	<u>\$ 634,687</u>	<u>\$ 573,296</u>	<u>\$ 61,391</u>
Liabilities & Fund Balances:			
Liabilities			
Accounts Payable	\$ 31,094	\$ 40,301	\$ (9,207)
Deferred Federal Grant Revenue	54,710	76,796	(22,086)
	<u>\$ 85,804</u>	<u>\$ 117,097</u>	<u>\$ (31,293)</u>
Fund Equity:			
Unreserved Fund Balance	\$ 165,033	\$ 71,349	\$ 93,684
Reserved Fund Balances	383,850	384,850	(1,000)
	<u>\$ 548,883</u>	<u>\$ 456,199</u>	<u>\$ 92,684</u>
Total Liabilities & Fund Equity	<u>\$ 634,687</u>	<u>\$ 573,296</u>	<u>\$ 61,391</u>

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

Revenues:	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>Difference</u>
User Charges	\$ 339,818	\$ 324,827	\$ 14,991
Membership Fees	286,549	286,843	(294)
Federal Operating Grants	235,989	426,391	(190,402)
State Operating Grants	195,116	194,847	269
Interest Income	26,909	50,434	(23,525)
Member Reimbursements	286,205	286,036	169
Other	590	31,675	(31,085)
	<u>1,371,176</u>	<u>1,601,053</u>	<u>(229,877)</u>
Expenditures:			
Salaries & Benefits	593,107	690,278	(97,171)
Operating Expenses	685,385	1,047,860	(362,475)
Equipment Purchases	-	-	-
	<u>1,278,492</u>	<u>1,738,138</u>	<u>(459,646)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ 92,684</u>	<u>\$ (137,085)</u>	<u>\$ 229,769</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.

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 \$33,778 for 6/30/08 and \$41,545 for 6/30/09.

Capital Assets

The Library did not purchase, nor dispose, of any fixed assets during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

	Budgeted Amounts		Budgetary Basis	Variance with
	Original	Final	Basis Actual	Final Budget
Revenues:			Amounts	Positive(Negative)
User Charges	\$ 346,174	\$ 347,625	\$ 339,818	\$ 7,807
Membership Fees	93,478	268,177	286,549	(18,372)
Federal Operating Grants	22,500	253,414	235,989	17,425
Other Governmental Agencies	177,380	-	-	-
State Operating Grants	201,382	202,091	195,116	6,975
Interest Income	51,989	52,836	26,909	25,927
Member Reimbursements	263,032	266,344	286,205	(19,861)
Miscellaneous Revenues	200	200	590	(390)
Total Revenues	1,156,135	1,390,687	1,371,176	19,511
Expenditures:				
Salaries & Benefits	420,697	585,955	593,107	(7,152)
Operating Expenses	651,025	783,989	685,385	98,604
Equipment Purchases	-	-	-	-
Total Expenditures	1,071,722	1,369,944	1,278,492	91,452
Excess of Revenues Over Expenditures	<u>\$ 84,413</u>	<u>\$ 20,743</u>	92,684	<u>\$ (71,941)</u>
Fund Balance, Beginning of Year			<u>456,199</u>	
Fund Balance, End of Year			<u>\$ 548,883</u>	

The Library makes budgetary adjustments during the year to reflect changing conditions. The primary changes are due to grant and membership changes. Expenditures change accordingly.

OTHER FUND ACTIVITY

A brief recap of non-major funds is as follows:

	Equipment Replacement Fund	Employee Benefit Trust Fund	Total
Revenues:			
Interest Income	\$ 986	\$ 127	\$ 1,113
Miscellaneous Income	-	-	-
Total Revenues	986	127	1,113
Expenditures:			
Operating Expenses	-	7,788	7,788
Total Expenditures	-	7,788	7,788
Excess of Revenues Over Expenditures	986	(7,661)	(6,675)
Fund Balance, Beginning of Year	<u>42,435</u>	<u>8,048</u>	<u>50,483</u>
Fund Balance, Ending of Year	<u>\$ 43,421</u>	<u>\$ 387</u>	<u>\$ 43,808</u>

ECONOMIC FACTORS AND FUTURE EVENTS

No budgetary information solely for the Library is available due to its merger into NorthNet Library System effective 7/1/09. See the applicable footnotes entitled, "Subsequent Events".

