Financial Statements Audit Report

North Olympic Library System

Clallam County

For the period January 1, 2014 through December 31, 2015

Published November 3, 2016
Report No. 1017835
November 3, 2016

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
OLYMPIA, WA
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GOVERNMENT AUDITING STANDARDS

North Olympic Library System
Clallam County
January 1, 2014 through December 31, 2015

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, Clallam County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District’s financial statements, and have issued our report thereon dated October 25, 2016.

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 Washington State statutes 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.

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 opinion 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.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 25, 2016
INDEPENDENT AUDITOR’S REPORT ON
FINANCIAL STATEMENTS

North Olympic Library System
Clallam County
January 1, 2014 through December 31, 2015

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, Clallam County, Washington, for the years ended December 31, 2015 and 2014, 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 Washington State statutes 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 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 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 Washington State statutes 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 financial position and results of operations of the North Olympic Library System, for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, or the changes in financial position or cash flows 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.

Other Matters

*Supplementary and Other Information*

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying 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 December 31, 2015 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.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 25, 2015
North Olympic Library System
Clallam County
January 1, 2014 through December 31, 2015

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2015
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Liabilities – 2014
North Olympic Library System  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2015

<table>
<thead>
<tr>
<th>Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>30810</td>
<td>Reserved</td>
<td>1,596,068</td>
</tr>
<tr>
<td>30880</td>
<td>Unreserved</td>
<td>5,553,074</td>
</tr>
<tr>
<td>388 &amp; 588</td>
<td>Prior Period Adjustments, Net</td>
<td>-</td>
</tr>
</tbody>
</table>

**Operating Revenues**

<table>
<thead>
<tr>
<th>Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>310</td>
<td>Taxes</td>
<td>3,705,240</td>
</tr>
<tr>
<td>330</td>
<td>Intergovernmental Revenues</td>
<td>183,087</td>
</tr>
<tr>
<td>340</td>
<td>Charges for Goods and Services</td>
<td>22,967</td>
</tr>
<tr>
<td>350</td>
<td>Fines and Penalties</td>
<td>53,890</td>
</tr>
<tr>
<td>360</td>
<td>Miscellaneous Revenues</td>
<td>180,166</td>
</tr>
</tbody>
</table>

Total Operating Revenues: 4,145,350

**Operating Expenditures**

<table>
<thead>
<tr>
<th>Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>570</td>
<td>Culture and Recreation</td>
<td>3,671,429</td>
</tr>
</tbody>
</table>

Total Operating Expenditures: 3,671,429

Net Operating Increase (Decrease): 473,921

**Nonoperating Revenues**

<table>
<thead>
<tr>
<th>Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>370-380, 395 &amp; 398</td>
<td>Other Financing Sources</td>
<td>1,793</td>
</tr>
<tr>
<td>391-393</td>
<td>Debt Proceeds</td>
<td>-</td>
</tr>
<tr>
<td>397</td>
<td>Transfers-In</td>
<td>-</td>
</tr>
</tbody>
</table>

Total Nonoperating Revenues: 1,793

**Nonoperating Expenditures**

<table>
<thead>
<tr>
<th>Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>580, 596 &amp; 599</td>
<td>Other Financing Uses</td>
<td>1,813</td>
</tr>
<tr>
<td>591-593</td>
<td>Debt Service</td>
<td>-</td>
</tr>
<tr>
<td>594-595</td>
<td>Capital Expenditures</td>
<td>249,211</td>
</tr>
<tr>
<td>597</td>
<td>Transfers-Out</td>
<td>-</td>
</tr>
</tbody>
</table>

Total Nonoperating Expenditures: 251,024

Net Increase (Decrease) in Cash and Investments: 224,690

**Ending Cash and Investments**

<table>
<thead>
<tr>
<th>Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5081000</td>
<td>Reserved</td>
<td>1,606,394</td>
</tr>
<tr>
<td>5088000</td>
<td>Unreserved</td>
<td>5,767,438</td>
</tr>
</tbody>
</table>

Total Ending Cash and Investments: 7,373,832

The accompanying notes are an integral part of this statement.
## North Olympic Library System
### Fund Resources and Uses Arising from Cash Transactions
#### For the Year Ended December 31, 2014

<table>
<thead>
<tr>
<th><strong>Beginning Cash and Investments</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30810</td>
<td>Reserved</td>
<td>1,598,607</td>
</tr>
<tr>
<td>30880</td>
<td>Unreserved</td>
<td>5,019,974</td>
</tr>
<tr>
<td>388 &amp; 588</td>
<td>Prior Period Adjustments, Net</td>
<td>-</td>
</tr>
</tbody>
</table>

**Operating Revenues**

| 310 | Taxes | 3,711,326 |
| 330 | Intergovernmental Revenues | 387,933 |
| 340 | Charges for Goods and Services | 23,039 |
| 350 | Fines and Penalties | 55,745 |
| 360 | Miscellaneous Revenues | 124,239 |

**Total Operating Revenues:** 4,302,282

**Operating Expenditures**

| 570 | Culture and Recreation | 3,475,151 |

**Total Operating Expenditures:** 3,475,151

**Net Operating Increase (Decrease):** 827,131

**Nonoperating Revenues**

| 370-380, 395 & 398 | Other Financing Sources | 1,851 |
| 391-393 | Debt Proceeds | - |
| 397 | Transfers-In | - |

**Total Nonoperating Revenues:** 1,851

**Nonoperating Expenditures**

| 580, 596 & 599 | Other Financing Uses | 1,830 |
| 591-593 | Debt Service | - |
| 594-595 | Capital Expenditures | 297,026 |
| 597 | Transfers-Out | - |

**Total Nonoperating Expenditures:** 298,856

**Net Increase (Decrease) in Cash and Investments:** 530,126

**Ending Cash and Investments**

| 5081000 | Reserved | 1,596,068 |
| 5088000 | Unreserved | 5,553,074 |

**Total Ending Cash and Investments:** 7,149,142

*The accompanying notes are an integral part of this statement.*
Notes to Financial Statements

For the Year Ended December 31, 2015

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, 2015 was $142,972.
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, 2015 was $32,714.

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, 2015 was $7,455.

G. **Reserved Fund Balance**

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 Directors. 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:

*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, 2015 is $1,143,707 -- $30,037 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, 2015, these funds total $462,687.

**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, 2015 were as follows:

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government Investment Pool</td>
<td>$5,760,673</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>576,240</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>567,467</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>223,578</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>239,109</td>
</tr>
</tbody>
</table>

**Total** $7,367,067

**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 2015 was $.50 per $1,000 on an assessed valuation of $7,054,903,078 for a total regular levy of $3,527,452.

**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, 2015.

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.

At June 30, 2015 (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:

<table>
<thead>
<tr>
<th>Allocation %</th>
<th>Liability (Asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS 1</td>
<td>0.016035%</td>
</tr>
<tr>
<td>PERS 2 and 3</td>
<td>0.019643%</td>
</tr>
</tbody>
</table>

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 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.

The North Olympic Library Foundation contributed a total of $6,000 to the North Olympic Library System in 2015.

B. Self Insurance
The North Olympic Library System retains the risk of payment of unemployment insurance for terminated or laid-off employees. The district’s unemployment insurance payments in fiscal year 2015 were $20,393.
Notes to Financial Statements

For the Year Ended December 31, 2014

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, 2014 was $123,644.
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, 2014 was $34,132.

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, 2014 was $8,710.

G. **Reserved Fund Balance**

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 Directors. 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:

*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, 2014 is $1,134,703 -- $21,033 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, 2014, these funds total $461,365.

**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, 2014 were as follows:

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government Investment Pool</td>
<td>$5,551,853</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>220,029</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>235,312</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>576,240</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>558,463</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,141,897</strong></td>
</tr>
</tbody>
</table>

**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 2014 was $.50 per $1,000 on an assessed valuation of $7,002,941,388 for a total regular levy of $3,501,471.

**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, 2014.

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.

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 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.

The North Olympic Library Foundation contributed a total of $4,000 to the North Olympic Library System in 2014.

B. Self Insurance

The North Olympic Library System retains the risk of payment of unemployment insurance for terminated or laid-off employees. The district’s unemployment insurance payments in fiscal year 2014 were $5,363.
### North Olympic Library System
#### Schedule of Liabilities
For the Year Ended December 31, 2015

<table>
<thead>
<tr>
<th>ID. No.</th>
<th>Description</th>
<th>Due Date</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>259.12</td>
<td>Compensated Absences</td>
<td></td>
<td>166,486</td>
<td>16,655</td>
<td>-</td>
<td>183,141</td>
</tr>
<tr>
<td>264.30</td>
<td>Net Pension Liability</td>
<td></td>
<td>1,557,290</td>
<td>-</td>
<td>-</td>
<td>1,557,290</td>
</tr>
<tr>
<td></td>
<td><strong>Total Revenue Obligations:</strong></td>
<td></td>
<td><strong>166,486</strong></td>
<td><strong>1,557,290</strong></td>
<td>-</td>
<td><strong>1,723,776</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total Liabilities:</strong></td>
<td></td>
<td><strong>166,486</strong></td>
<td><strong>1,557,290</strong></td>
<td>-</td>
<td><strong>1,723,776</strong></td>
</tr>
</tbody>
</table>
## North Olympic Library System
### Schedule of Liabilities
#### For the Year Ended December 31, 2014

<table>
<thead>
<tr>
<th>ID. No.</th>
<th>Description</th>
<th>Due Date</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>263.98</td>
<td>Miscellaneous Liabilities</td>
<td>12/21/2014</td>
<td>3,000</td>
<td>-</td>
<td>3,000</td>
<td>-</td>
</tr>
<tr>
<td>259.11</td>
<td>Compensated Absences</td>
<td></td>
<td>174,437</td>
<td>-</td>
<td>7,951</td>
<td>166,486</td>
</tr>
</tbody>
</table>

Total General Obligations: 177,437 - 10,951 = 166,486

Total Liabilities: 177,437 - 10,951 = 166,486
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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as fraud, state whistleblower and citizen hotline investigations.

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

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

<table>
<thead>
<tr>
<th>Contact information for the State Auditor’s Office</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Records requests</strong></td>
</tr>
<tr>
<td><strong>Main telephone</strong></td>
</tr>
<tr>
<td><strong>Toll-free Citizen Hotline</strong></td>
</tr>
<tr>
<td><strong>Website</strong></td>
</tr>
</tbody>
</table>