

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
FINANCIAL STATEMENTS**

June 30, 2002

**NORTH BAY COOPERATIVE LIBRARY SYSTEM
FINANCIAL STATEMENTS**

June 30, 2002

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Larry D. Johnson

Certified Public Accountant

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the accompanying general-purpose financial statements of the North Bay Cooperative Library System as of and for the year then ended June 30, 2002, listed in the financial section of the foregoing table of contents. These financial statements and the supplemental information discussed below are the responsibility of the Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the combined general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Bay Cooperative Library System at June 30, 2002, and the results of its operation of the Library for the year then ended, in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 23, 2002 on my consideration of Library's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Also in accordance with *Government Auditing Standards*, I have also issued a report on compliance with laws and regulations and internal controls, as well as a report on State Compliance, both of which are dated October 23, 2002.



Larry D. Johnson
Certified Public Accountant

October 23, 2001
Santa Rosa, CA

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combined Balance Sheet - All Fund Types & Account Groups
June 30, 2002

	Governmental Fund Type	Fiduciary Fund Types	Account Groups		Total	
			General Fixed Assets	General Long Term Debt	Memorandum Only	
					6/30/2002	6/30/2001
ASSETS:						
Cash in County Treasury	\$ 469,781	\$ 466,060	\$ -	\$ -	\$ 935,841	\$ 811,560
Cash - Other	50	-	-	-	50	50
Receivable-Grants	2,606	94,312	-	-	96,918	100,178
Receivable-Other	-	-	-	-	-	2,759
Equipment	-	-	96,116	-	96,116	126,108
Amount to be Provided for the Payment of General Long Term Debt	-	-	-	18,049	18,049	22,710
TOTAL ASSETS	\$ 472,437	\$ 560,372	\$ 96,116	\$ 18,049	\$ 1,146,974	\$ 1,063,365
LIABILITIES & FUND BALANCES						
Liabilities:						
Deferred Revenue	\$ -	\$ 475,941	\$ -	\$ -	\$ 475,941	\$ 303,202
Accounts Payable	64,325	151	-	-	64,476	14,046
Compensated Absences	6,017	-	-	18,049	24,066	22,710
TOTAL LIABILITIES	70,342	476,092	-	18,049	564,483	339,958
Fund Equity:						
Investment in General Fixed Assets	-	-	96,116	-	96,116	126,108
Fund Balances:						
Reserve for Future Claims	-	73,115	-	-	73,115	68,749
Reserve for Equipment Replacement	-	7,497	-	-	7,497	7,187
Reserve for Encumbrances	1,725	-	-	-	1,725	32,765
Reserve for Future Commitments	377,838	-	-	-	377,838	377,838
Reserve for Future Retiree Benefits	150,000	-	-	-	150,000	150,000
Unreserved: Undesignated (Deficit)	(127,468)	3,668	-	-	(123,800)	(39,240)
Total Fund Balances	402,095	84,280	96,116	-	582,491	723,407
TOTAL LIABILITIES & FUND BALANCES	\$ 472,437	\$ 560,372	\$ 96,116	\$ 18,049	\$ 1,146,974	\$ 1,063,365

The accompanying notes are an integral part of the financial statements

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combined Statement of Revenues, Expenditures and
Changes in Unreserved Fund Balances - Governmental Fund Types and Expendable Trusts
For The Years Ended June 30, 2002 and June 30, 2001

	Governmental Fund Types General Fund	Expendable Trusts	Totals (Memorandum Only)	
			6/30/2002	6/30/2001
REVENUES				
Revenue from Federal Sources	\$ -	\$ -	\$ -	\$ 426
Revenue from State Sources	287,185	247,478	534,663	573,322
Local Revenue:				
User Charges	140,364	-	140,364	112,752
Membership Fees	71,667	-	71,667	75,704
Reimbursement/Donations	203,094	-	203,094	377,455
Other Local Sources	5,194	3,985	9,179	(3,974)
Interest	31,945	3,327	35,272	39,447
Total Revenues	<u>739,449</u>	<u>254,790</u>	<u>994,239</u>	<u>1,175,132</u>
EXPENDITURES				
Salaries & Benefits	351,861	-	351,861	330,819
Operating Expenses	509,715	-	509,715	735,965
Equipment Purchases	670	249,114	249,784	8,606
Total Expenditures	<u>862,246</u>	<u>249,114</u>	<u>1,111,360</u>	<u>1,075,390</u>
Excess of Revenues Over Expenditures (Deficit)	(122,797)	5,676	(117,121)	99,742
Other Financing Sources (Uses):				
Sale of Fixed Assets	3,530	-	3,530	-
Total Other Sources	<u>3,530</u>	<u>-</u>	<u>3,530</u>	<u>-</u>
Excess of Revenues Over Expenditures & Other Financing Sources	(119,267)	5,676	(113,591)	99,742
Unreserved Fund Balance, Beginning of Year	(39,240)	-	(39,240)	(113,967)
Changes in Reserves	31,039	(2,008)	29,031	(25,015)
Unreserved Fund Balance, End of Year (Deficit)	<u>\$ (127,468)</u>	<u>\$ 3,668</u>	<u>\$ (123,800)</u>	<u>\$ (39,240)</u>

