



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## North Olympic Library System

For the period January 1, 2018 through December 31, 2020

*Published February 3, 2022*

Report No. 1029845



Find out what's new at SAO  
by scanning this code with  
your smartphone's camera



**Office of the Washington State Auditor  
Pat McCarthy**

February 3, 2022

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,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

## TABLE OF CONTENTS

Independent Auditor's 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.....	4
Independent Auditor's Report on the Financial Statements .....	7
Financial Section.....	10
About the State Auditor's Office.....	29

## INDEPENDENT AUDITOR'S REPORT

### 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*

#### **North Olympic Library System January 1, 2018 through December 31, 2020**

Board of Trustees  
North Olympic Library System  
Port Angeles, Washington

We have audited, 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, the financial statements of the North Olympic Library System, as of and for the years ended December 31, 2020, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 27, 2022.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 1 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

January 27, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### North Olympic Library System January 1, 2018 through December 31, 2020

Board of Trustees  
North Olympic Library System  
Port Angeles, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North Olympic Library System, for the years ended December 31, 2020, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the North Olympic Library System has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the North Olympic Library System, and its changes in cash and investments, for the years ended December 31, 2020, 2019 and 2018, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the North Olympic Library System, as of December 31, 2020, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.



## **Matters of Emphasis**

As discussed in Note 1 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

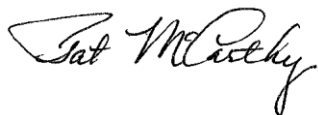
## **Other Matters**

### ***Supplementary and Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

January 27, 2022

## **FINANCIAL SECTION**

### **North Olympic Library System January 1, 2018 through December 31, 2020**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2020  
Fund Resources and Uses Arising from Cash Transactions – 2019  
Fund Resources and Uses Arising from Cash Transactions – 2018  
Notes to Financial Statements – 2020  
Notes to Financial Statements – 2019  
Notes to Financial Statements – 2018

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2020  
Schedule of Liabilities – 2019  
Schedule of Liabilities – 2018

**North Olympic Library System**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	9,210,418
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	4,320,482
320	Licenses and Permits	-
330	Intergovernmental Revenues	158,439
340	Charges for Goods and Services	8,091
350	Fines and Penalties	5,989
360	Miscellaneous Revenues	183,676
Total Revenues:		4,676,677

**Expenditures**

570	Culture and Recreation	4,319,440
Total Expenditures:		4,319,440
Excess (Deficiency) Revenues over Expenditures:		357,237

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	224,926
Total Other Increases in Fund Resources:		224,926

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	129,363
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	567
Total Other Decreases in Fund Resources:		129,930

**Increase (Decrease) in Cash and Investments: 452,233**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	1,278,889
50841	Committed	-
50851	Assigned	-
50891	Unassigned	8,383,762
<b>Total Ending Cash and Investments</b>		<b>9,662,651</b>

**North Olympic Library System**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

**Beginning Cash and Investments**

30810	Reserved	1,320,938
30880	Unreserved	7,381,898
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	4,224,416
320	Licenses and Permits	-
330	Intergovernmental Revenues	459,723
340	Charges for Goods and Services	21,888
350	Fines and Penalties	27,788
360	Miscellaneous Revenues	380,378
Total Revenues:		5,114,193

**Expenditures**

570	Culture and Recreation	4,481,606
Total Expenditures:		4,481,606
Excess (Deficiency) Revenues over Expenditures:		632,587

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	1,744
381, 382, 395, 398	Other Resources	7,500
Total Other Increases in Fund Resources:		9,244

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	132,479
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	1,770
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		134,249

**Increase (Decrease) in Cash and Investments: 507,582**

**Ending Cash and Investments**

5081000	Reserved	1,261,710
5088000	Unreserved	7,948,708
<b>Total Ending Cash and Investments</b>		<b>9,210,418</b>

**North Olympic Library System**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

**Beginning Cash and Investments**

30810	Reserved	1,485,137
30880	Unreserved	6,915,439
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	4,107,532
320	Licenses and Permits	-
330	Intergovernmental Revenues	311,006
340	Charges for Goods and Services	24,996
350	Fines and Penalties	33,667
360	Miscellaneous Revenues	310,408
Total Revenues:		4,787,609

