

Washington State Auditor's Office
Financial Statements Audit Report

North Olympic Library System
Clallam County

Audit Period
January 1, 2010 through December 31, 2011

Report No. 1009103

Issue Date
February 11, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

February 11, 2013

Board of Trustees
North Olympic Library System
Port Angeles, Washington

Report on Financial Statements

Please find attached our report on the North Olympic Library System's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Clallam County
January 1, 2010 through December 31, 2011**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**North Olympic Library System
Clallam County
January 1, 2010 through December 31, 2011**

Board of Trustees
North Olympic Library System
Port Angeles, Washington

We have audited the financial statements of the North Olympic Library System, Clallam County, Washington, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated January 14, 2013.

We conducted our audits 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 our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and the Board of Trustees. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

January 14, 2013

Independent Auditor's Report on Financial Statements

North Olympic Library System Clallam County January 1, 2010 through December 31, 2011

Board of Trustees
North Olympic Library System
Port Angeles, Washington

We have audited the accompanying financial statements of the North Olympic Library System, Clallam County, Washington, for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 we 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. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1b to the financial statements, the District prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the North Olympic Library System, for the years ended December 31, 2011 and 2010, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Liabilities is presented for

purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The report is intended for the information and use of the management and the Board of Trustees of the District. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

January 14, 2013

Financial Section

**North Olympic Library System
Clallam County
January 1, 2010 through December 31, 2011**

FINANCIAL STATEMENTS

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(NORTH OLYMPIC LIBRARY SYSTEM)

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS CODE		Total for All Funds	001 General Fund
Beginning Cash and Investments			
308.10	Reserved	\$1,603,069	\$1,603,069
308.80	Unreserved	2,609,245	2,609,245
	Prior Period Adjustments (388.80 and 588.80)	0	0
Revenues and Other Sources			
310	Taxes	4,123,772	4,123,772
330	Intergovernmental	308,076	308,076
340	Charges for Goods and Services	14,868	14,868
350	Fines and Penalties	63,797	63,797
360	Miscellaneous	189,007	189,007
390	Other Financing Sources	0	0
Total Revenues and Other Financing Sources		4,699,520	4,699,520
Total Resources		8,911,834	8,911,834
Operating Expenditures:			
570	Culture and Recreational	3,109,989	3,109,989
Total Operating Expenditures		3,109,989	3,109,989
591-593	Debt Service	0	0
594	Capital Expenditures	137,537	137,537
598	Other Expenditures	8,591	8,591
Total Expenditures		3,256,117	3,256,117
596-599	Other Financing Uses	0	0
Total Expenditures and Other Financing Uses		3,256,117	3,256,117
Excess (Deficit) of Resources Over Uses		5,655,717	5,655,717
380	Nonrevenues (Except 384)	1,651	1,651
580	Nonexpenditures (Except 584)	1,139	1,139
Ending Cash and Investments:			
508.10	Reserved	1,596,413	1,596,413
508.80	Unreserved	4,059,817	4,059,817

The Accompanying Notes Are An Integral Part Of This Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2010

BARS Code	Description	General Fund -- 001
		Actual Amount
308.10	Reserved Beginning Cash and Investment	1,572,188
308.80	Unreserved Beginning Cash and Investment	2,476,423
388.80/588.80	Prior Period Adjustments	10,493
Revenues and Other Sources		
310	Taxes	2,787,001
330	Intergovernmental Revenues	274,153
340	Charges for Goods and Services	14,622
350	Fines and Penalties	49,158
360	Miscellaneous	162,431
390	Other Financing Sources	0
<i>Total Revenues and Other Financing Sources</i>		3,287,365
Total Resources		7,346,469
Operating Expenditures		
572	Library Services	2,939,414
<i>Total Operating Expenditures</i>		2,939,414
591-593	Debt Service	0
594	Capital Expenditures	194,741
598	Other Expenditures	0
Total Expenditures		3,134,155
596, 597, 599	Other Financing Uses	0
Total Expenditures and Other Financing Uses		3,134,155
Excess (Deficit) of Resources Over Uses		4,212,314
380	Nonrevenues (Except 384)	0
580	Nonexpenditures (Except 584)	0
508.10	Reserved Ending Cash and Investments	1,603,069
508.80	Unreserved Ending Cash and Investments	2,609,245

The Accompanying Notes Are An Integral Part Of This Statement.

Notes to Financial Statements**For the Year Ended December 31, 2011****NOTE 1 – SUMMARY OF ACCOUNTING POLICIES**

The North Olympic Library System is a special purpose government that provides library services to the general public and is supported primarily through property taxes. The District was incorporated on January 4, 1973 and operates under Chapter 27.12 RCW, the laws of the state of Washington applicable to a library district.

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:**General (Current Expense) Fund**

This fund is the primary operating fund of the District. It accounts for all financial resources.

b. Basis of Accounting

The North Olympic Library System reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is an other comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory, including collection materials, is expensed when purchased.

c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the fund statement of resources and uses arising from cash transactions as cash and investments.

d. Deposits

The District's deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

e. Collection Materials

Collection materials (books, magazines, videos, audios, etc.) are recorded as operating expenditures when purchased.

f. Capital Assets

Capital assets are long-lived assets of the District and are recorded as capital expenditures when purchased.

g. Compensated Absences

Vacation pay may be accumulated up to 225 hours and is payable upon separation or retirement. The District's accumulated liability for vacation leave termination benefits on December 31, 2011 was \$111,020.