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
6/30/2009

ASSETS:

Cash in County Treasury	\$ 678,495
Capital Assets:	
Computer Equipment	70,751
	<u>70,751</u>
Less: Accumulated Depreciation	(68,540)
Total Capital Assets, net of accumulated Depreciation	<u>2,211</u>
Total Assets	<u><u>\$ 680,706</u></u>

LIABILITIES

Accounts Payable	\$ 31,094
Deferred Grant Revenue	54,710
Non-Current Liabilities:	
Compensated Absences- Due beyond one year	41,545
Total Liabilities	<u><u>\$ 127,349</u></u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 2,211
Restricted for Equipment Replacement	43,421
Restricted for Future Claims	387
Restricted for Retirement Benefits	150,000
Restricted for Future Commitments	233,850
Unrestricted (Deficit)	123,488
Total Net Assets	<u><u>\$ 553,357</u></u>

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, 2009

Program Expenses

Library Services

Salaries & Benefits	\$ 608,662
Services & Supplies	685,385
Depreciation	1,785
Total Program Expenses	<u>1,295,832</u>

Program Revenues

Library Services	339,818
Membership Dues	286,549
Member Reimbursements	286,205
Total Program Revenues	<u>912,572</u>

Net Program Expenses before Operating Grants

383,260

Federal LSTA Grant	235,989
State CLSA Grants	195,116
Total Operating Grants	<u>431,105</u>

Net Program expenses

(47,845)

General Revenues

Interest Income	28,022
Miscellaneous Revenues	590
Total General Revenues	<u>28,612</u>

Increase (Decrease) in Net Assets

76,457

Net Assets, Beginning of Year

476,900

Net Assets, End of Year

\$ 553,357

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
BALANCE SHEET- GOVERNMENTAL FUND TYPES
6/30/2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash in County Treasury	\$ 634,687	\$ 43,808	\$ 678,495
Total Assets	<u>\$ 634,687</u>	<u>\$ 43,808</u>	<u>\$ 678,495</u>
LIABILITIES & FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 31,094	\$ -	31,094
Deferred Grant Revenue	54,710	-	54,710
Total Liabilities	<u>85,804</u>	<u>-</u>	<u>85,804</u>
Fund Equity:			
Reserved for Equipment Replacement	-	43,421	43,421
Reserved for Future Claims	-	387	387
Reserved for Future Commitments	233,850	-	233,850
Reserved for Retirement Benefits	150,000	-	150,000
Unreserved	165,033	-	165,033
Total Fund Balances	<u>548,883</u>	<u>43,808</u>	<u>592,691</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 634,687</u>	<u>\$ 43,808</u>	<u>\$ 678,495</u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Reconciliation of Governmental Fund Type Balance Sheet to the Statement of Net Assets
6/30/2009

TOTAL FUND BALANCES- GOVERNMENTAL FUNDS **\$ 592,691**

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		
		70,751		
Less: Accumulated Depreciation		(68,540)		
Total Capital Assets, net of accumulated Depreciation	\$	2,211		2,211

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		(41,545)
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	553,357
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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, 2009

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
User Charges	\$ 339,818	\$ -	\$ 339,818
Membership Fees	286,549	-	286,549
Federal Operating Grants	235,989	-	235,989
State Operating Grants	195,116	-	195,116
Interest Income	26,909	1,113	28,022
Member Reimbursements	286,205	-	286,205
Miscellaneous Income	590	-	590
Total Revenues	<u>1,371,176</u>	<u>1,113</u>	<u>1,372,289</u>
EXPENDITURES			
Salaries & Benefits	593,107	7,788	600,895
Operating Expenses	685,385	-	685,385
Equipment Purchases	-	-	-
Total Expenditures	<u>1,278,492</u>	<u>7,788</u>	<u>1,286,280</u>
Excess (Deficiency) of Revenues Over Expenditures	92,684	(6,675)	86,009
Fund Balance, Beginning of Year	<u>456,199</u>	<u>50,483</u>	<u>506,682</u>
Fund Balance, End of Year	<u><u>\$ 548,883</u></u>	<u><u>\$ 43,808</u></u>	<u><u>\$ 592,691</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, 2009

NET CHANGE IN FUND BALANCES- GOVERNMENTAL FUND TYPE	\$ 86,009
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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	(1,785)
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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	(7,767)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 76,457</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
6/30/2009

	Agency Funds	
	<u>TBR</u>	<u>Member Library</u>
	<u>Trust Fund</u>	<u>Trust Fund</u>
ASSETS:		
Cash in County Treasury	\$ 451,596	\$ 4,424
Total Assets	<u>\$ 451,596</u>	<u>\$ 4,424</u>
LIABILITIES		
Accounts Payable	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS		
Held for Member Libraries	\$ 451,596	\$ 4,424
Total Net Assets	<u>\$ 451,596</u>	<u>\$ 4,424</u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Assets
6/30/2009

	Agency Funds	
	<u>TBR</u>	<u>Member Library</u>
	<u>Trust Fund</u>	<u>Trust Fund</u>
ADDITIONS		
State Grant Revenues	\$ 247,173	\$ -
Member Reimbursements	-	2,595
Total Additions	<u>247,173</u>	<u>2,595</u>
DEDUCTIONS		
Payments on behalf of members	<u>264,140</u>	<u>13,161</u>
Total Deductions	<u>264,140</u>	<u>13,161</u>
Changes in Net Assets	(16,967)	(10,566)
Net Assets, Beginning of Year	<u>468,563</u>	<u>14,990</u>
Net Assets, End of Year	<u><u>\$ 451,596</u></u>	<u><u>\$ 4,424</u></u>

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2009

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, 2009

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, 2009

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 had no accounts receivable at 6/30/09.

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, 2009

NOTE 2—CASH AND INVESTMENTS

Investment in the Sonoma County Treasurer's Investment Pool

The Library's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Library. The fair value of the Library's investment in this pool is reported in the accompanying financial statements at amounts based upon the Library'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, 2009, the Library's share of the change in fair value of investments was not material.

Investment Guidelines

The Library'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, 2009, approximately 83.45 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 1.90 percent had a maturity of more than four to five years. There were no securities with 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, 2009

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 2009 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, 2009

NOTE 4—CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Balance 7/1/2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2009</u>
Capital Assets, Being Depreciated				
Computer Equipment	\$ 70,751	\$ -	\$ -	\$ 70,751
Total Capital Assets, Being Depreciated	70,751	-	-	70,751
Less: Accumulated Depreciation	(68,540)	-	(1,785)	(70,325)
Total Capital Assets, Being Depreciated Net	2,211	-	(1,785)	426
Governmental Activities, Capital Assets, Net	<u>\$ 2,211</u>	<u>\$ -</u>	<u>(1,785)</u>	<u>\$ 426</u>

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

Governmental Activities:

Library Services	\$ 1,785
Total Depreciation Expense – Governmental Activities	<u>\$ 1,785</u>

NOTE 5—OPERATING LEASE

The Library executed a building lease effective January 1, 2005, which ended at December 31, 2009. The lease was not extended and the Library is now on a month-to-month basis.

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, 2009, 25% of the total amount of sick leave is \$7,752.

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, 2009 is \$33,794.

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2009

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 at 08/09 was 7.352% 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 2009, the Library's annual pension cost of \$41,425 for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2009, 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 3.25%. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	\$ 30,772	100	-0-
6/30/08	\$ 33,109	100	-0-
6/30/09	\$ 41,425	100	-0-

D. Funded Status of the Plan

With the implementation of risk pooling, stand alone valuation reports for the Library are not available. PERS provides the Library with a valuation report for the entire state, however.