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

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combined Statement of Revenues, Expenditures & Encumbrances and
Changes in Unreserved Fund Balances
Budget and Actual - General Fund
For The Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
REVENUES			
Revenue form Federal Sources:			
LSTA (other)	\$ -	\$ -	\$ -
Revenue from State Sources:			-
CLSA - (Ref)	138,396	138,396	-
CLSA - (Sab)	1,307	1,307	-
CLSA - (Reimb)	5,600	10,155	4,555
CLSA - (Data Base)	5,500	5,500	-
CLSA - (Comm)	91,560	91,560	-
LCA	500	68	(432)
State-GGLN	40,199	40,199	-
Revenue From Local Sources			
User Charges	144,462	140,364	(4,098)
Membership Fees	71,190	71,667	477
Reimbursement/Donations	234,411	203,094	(31,317)
Other Local Sources	2,268	5,194	2,926
Interest	42,814	31,945	(10,869)
Total Revenues	<u>778,207</u>	<u>739,449</u>	<u>(38,758)</u>
EXPENDITURES & ENCUMBRANCES			
Salaries & Benefits	357,614	351,861	(5,753)
Operating Expenses	596,836	478,676	(118,160)
Equipment Purchases	-	670	670
Total Expenditures	<u>954,450</u>	<u>831,207</u>	<u>123,243</u>
Excess of Revenues Over (Under)			
Expenditures & Encumbrances	(176,243)	(91,758)	84,485
Other Financing Sources (Uses):			
Sale of Fixed Assets	-	3,530	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,530</u>	<u>-</u>
Excess of Revenues Over (Under)			
Expenditures, Encumbrances and			
Other Financing Uses	<u>\$ (176,243)</u>	<u>(88,228)</u>	<u>\$ 84,485</u>
Unreserved Fund Balance,			
Beginning of Year		<u>(39,240)</u>	
Unreserved Fund Balance,			
End of Year (Deficit)		<u>\$ (127,468)</u>	

The accompanying notes are an integral part of the financial statements

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

June 30, 2002

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. FUND ACCOUNTING

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

Governmental Funds:

General Fund—The General Fund is the general operating fund of the system. It is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds:

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

Account Groups:

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

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

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

B. BASIS OF ACCOUNTING

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

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

June 30, 2002

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF ACCOUNTING (continued)

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

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

C. BUDGETARY PRINCIPLES

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

D. ENCUMBRANCES

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

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

E. FUND BALANCE RESERVES

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

F. MEMORANDUM TOTALS

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

NOTE 2—FIXED ASSETS

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

Balance at July 1, 2001	\$ 126,108
Additions for the Year Ended June 30, 2002	670
Retirements at Cost	<u>(30,662)</u>
Balance at June 30, 2002	<u>\$ 96,116</u>

Detail of Fixed Assets is as follows:

Vehicles	\$ -0-
Furnishings and Equipment	<u>96,116</u>
	<u>\$ 96,116</u>

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

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

June 30, 2002

NOTE 3—ACCUMULATED VACATION AND SICK LEAVE

Accumulated sick leave benefits may convert to cash or compensatory time to a maximum of three days. Terminated employees may receive payment of the monetary equivalent of 25% of unused sick leave. For the fiscal year ended June 30, 2002, 25% of the total amount of sick leave is \$4,801.

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, 2002 is \$19,265.