**Expenditures**

570	Culture and Recreation	4,140,342
Total Expenditures:		4,140,342
Excess (Deficiency) Revenues over Expenditures:		647,267

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	2,025
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		2,025

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	345,018
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	2,014
Total Other Decreases in Fund Resources:		347,032

**Increase (Decrease) in Cash and Investments: 302,260**

**Ending Cash and Investments**

5081000	Reserved	1,320,938
5088000	Unreserved	7,381,898
<b>Total Ending Cash and Investments</b>		<b>8,702,836</b>

**Notes to Financial Statements****For the Year Ended December 31, 2020****Note 1 – Summary of Significant Accounting Policies**

The North Olympic Library System was incorporated on January 4, 1973 and operates under the laws of the state of Washington applicable to a library district. The North Olympic Library System is a special purpose government that provides library services to the general public.

The North Olympic Library System reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below:
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are similar to the ending balance classification in GAAP.

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:****General Fund**

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**B. Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

**C. Cash and Investments**

See Note 2, *Deposits and Investments*.

**D. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

**E. Compensated Absences**

Vacation pay may accumulate up to 225 hours and is payable upon separation or retirement. The District's estimated liability for vacation leave termination benefits on December 31, 2020 was \$161,432.

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, 2020 was \$34,877.

Management leave may accumulate up to 75 hours and is payable upon separation or retirement. The District's estimated liability for management leave termination benefits on December 31, 2020 was \$13,629.

**F. Restricted and Committed Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Trustees. When expenditures that meet restrictions are incurred, the North Olympic Library System intends to use the most restricted resources first.

Restrictions and Commitments of Ending Cash and Investments consist of:

*Internal restrictions:* A 1999 lease agreement with the City of Port Angeles for the Port Angeles Main Library building required the District to set aside a facility maintenance fund during the life of the 17-year lease ended in 2016. North Olympic Library System's Board of Trustees elected to retain the sinking fund for the purpose of facility maintenance which is invested in two Certificates of Deposit. As of December 31, 2020 the current balance in the sinking fund is \$839,291.

Additionally, the District holds bequest funds whose use is restricted by the donor. As of December 31, 2020, these funds total \$439,597.

**G. COVID-19 Pandemic**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations and, travel and non-essential activities

Although the district has experienced minimal financial disruption, our facilities were closed to the public through the end of 2020.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the North Olympic Library System is unknown at this time.

**Note 2 – Deposits and Investments**

It is the North Olympic Library System's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2020 were as follows:

<i>Type of Investment</i>	<i>Balance</i>
Local Government Investment Pool	\$8,383,762
Certificate of Deposit	500,743
Certificate of Deposit	338,548
Certificate of Deposit	228,050
Certificate of Deposit	<u>211,548</u>
<b>Total</b>	<b>\$9,662,651</b>

**Note 3 – Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the North Olympic Library System. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The district's regular levy for the year 2020 was \$.4368842624510 per \$1,000 on an assessed valuation of \$9,862,913,635 for a total regular levy of \$4,308,955.

#### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for the year ended December 31, 2020.

The District has no liabilities subject to debt service requirements.

#### **Note 5 – 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 Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for each plan. The DRS Comprehensive Annual Financial Report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

Also, the DRS Comprehensive Annual Financial Report may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2020 (the measurement date of the plans), the North Olympic Library System's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	<b>Allocation %</b>	<b>Liability (Asset)</b>
PERS I	0.015153%	534,983
PERS 2 and 3	0.018406%	235,402

#### **Note 6 – Other Disclosures**

##### **A. North Olympic Library Foundation**

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 member of the Library Board of Trustees serves as liaison to the Foundation Board and a voting member. The Library Director serves as an *ex officio* member of the Foundation Board.

The North Olympic Library Foundation contributed \$2,229 to the North Olympic Library System in 2020.

##### **B. Self Insurance**

The North Olympic Library System retains the risk of payment of unemployment insurance for terminated or laid-off employees. The district made \$2,149 in unemployment insurance payments in fiscal year 2020.



