



Washington State Auditor's Office

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Accountability Audit Report

Clallam County Park and Recreation

District No. 1

(Sequim Aquatic Recreation Center)

For the period January 1, 2012 through December 31, 2014

Published March 24, 2016

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Washington State Auditor's Office

March 24, 2016

Board of Commissioners
Sequim Aquatic Recreation Center
Sequim, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District's Board adopt a formal plan to address its financial condition, including customer services, future operating income and cash flow. We further recommended the Board continue to closely monitor and evaluate to ensure the plan is being followed and the desired results achieved.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Sequim Aquatic Recreation Center from January 1, 2012 through December 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Cash receipting
- Payroll/personnel
- Payments/expenditures
- Financial condition

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 Clallam County Parks and Recreation District No. 1 has suspended operations due to financial non-sustainability.

Background

Clallam County Parks and Recreation District No. 1 began doing business as Sequim Aquatic Recreation Center in 1988 to provide exercise services including operation of a swimming pool, exercise rooms, sports courts and other athletic activities.

Since inception, the District's annual operating expenses have exceeded annual operating revenues. However, the District's operating revenues were supplemented by tax revenues for its first ten years of operation, allowing the District to build up a significant cash balance. Due to the cash balance available, the District did not seek a levy for more than a decade, and instead gradually depleted its cash balance to subsidize its annual net operating loss.

In the previous audit, we issued a Management Letter to the District regarding its declining financial condition.

Description of Condition

The District's financial condition has continued to decline since 2012. The following table shows the District's ending cash balance and loss from operations, over time.

Fiscal Year	Ending Cash Balance	Gain (Loss) from Operations
2012	\$ 697,785	\$ (50,989)
2013	\$ 651,152	\$ (20,372)
2014	\$ 405,553	\$ (214,838)
Nov-15	\$ 28,995	---

Cause of Condition

The District's operating revenues were not sufficient to cover its costs. The District went out for a levy in February 2015, but was unable to gain the required 60 percent voter approval. The District did not successfully obtain alternative sources of funding, or reduce expenditures.

Effect of Condition

The District suspended operations as of October 31, 2015. The District is currently seeking funding and developing a plan that will allow it to resume operations.

Recommendation

We recommend the District's Board adopt a formal plan to address its financial condition, including customer services, future operating income and cash flow. We further recommend the Board continue to closely monitor and evaluate to ensure the plan is being followed and the desired results achieved.

District's Response

Clallam County Park & Recreation District #1 successfully managed to stick to an annual budget. Revenue covered approximately 80 percent of operating expenses. This is better than other aquatics centers. There is not an aquatics center in Washington State which does not need additional sources of revenue beyond membership income. There are only limited ways a park and recreation district can raise additional revenue. They can raise rates and hope that members continue to support the higher fees. They can run a levy election and ask homeowners support their community center. They own the facility, they should be willing to support it, unfortunately this is the only state with a super majority vote requirement. And, thirdly, they can bring in a third party who has a national reputation for running aquatic centers and has fundraising expertise.

The only way the Clallam Park and Recreation District #1 could reduce expenses was to reduce hours of operation because payroll made up the majority of operating expenses. When this action was taken, members stopped renewing, causing a sudden drop off of revenue.

SARC Board of Commissioners recently approved a proposed lease agreement with the Olympic YMCA which would enable the YMCA to operate the aquatics center for fifteen years, with two ten year extensions. The YMCA brings a higher membership rate structure, lower hourly wages, years of experience in fundraising, and an outstanding brand name and reputation.

The Olympic YMCA will review and vote on the proposed lease agreement in late March. This is a requirement before SARC asks the Clallam County Commissioners to approve our Opportunity Fund Grant request to replace the air handler and improve energy efficiency. Hearing is set for March 29th. If the County Commissions fail to approve our grant request, SARC will be forced to put the facility up for sale.

Auditor's Remarks

We appreciate the District's commitment to resolving these matters, and we will evaluate the status of these concerns during our next audit of the District.

INFORMATION ABOUT THE DISTRICT

Clallam County Park and Recreation District No. 1, doing business as Sequim Aquatic Recreation Center, offers a recreation facility located in Sequim. The District's three full-time and approximately 45 part-time employees provide an array of exercise services, including the operation of the swimming pool, exercise rooms, sports courts, and other athletic related activities.

The District is governed by a Board consisting of five elected Commissioners, and a Director appointed by the Board. For each of the three fiscal years under audit, the District operated on an annual budget of approximately \$1 million in revenues and expenditures. The District suspended operations as of October 31, 2015 due to financial unsustainability.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Sequim Aquatic Recreation Center at <http://portal.sao.wa.gov/ReportSearch>.

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.

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