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

NOTE 4—CASH IN COUNTY TREASURY

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

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

NOTE 5—BUDGETARY DATA

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

	<u>General Fund</u>
Excess of revenues and other sources over expenditures, encumbrances, and other uses—Budget basis	\$ (88,228)
Increase (decrease) in current year's encumbrances	<u>(31,039)</u>
Excess (deficiency) of revenues and other resources over (under) expenditures and other uses—GAAP basis	<u>\$ (119,267)</u>

NOTE 6—OPERATING LEASES

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

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

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

June 30, 2002

NOTE 6—OPERATING LEASES (continued)

Future minimum lease payments are as follows:

7/1/02-6/30/03	\$ 5,538
7/1/03-6/30/04	5,538
7/1/04-6/30/05	5,538
7/1/05-6/30/06	5,538
7/1/06-6/30/07	4,155
	<u>\$ 26,307</u>

NOTE 7—EMPLOYEES' RETIREMENT PLAN

Plan Description—The Library contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participation public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from its Executive Office, 400 P Street, Sacramento, California 95814.

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

Annual Pension Cost—For 2001, the Library's annual pension cost of \$-0- for PERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) a payroll growth rate of 3.75%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	\$ -0-	100	\$ -0-
6/30/01	-0-	100	-0-
6/30/02	-0-	100	-0-

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

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

June 30, 2002

NOTE 7—EMPLOYEES' RETIREMENT PLAN (continued)

Funded Status of the Plan

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

Funded Status of the Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability Excess Assets	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/99	\$ 1,049,087	\$ 1,461,469	\$ (412,382)	139.3%	\$ 234,710	(175.699%)
6/30/00	\$ 1,071,576	\$ 1,650,358	\$ (578,782)	154.0%	\$ 274,844	(210.586%)
6/30/01	\$ 1,305,140	\$ 1,695,531	\$ (390,391)	129.9%	\$ 262,561	(148.700%)

Information for the year ended June 30, 2002 has not yet been provided.

NOTE 8—DEFICITS

The library incurred an excess of expenditures, encumbrances and other financing uses over revenue in the amount of \$88,228 (budget basis per page four). The library now has a deficit unreserved fund balance of \$127,468 (page 2). This has resulted in more funds that have been reserved compared to the available fund balance.

Supplemental Information

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combining Balance Sheet - Expendable Trust Funds
June 30, 2002

	Employee Benefit Fund	Equipment Replacement Fund	TBR Trust Fund	Member Library Trust Fund	Total
ASSETS:					
Cash in County Treasury	\$ 73,115	\$ 7,497	\$ 277,148	\$ 108,300	\$ 466,060
Receivable-Grants	-	-	94,312	-	94,312
TOTAL ASSETS	<u>\$ 73,115</u>	<u>\$ 7,497</u>	<u>\$ 371,460</u>	<u>\$ 108,300</u>	<u>\$ 560,372</u>
LIABILITIES & FUND BALANCES					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ 151	\$ -	\$ 151
Deferred Revenue	-	-	371,309	104,632	475,941
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>371,460</u>	<u>104,632</u>	<u>476,092</u>
Fund Balances:					
Reserve for Future Claims	73,115	-	-	-	73,115
Reserve for Equipment Replacement	-	7,497	-	-	7,497
Unreserved	-	-	-	3,668	3,668
Total Fund Balances	<u>73,115</u>	<u>7,497</u>	<u>-</u>	<u>3,668</u>	<u>84,280</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 73,115</u>	<u>\$ 7,497</u>	<u>\$ 371,460</u>	<u>\$ 108,300</u>	<u>\$ 560,372</u>

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Combining Statement of Revenues, Expenditures and
Changes in Unreserved Fund Balances - and Expendable Trust Funds
For The Year Ended June 30, 2002

	Employee Benefit Fund	Equipment Replacement Fund	TBR Trust Fund	Member Library Trust Fund	Total
REVENUES					
Interest Income	\$ 3,017	\$ 310	\$ -	\$ 3,668	\$ 3,327
Revenue from State Sources	-	-	247,478	-	247,478
Other Revenues	3,985	-	-	3,530	3,985
Total Revenues	<u>7,002</u>	<u>310</u>	<u>247,478</u>	<u>7,198</u>	<u>254,790</u>
EXPENDITURES					
Equipment Purchases	-	-	-	-	-
Operating Expenses	1,636	-	247,478	3,530	249,114
Total Expenditures	<u>1,636</u>	<u>-</u>	<u>247,478</u>	<u>3,530</u>	<u>249,114</u>
Excess of Revenues Over Expenditures	5,366	310	-	3,668	5,676
Other Financing Sources (Uses):					
Transfers In (Out)	-	-	-	-	-
Total Other Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over Expenditures & Other Financing Sources	5,366	310	-	3,668	5,676
Unreserved Fund Balance, Beginning of Year	-	-	-	-	-
Changes in Reserves	(5,366)	(310)	-	-	(5,676)
Unreserved Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,668</u>	<u>\$ -</u>