**C. Insurance Pool Membership**

North Olympic Library System is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$800 million per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool and are administered in house.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

**Notes to Financial Statements****For the Year Ended December 31, 2019****Note I – Summary of Significant Accounting Policies**

The North Olympic Library System was incorporated on January 4, 1973 and operates under the laws of the state of Washington applicable to a library district. The North Olympic Library System is a special purpose government that provides library services to the general public.

The North Olympic Library System reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below:
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:****General Fund**

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**B. Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

**C. Cash and Investments**

See Note 2, *Deposits and Investments*.

**D. Collection Materials**

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

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 1 year. The capital assets of the district are recorded as expenditures when purchased.

**F. Compensated Absences**

Vacation pay may accumulate up to 225 hours and is payable upon separation or retirement. The District's estimated liability for vacation leave termination benefits on December 31, 2019 was \$169,783.

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, 2019 was \$50,174.

Management leave may accumulate up to 75 hours and is payable upon separation or retirement. The District's estimated liability for management leave termination benefits on December 31, 2019 was \$12,082.

#### **G. Reserved Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Trustees. When expenditures that meet restrictions are incurred, the North Olympic Library System intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

*Internal restrictions:* A 1999 lease agreement with the City of Port Angeles for the Port Angeles Main Library building required the District to set aside a facility maintenance fund during the life of the 17-year lease ended in 2016. North Olympic Library System's Board of Trustees elected to retain the sinking fund for the purpose of facility maintenance which is invested in two Certificates of Deposit. The current balance in the sinking fund is \$822,113.

Additionally, the District holds bequest funds whose use is restricted by the donor. As of December 31, 2019, these funds total \$439,597.

#### **Note 2 – Deposits and Investments**

It is the North Olympic Library System's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2019 were as follows:

<i>Type of Investment</i>	<i>Balance</i>
Local Government Investment Pool	\$7,948,708
Certificate of Deposit	500,743
Certificate of Deposit	321,370
Certificate of Deposit	228,049
Certificate of Deposit	<u>211,548</u>
<b>Total</b>	<b><u>\$9,210,418</u></b>

#### **Note 3 – Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the North Olympic Library System. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The district's regular levy for the year 2019 was \$.4653620651 per \$1,000 on an assessed valuation of \$9,041,260,634 for a total regular levy of \$4,207,460.

#### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for the year ended December 31, 2019.

The District has no liabilities subject to debt service requirements.

### **Note 5 – 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 Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2019 (the measurement date of the plans), the North Olympic Library System's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	<b>Allocation %</b>	<b>Liability (Asset)</b>
PERS 1	0.015746%	605,490
PERS 2 and 3	0.019148%	185,992

### **Note 6 – Other Disclosures**

#### **A. North Olympic Library Foundation**

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 member of the Library Board of Trustees serves as liaison to the Foundation Board and a voting member. The Library Director serves as an *ex officio* member of the Foundation Board.

The North Olympic Library Foundation contributed \$300 to the North Olympic Library System in 2019.

#### **B. Self Insurance**

The North Olympic Library System retains the risk of payment of unemployment insurance for terminated or laid-off employees. The district made \$2,160 in unemployment insurance payments in fiscal year 2019.

#### **C. Insurance Pool Membership**

North Olympic Library System is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool and are administered in house.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

**Notes to Financial Statements****For the Year Ended December 31, 2018****Note 1 – Summary of Significant Accounting Policies**

The North Olympic Library System was incorporated on January 4, 1973 and operates under the laws of the state of Washington applicable to a library district. The North Olympic Library System is a special purpose government that provides library services to the general public.

The North Olympic Library System reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below:
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:****General Fund**

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**B. Basis of Accounting and Measurement Focus**

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

**C. Cash and Investments**

See Note 2, *Deposits and Investments*.

**D. Collection Materials**

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

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 1 year. The capital assets of the district are recorded as expenditures when purchased.

**F. Compensated Absences**

Vacation pay may accumulate up to 225 hours and is payable upon separation or retirement. The District's estimated liability for vacation leave termination benefits on December 31, 2018 was \$181,367.