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2009

NOTE 8—LONG TERM DEBT

Activity of Long Term Debt for the year ended 6/30/07 was as follows:

	<u>Balance</u> <u>7/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2009</u>
Compensated Absences	\$ 33,778	\$ 7,767	\$ -	\$ 41,545
Total Long Term Liabilities	<u>\$ 33,778</u>	<u>\$ 7,767</u>	<u>\$ -</u>	<u>\$ 41,545</u>

NOTE 9—POST EMPLOYMENT HEALTH BENEFITS

Governmental Accounting Standards (GASB) #45 requires that postemployment benefits, including healthcare, be reported in the financial statements. The effective date of this pronouncement for libraries this size is for years beginning after 12/15/2008. The Library's policy is to incorporate new pronouncements when they become effective (not early implementation).

The Library does have 2 former employees for whom the Library pays health insurance benefits at \$1,495 per month.

NOTE 10—SUBSEQUENT EVENT

- A. North Bay Cooperative Library System has merged with two other similar entities as noted below beginning 7/1/09. The entity itself will cease activity except that the entity will retain its PERS liability. It has not yet been determined that it is in the best interest of the Library to transfer its PERS liability to the new NorthNet Library System. Therefore, the Library will continue with minimal activity related to its retirement system only.

New Entity:

NorthNet Library System

Merged Entities:

North Bay Cooperative Library System
Mountain Valley Library System
North State Cooperative Library System

- B. On August 28, 2009, the Library transferred \$100,000 to the new merged entity, "NorthNet Library System". As of October 31, 2009, the Library still retained \$371,699 in cash.

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, 2009

	Budgeted Amounts		Budgetary Basis Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
User Charges	\$ 346,174	\$ 347,625	\$ 339,818	\$ 7,807
Membership Fees	93,478	268,177	286,549	(18,372)
Federal Operating Grants	22,500	253,414	235,989	17,425
Other Governmental Agencies	177,380	-	-	-
State Operating Grants	201,382	202,091	195,116	6,975
Interest Income	51,989	52,836	26,909	25,927
Member Reimbursements	263,032	266,344	286,205	(19,861)
Miscellaneous Revenues	200	200	590	(390)
Total Revenues	<u>1,156,135</u>	<u>1,390,687</u>	<u>1,371,176</u>	<u>19,511</u>
EXPENDITURES				
Salaries & Benefits	420,697	585,955	593,107	(7,152)
Operating Expenses	651,025	783,989	685,385	98,604
Equipment Purchases	-	-	-	-
Total Expenditures	<u>1,071,722</u>	<u>1,369,944</u>	<u>1,278,492</u>	<u>91,452</u>
 Excess of Revenues Over Expenditures	 <u>\$ 84,413</u>	 <u>\$ 20,743</u>	 92,684	 <u>\$ (71,941)</u>
 Fund Balance, Beginning of Year			 <u>456,199</u>	
 Fund Balance, End of Year			 <u>\$ 548,883</u>	

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Notes to Required Supplementary Information

June 30, 2009

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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Council of Librarians
North Bay Cooperative Library System

I have audited the financial statements of the governmental activities, and the major fund of the North Bay Cooperative Library System as of and for the fiscal year ended June 30, 2009, which collectively comprise the North Bay Cooperative Library System's basic financial statements and have issued my report thereon dated November 28, 2009. 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered North Bay Cooperative Library System's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Bay Cooperative Library System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of North Bay Cooperative Library System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects North Bay Cooperative Library System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of North Bay Cooperative Library System's statements that is more than inconsequential will not be prevented or detected by North Bay Cooperative Library System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by North Bay Cooperative Library System's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Bay Cooperative Library System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect

Larry D. Johnson

Certified Public Accountant

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 or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain other matters that I reported to management of North Bay Cooperative Library System in a separate letter dated November 28, 2009.

This report is intended solely for the information and use of the North Bay Cooperative Library System management, others within the organization, and the Council of Librarians and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Larry D. Johnson CPA". The signature is written in a cursive, flowing style.

Larry D. Johnson
Certified Public Accountant

November 28, 2009
Santa Rosa, CA