NORTH BAY COOPERATIVE LIBRARY SYSTEM
Detailed Statement of Expenditures & Encumbrances - General Fund
For The Year Ended June 30, 2002

	Budget	Expenditures and Encumbrances	Favorable (Unfavorable)
Salaries	\$ 308,198	\$ 308,608	\$ (410)
Employee Benefits	49,416	43,253	6,163
	<u>357,614</u>	<u>351,861</u>	<u>5,753</u>
Communications	1,218	1,433	(215)
Telephone Service Charges	17,305	16,773	532
Janitorial Services	3,190	3,193	(3)
Insurance	3,184	3,167	17
Maintenance - Equipment	1,364	1,364	-
Memberships	260	80	180
Office Expense	6,732	4,924	1,808
Postage	2,980	2,378	602
Books/Periodicals	4,060	2,945	1,115
Supplies/Expenses	211,115	203,095	8,020
Professional/Special	286,870	181,620	105,250
Data Processing Services	2,500	2,550	(50)
Data Processing Assessment Program	376	194	182
County Services	4,906	4,906	-
Public / Legal Notices	6,859	6,771	88
Rents / Leases - Bldgs / Improvements	19,430	19,365	65
Professional/Admin/Mgmt	2,550	271	2,279
Training-in-Service	-	2,534	(2,534)
Travel Expenses	7,621	8,335	(714)
Private Car Expense	9,690	8,971	719
Utilities	4,626	3,807	819
	<u>596,836</u>	<u>478,676</u>	<u>118,160</u>
Equipment Purchases	-	670	(670)
	<u>-</u>	<u>-</u>	<u>-</u>
SubTotal	<u>954,450</u>	<u>831,207</u>	<u>123,243</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Transfers	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Grand Total	<u>\$ 954,450</u>	<u>\$ 831,207</u>	<u>\$ 123,243</u>

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

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the financial statements of the North Bay Cooperative Library System as of and for the fiscal year ended June 30, 2001, and have issued my report thereon, dated October 23, 2001. 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 23, 2002
Santa Rosa, CA

Larry D. Johnson

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board Members
North Bay Cooperative Library System
Santa Rosa, CA

I have audited the financial statements of the North Bay Cooperative Library System as of June 30, 2002, and have issued my report thereon dated October 23, 2002. 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 23, 2002
Santa Rosa, CA

Larry D. Johnson

Board Members
North Bay Cooperative Library System
55 E. Street
Santa Rosa, CA 95404

Certified Public Accountant

October 28, 2002

Dear Board Members:

This is to give you some advance notice in the considerable governmental reporting changes that will be effective for you for the year ended 6/30/04.

The governmental Accounting Standard Board has issued their pronouncement "GASB 34" which requires considerable changes to the reporting format you have seen in the past. In addition to changes in the financial statements, the financial report will include an M.D. & A (Management, Discussion and Analysis) report, which will be issued on your letterhead. Other changes may or may not be necessary for your organization.

These changes will be time consuming and will add to your audit fees. For most of my audit clients, I will be proposing a one-year audit engagement for the year ended 6/30/03. This will give me time to better evaluate the exact time requirements necessary to comply with GASB 34. I will then communicate with the board and management my estimate of the costs involved, which will be reasonable for both of us.

I have performed a very simple GASB 34 report for the county (a single purpose fund administered by the county) and the addition fees were about \$1000. For special districts with multiple funds, the fee would be more. Also, since depreciation is required on your "General Fixed Assets," I may propose a one-time set-up fee.

Since early application is encouraged you are free to request a fee for the 6/30/03. However, my clients generally only want to spend the money when they have to.

Feel free to call me about this or other audit issues. In the meantime, I will keep you informed. A one-year engagement letter will follow.

Sincerely,


Larry D. Johnson
Certified Public Accountant