Sick leave may accumulate indefinitely. Upon separation or retirement employees in good standing with at least five years of continuous service receive payment for 20% of unused sick leave hours at his or her final pay rate. The District's estimated liability for sick leave termination benefits on December 31, 2011 was \$25,007.

h. Reserved Fund Balance

External restrictions: A 1999 lease agreement with the City of Port Angeles for the Port Angeles Main Library building requires the District to set aside at least \$65,510 annually in a facility maintenance fund during the life of the 17-year lease. Balance of the sinking fund as of December 31, 2011 is \$1,123,477 -- \$9,807 more than the \$1,113,670 required by the lease agreement.

Additionally, the District holds bequest funds whose use is restricted by the donor. As of December 31, 2011, these funds total \$472,936.

NOTE 2 -- INVESTMENTS

The North Olympic Library System's investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2011 were as follows:

<i>Type of Investment</i>	<i>Balance</i>
Local Government Investment Pool	\$4,071,648
Certificate of Deposit	220,144
Certificate of Deposit	234,760
Certificate of Deposit	<u>1,123,208</u>
Total	\$5,649,760

NOTE 3 – LONG-TERM DEBT

The accompanying Schedule of Liabilities (09) provides a list of the outstanding debt of the district and summarized the district's debt transactions for the year 2011. The debt service requirements, including interest, are as follows:

	General Bonds	Obligation	Other Debt	Total Debt
2011	0		\$145,027	\$145,027

In addition to compensated absences liabilities, other debt includes \$9,000 required by a retirement and separation agreement ratified in January, 2011. The funds are due in monthly installments of \$250 until December, 2014.

NOTE 4 – PENSION PLANS

All of the North Olympic Library System's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of the Department's 2011 Comprehensive Annual Financial Report may be obtained at www.drs.wa.gov/administration/annual-report/cafr.

NOTE 5 – SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Interested members of the public and the North Olympic Library System's Board of Trustees created the North Olympic Library Foundation in 2011 to support and aid the achievement of the goals and mission of the North Olympic Library System. One current and one former member of the Library Board of Trustees serve as members of the Foundation Board. The Library Director serves as an *ex officio* member of the Foundation Board.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

NOTE 1 -- SUMMARY OF ACCOUNTING POLICIES

The North Olympic Library System is a special purpose government that provides library services to the general public and is supported primarily through property taxes. The District was incorporated on January 4, 1973 and operates under Chapter 27.12 RCW, the laws of the state of Washington applicable to a library district.

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources.

b. Basis of Accounting

The North Olympic Library System reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual for libraries. This basis of accounting and reporting is an other comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory, including collection materials, is expensed when purchased.

c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of resources and uses arising from cash transactions as cash and investments.

d. Deposits

The District's deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

e. Collection Materials

Collection materials (books, magazines, videos, audiotapes, etc.) are recorded as operating expenditures when purchased.

f. Capital Assets

Capital assets are long-lived assets of the District and are recorded as capital expenditures when purchased.

g. Compensated Absences

Vacation pay may be accumulated up to 225 hours and is payable upon separation or retirement. The District's accumulated liability for vacation leave termination benefits on December 31, 2010 was \$111,560.

Sick leave may accumulate indefinitely. Upon separation or retirement employees in good standing with at least five years of continuous service receive payment for 20% of unused sick leave hours at his or her final pay rate. The District's estimated liability for sick leave termination benefits on December 31, 2010 was \$29,426.

h. Reserved Fund Balance

External restrictions: A 1999 lease agreement with the City of Port Angeles for the Port Angeles Main Library building requires the District to set aside at least \$65,510 annually in a facility maintenance fund during the life of the 17-year lease. Balance of the sinking fund as of December 31, 2010 is \$1,113,670.

Additionally, the District holds bequest funds whose use is restricted by the donor. As of December 31, 2010, these funds total \$489,399.

NOTE 2 -- INVESTMENTS

The North Olympic Library System's investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2010, were as follows:

<i>Type of Investment</i>	<i>Balance</i>
Local Government Investment Pool	\$2,490,476
12-month Certificate of Deposit	\$1,106,462
12-month Certificate of Deposit	\$ 219,575
12-month Certificate of Deposit	<u>\$ 237,144</u>
Total	\$ 4,053,657

NOTE 3 -- LONG-TERM DEBT

As of December 31, 2010, the District has no long-term debt obligations.

NOTE 4 -- PENSION PLANS

Substantially all of the North Olympic Library System's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems

Communications Unit

PO Box 48380

Olympia, WA 98504-8380

NOTE 5 -- PRIOR PERIOD ADJUSTMENTS

Petty cash funds not previously reported in the District's financial report are included for 2010.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

**State Auditor
Chief of Staff**

**Troy Kelley
Doug Cochran**

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