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, 2018 was \$50,154.

Management leave may accumulate up to 75 hours and is payable upon separation or retirement. The District's estimated liability for management leave termination benefits on December 31, 2018 was \$13,844.

#### **G. Reserved Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Trustees. When expenditures that meet restrictions are incurred, the North Olympic Library System intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

*Internal restrictions:* A 1999 lease agreement with the City of Port Angeles for the Port Angeles Main Library building required the District to set aside a facility maintenance fund during the life of the 17-year lease ended in 2016. North Olympic Library System's Board of Trustees elected to retain the sinking fund for the purpose of facility maintenance which is invested in two Certificates of Deposit. The current balance in the sinking fund is \$898,577.

Additionally, the District holds bequest funds whose use is restricted by the donor. As of December 31, 2018, these funds total \$422,361.

#### **Note 2 – Deposits and Investments**

It is the North Olympic Library System's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are held by the Clallam County Treasurer as its agent in the District's name. Investments by type at December 31, 2018 were as follows:

<i>Type of Investment</i>	<i>Balance</i>
Local Government Investment Pool	\$7,381,898
Certificate of Deposit	577,207
Certificate of Deposit	321,370
Certificate of Deposit	219,108
Certificate of Deposit	<u>203,253</u>
<b>Total</b>	<b><u>\$8,702,836</u></b>

#### **Note 3 – Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the North Olympic Library System. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The district's regular levy for the year 2018 was \$.4933373875 per \$1,000 on an assessed valuation of \$8,321,650,465 for a total regular levy of \$4,105,381.

#### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for the year ended December 31, 2018.



The District has no liabilities subject to debt service requirements.

### **Note 5 – 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 Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2018 (the measurement date of the plans), the North Olympic Library System's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	<b>Allocation %</b>	<b>Liability (Asset)</b>
PERS 1	0.015351%	685,581
PERS 2 and 3	0.018410%	314,334

### **Note 6 – Other Disclosures**

#### **A. North Olympic Library Foundation**

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 member of the Library Board of Trustees serves as liaison to the Foundation Board and a voting member. The Library Director serves as an *ex officio* member of the Foundation Board.

The North Olympic Library Foundation contributed \$4,000 to the North Olympic Library System in 2018.

#### **B. Self Insurance**

The North Olympic Library System retains the risk of payment of unemployment insurance for terminated or laid-off employees. The district made no unemployment insurance payments in fiscal year 2018.

#### **C. Insurance Pool Membership**

North Olympic Library System is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.



Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded limits in the last three years.

**North Olympic Library System  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2020	232,039	-	22,104	209,935
264.30	Net Pension Liability	12/31/2020	791,482	-	21,097	770,385
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,023,521</b>	<b>-</b>	<b>43,201</b>	<b>980,320</b>
<b>Total Liabilities:</b>			<b>1,023,521</b>	<b>-</b>	<b>43,201</b>	<b>980,320</b>

**North Olympic Library System  
Schedule of Liabilities  
For the Year Ended December 31, 2019**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2019	245,365	-	13,326	232,039
264.30	Net Pension Liability	12/31/2019	999,915	-	208,433	791,482
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,245,280</b>	<b>-</b>	<b>221,759</b>	<b>1,023,521</b>
<b>Total Liabilities:</b>			<b>1,245,280</b>	<b>-</b>	<b>221,759</b>	<b>1,023,521</b>

**North Olympic Library System  
Schedule of Liabilities  
For the Year Ended December 31, 2018**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2018	222,028	23,337	-	245,365
264.30	Net Pension Liability	12/31/2018	1,426,288	-	426,373	999,915
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,648,316</b>	<b>23,337</b>	<b>426,373</b>	<b>1,245,280</b>
<b>Total Liabilities:</b>			<b>1,648,316</b>	<b>23,337</b>	<b>426,373</b>	<b>1,245,280</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

### Stay connected at [sao.wa.gov](http://sao.wa.gov)

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

### Other ways to stay in touch

- Main telephone:  
(564) 999-0950
- Toll-free Citizen Hotline:  
(866) 902-3900
- Email:  
[webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov)